Department for Communities
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Pension Schemes Bill (Northern Ireland) 2027

Regulatory Impact Assessments

Declaration

As senior official responsible for the Pension Schemes Bill, I have read this Regulatory Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed: David Tarr Date: 05/11/2026

David Tarr

As the Minister responsible for the Pension Schemes Bill, I confirm that this Regulatory Impact Assessment has been approved by my senior official. On that basis, I am content that it represents a reasonable assessment of the likely costs, benefits and impacts of the proposed measures.

Signed: Gordon Lyons Date: 09/11/2026

Minister Gordon Lyons – Department for Communities

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Summary Impact Assessment

1. The Pension Schemes Bill has 9 policies aimed at improving both the Defined Contribution (DC) and Defined Benefit (DB) markets. The focus is on reshaping the pensions landscape with the Bill seeking to:
    - Build a pension market with **fewer, larger, and better pension providers** with the scale and capability to invest in a wider range of asset classes.
    - **Deliver stronger member outcomes** through supporting members during accumulation by ensuring providers are delivering good value for money and supporting decision-making at retirement through providing default decumulation products, with later life income protections.
    - **Support employers** by removing poor performing pension funds from the market, provide access to alternative DB solutions, and opportunities to access the surplus in their DB scheme.
    - **Support economic growth** through strengthening the opportunity for pension funds to invest in more productive assets, which often have a stronger home bias, compared to other assets.
2. Individual Impact Assessments (IA) have been produced, where appropriate, for all measures. These are in the annex of this document. However, to support discussion and increase transparency, the summary IA brings all of this information together to present a complete picture for the Bill. This is with a view of:
    - Summarising the headline findings.
    - Highlighting the interactions between the different measures.
    - Estimating the potential impacts on savers.
    - Outlining the wider context and pensions landscape the Bill is addressing.

    Note that all figures presented in this document are UK-wide unless stated otherwise.
3. Overall, the analysis shows:
    - There is an overall net direct saving to business of £34m per year from the measures. There are further significant indirect benefits which could be accessed, such as DB surplus, which further support businesses.
    - Significant gains to pension savers with an average earner saving over a career potentially having £29,000 more in their DC pension pot at retirement as a result of the package of measures.
    - The reduction of multi-employer pension schemes from around 60 now to around 15-20 large scale DC schemes meeting the statutory scale requirement, estimated by 2030.

- An estimated 20m people could benefit through the reforms[1].

Context

4. Automatic Enrolment (AE), where employers are required to default eligible workers into a workplace pension, was first introduced in 2012. This has led to a huge increase in the number of workplace pension savers with 73% of eligible employees (over 0.8m) in Northern Ireland participating in a pension[2] (compared to 89% of employees in Great Britain[3]). The vast majority of these savers are saving into a DC workplace pension[4].
5. Workplace pensions are split into three markets:
    a. **Defined Benefit (DB)** – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:
        - Public sector DB.
        - Private sector DB where there were around 5,000 pension schemes in 2024[5].
    b. **Defined Contribution (DC)** – This is a type of pension whereby contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:
        - **trust-based market** - A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2024, there were around 920 pension schemes with 12 or more members[6].
        - **contract-based market** - A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2023, there were estimated to be around 30 firms with an authorised DC workplace pension business[7].

[1] Wealth & Assets Survey 2020-2022 (all DC pension holders not in payment) plus around 250,000 additional savers each year over the next 10 years (DWP calculations based on Annual Survey of Hours and Earnings (ASHE))
[2] https://www.nisra.gov.uk/statistics/work-pay-and-benefits/ashe-pensions-results
[3] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2024
[4] https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf
[5] https://www.ppf.co.uk/Purple-Book
[6] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
[7] https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework

c. **Collective Defined Contribution (CDC)** – these schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under DC schemes) and away from the employer (as is the case under Defined Benefit schemes). The only CDC arrangement in the UK so far is a scheme operated by Royal Mail.

6. Collectively, these types of workplace pensions account for over £2 trillion in assets and support tens of millions of people[8]. This makes the UK one of the largest pension markets in the world[9]. However, a large proportion of assets are invested abroad. Around 20% of DC assets are invested in the UK, which has declined from around 50% over the last 10 years[10].
7. The DC-trust landscape is growing in scale and maturing quickly with 30.6 million DC memberships[11] in 2025, an increase of 6% since 2024. DC trust workplace pension assets have grown to £205 billion, increasing from only £22 billion in 2012[12].
8. There are three main types of pension providers in the DC market:
    - **Master Trusts** – an occupational pension scheme that provides DC pensions for two or more unconnected employers (though often a lot more).
    - **Single Employer Trusts** (SETs) – pension schemes which are managed for and on behalf of a single employer.
    - **Group Personal Pensions** (GPPs) – DC contract-based schemes which are regulated by the FCA.

Table 1: Summary of workplace pension landscape

Type	Number	Assets	Active Members
Master Trust	30	£166bn	10m
Single Employer Trust	890	£39bn	1m
GPP	30	£300bn	5m
Private Defined Benefit	5,000	£1,200bn	Less than 1m

9. The DC market has been consolidating, with the number of pension providers reducing from around 3,700 in 2012 to around 950 schemes now. Close to 900 of these providers are

[8] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/fundedoccupationalpensionschemesintheuk/october2023tomarch2024
[9] https://www.oecd.org/en/data/indicators/pension-funds-assets.html?oecdcontrol-69798b0352-var8=PC_GDP
[10] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy
[11] 'Memberships' is used throughout this IA. This more closely represents the number of DC pots - the number of members/savers is not knowable given an individual may have multiple pots with different providers.
[12] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

single-employer trusts, traditionally set-up by employers to support their workforce. However, as AE resulted in all employers needing to enrol their employees (where eligible) into a workplace pension, there has been a rise in Master Trusts (multi-employer pension schemes). Across around 30 providers, these now account for over 90% of memberships and 80% of assets in the DC trust market. In addition, there are around 30 GPPs, which operate in the DC contract market. Across those two markets, there are now 7 DC providers managing over £25bn worth of assets. This is a level where economies of scale are most apparent enabling schemes to access a wider range of asset classes (including alternative asset classes such as Private Equity and infrastructure), negotiate lower fees and improve their governance[13].

10. AE has led to more people saving into a pension. However, inertia is strong and engagement is low. For example, 47% have not reviewed how much their pension is worth in the last 12 months[14] and over 94% of pension savers are invested in a pension scheme's default investment strategy in the trust-based market[15]. This highlights the importance of Government intervention, where appropriate, to deliver outcomes for members who may not otherwise engage with their pension.

Regulation and types of pensions

11. Pension schemes are either personal or stakeholder pensions. They can be workplace pensions arranged by an employer or private pensions arranged by an individual; the legislation focuses on workplace pension schemes. Regulation of the pensions industry in the UK is split between the FCA and TPR:
    a. **FCA** regulates personal pensions, including workplace personal pensions (contract-based pension schemes).
    b. **TPR** regulates occupational pensions (trust-based pension schemes) across the private sector DC and DB landscape.

Policy Background

12. The pension measures are aligned with the Government's mission of **kickstarting economic growth**. The pension industry has a large amount of assets (£2 trillion) and

[13] Corporate Adviser 2024 Master Trusts and GPP Defaults Report (https://corporate-adviser.com/research/)
[14] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf
[15] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

pension fund investment in domestic markets has the potential to support stronger economic growth and capital market development[16]. However:

- Investment by DC pension funds in the UK has been falling and remains lower than comparator countries', such as Australia and New Zealand, investment in their own economies.
- The UK does not have the same number of large pension providers seen in other countries such as USA, Australia and Canada.

13. As a result, the focus is on reshaping the pensions landscape to build a pension market of fewer, bigger, and better pension schemes. Larger schemes are shown to have better governance (supporting decision-making), are able to access a wider range of asset classes (including private markets, which have a stronger home bias), and therefore help support UK economic growth.
14. Over the last two years, there has also been a significant increase in the level of DB funding with around three-in-four schemes in surplus on a low-dependency basis[17]. This offers the opportunity for schemes to return money to employers and individuals, supporting investment and UK growth, alongside increasing the likelihood of members receiving the pensions they have been promised.
15. The Bill has been informed through multiple years of consultation and collaboration with the pensions industry. For example:

- **Defined Benefit Superfunds** was first consulted on in 2018 with a Government response in 2023[18].
- **Mansion House 2023**[19] included a package of planned reforms and consultations across measures including small pots, Value for Money (VfM), and DB Superfunds.
- **Options for Defined Benefit** consultation launched in March 2024 to develop future DB options, with the Government response in May 2025[20].
- **Phase 1 Investment Review** was announced in July 2024, with a call for evidence in September and further consultation in November 2024. A final was published in May 2025[21].

[16] See literature review of the evidence in here: https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy

[17] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management

[18] https://www.gov.uk/government/consultations/defined-benefit-pension-scheme-consolidation/consolidation-of-defined-benefit-pension-schemes

[19] https://www.gov.uk/government/collections/mansion-house-2023

[20] https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes

[21] https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

To legislate for the policy development, in the **King's Speech** in July 2024[22], the Pension Schemes Bill was announced. This built on the Labour Party manifesto in 2024[23] which signalled pension reforms by Government when in power, particularly on scale and consolidation in the pension market to deliver for savers and the economy.

16. Consequently, there has been significant investment made and collaboration with industry to gather the appropriate evidence and understand impacts. In all consultations, there have been specific questions to gain important insights from the industry on the potential costs and benefits from the proposals.
17. The result of the engagement made clear the preferred option to achieve these aims is to **legislate via the Pension Schemes Bill**. Alternative approaches were considered for each measure (see individual IAs), such as placing requirements in guidance. However, Primary Legislation is seen as the only way to ensure sufficient coverage and take-up across the options and ensure member outcomes are maximised.
18. The Pension Schemes Bill has 9 policies at introduction which include:
    - **Powers to Pay Surplus** - This allows trustees of well-funded DB pension schemes to extract and share some of the £160bn of surplus funds available with sponsoring employers and members, subject to adequate funding levels and stringent safeguards.
    - **Value for Money** - Many employers choose DC pension schemes for their employees based on the costs that pension providers charge for those schemes rather than the returns that the employees will receive. Often schemes that may get better returns for the savers are overlooked by employers / advisers for schemes that have a lower cost. This measure will require pension providers to be fully transparent about both their costs and returns so employers can make better choices for their employees. The measure will require scheme trustees to prepare periodic reports comparing key metrics against other schemes and determining a value for money rating. This will ultimately drive schemes to deal with poor value; with the backstop that TPR and FCA will enforce scheme consolidation so that poor value schemes are exited from the market.
    - **Consolidation of Small Pots** - Many people have more than one DC pot for retirement savings as a new pot gets set up whenever they move employer. 13 million pension pots currently exist which are worth less than £1,000 and are no longer being paid into. This measure will lead to consolidation of these pots for

[22] https://assets.publishing.service.gov.uk/media/6697f5c10808eaf43b50d18e/The_King_s_Speech_2024_background_briefing_notes.pdf
[23] https://labour.org.uk/wp-content/uploads/2024/06/Change-Labour-Party-Manifesto-2024-large-print.pdf

individuals via multiple default consolidators (initially for pots worth less than £1,000) to ensure pots do not end up lost, reducing pension scheme administration costs, and helping create better value for members.

- **Scale and Asset Allocation** - A requirement for multi-employer pension funds to reach a certain minimum size to enable a market of fewer, bigger, better governed funds with the resources to pursue investment diversification and improved returns for savers. The threshold will be set at £25bn of assets under management (AUM) in the main default arrangement by 2030, or at least £10bn of AUM in the main default with a credible plan to achieve £25bn by 2035. There will be exemptions for some schemes, such as those set up due to religious beliefs or aligned to a DB scheme, which is open only to a closed group of related, but not legally connected, employers. There will also be a pathway for new entrants and those offering CDC schemes.
- **Guided Retirement** - Most people do not engage with the complex financial decisions that are required around retirement. As a result, many make sub-optimal decisions about utilising their retirement savings, particularly to insure against living longer than expected. This measure places duties on trustees to provide default retirement products, either in-house or in partnership, which would include an income in retirement as part of membership of the scheme. This is only on the DC trust-based side of the market at this point.
- **Superfunds** - Many employers support DB pensions which are closed to new members and cannot pay the premium necessary to secure these benefits by "buying out" with an insurance company, but would value being free to concentrate on their core business, enabling growth. This measure will allow schemes in this position to transfer to commercial pension providers called 'superfunds', provided the superfund offers a better prospect of paying full benefits than the original scheme. Superfunds are required to be extremely secure but are not as secure as insurance buyout. Schemes can only be transferred into a superfund if the trustees believe it is in the best interests of the members and if it meets conditions overseen by TPR. The measure will establish a permanent legislative regime for superfunds, to replace TPR's interim arrangements.
- **PPF Levy** - This will remove legislative restrictions that have blocked the Board of the Pension Protection Fund (PPF) from reducing the annual pension protection levy it collects, when it is not required. The levy is paid by schemes, frequently by their sponsoring employers. The PPF have already more than halved the levy to £45

million for 2025/26 and it could be reduced to zero with sufficient legislative progress[24].

- **PPF / Pensions Dashboard** - The Bill will amend the Pensions (Northern Ireland) Order 2005 to enable members of the Pension Protection Fund (PPF) and the Financial Assistance Scheme (FAS) to view details of their compensation or assistance funds on pensions dashboards, to allow them to gain a complete picture of their expected retirement income.
- **Information to be given to pension schemes by employers** - Pension schemes depend on accurate and timely information from employers to operate effectively and ensure members receive the correct benefits. Where information is incomplete or out of date, this can affect scheme administration and the ability of trustees to make informed decisions. Improving the quality and consistency of employer-provided data supports better outcomes for members, strengthens scheme governance, and helps build confidence in the pensions system.

Summary Impact Assessment

19. As outlined above, there are a wide range of measures included in the Bill affecting very different parts of the pensions landscape. As a result, each measure (where relevant) in the Bill has been analysed individually. This contains the detail around each policy measure, the detailed evidence, and all the estimated costs/benefits. To support the discussion and increase transparency, the summary IA brings all of this information together to present a complete picture for the Bill. This is with a view of:
    - Summarising the headline findings
    - Highlighting the interactions between the different measures
    - Estimating the potential impacts on savers
    - Outlining the wider context and pensions landscape the Bill is addressing
20. Some measures will require secondary legislation to finalise policy choices. As a result, each IA aims to present the best available evidence and estimated costs/benefits based on the current position. Additionally, a number of assumptions are made to best estimate the impacts in the absence of evidence, such as the split between employers and members when sharing a DB surplus. In such instances, these are not Government recommendations; but purely used as an analytical assumption in the absence of available information.

[24] https://www.ppf.co.uk/-/media/PPF-Website/Files/Levy/2025-26-levy-years/Levy-Policy-Statement-2526.pdf

21. The aggregated monetised impacts are calculated for a ten-year appraisal period and all costs are given in 2024 prices and use 2025 as the base year for the present value calculation, as given in the Regulatory Policy Committee (RPC) Impact Assessment Calculator. The only exception is Guided Retirement and Small Pots which use 2024 prices and 2028 as a base year due to the implementation period for those policies. This standardised approach is taken because of the large number of measures covered. For each policy-specific IA, price years and present values may differ slightly depending on the data analysis and the expected timing for policy implementation.
22. Pensions have very long-time horizons. For example, a person who enters the labour market aged 22 will not be able to access this money for another 35 years. As a result, there was consideration if the appraisal period should be assessed over a longer timeframe. However, each of the IAs make use of 10-year appraisal periods. This is because:
    a. **Increasing uncertainty** – There are already a significant number of assumptions and uncertainties across the IAs. Going further into the future would present even greater uncertainty for limited benefit.
    b. **Compounding effects** – A number of IAs monetise the potential benefits of greater investment returns. These can significantly compound the benefits over a very long period of time, adding even greater uncertainty when dealing with large impacts.
    c. **Establishing the counterfactual becomes harder and less robust** – The pensions landscape is constantly changing, therefore the longer the timeframe considered, the greater the likelihood things would naturally change. However, these effects cannot be known.
23. Standard Green Book[25] discounting rate of 3.5% has been applied throughout to the costs and benefits.
24. This Regulatory Impact Assessment reflects the Bill at the point of Introduction.

Evidence base

Rationale

25. The Pension Schemes Bill seeks to address a number of market failures and challenges which exist across the pension market. These are explained in each of the individual IAs, but the key elements are summarised here.

[25] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020

26. **Principal-Agent Problem** – This exists as savers (principal) bear all the risks and reward, but the choice of the scheme is made by the employer (agent). These incentives can, and often are, misaligned with the employer commonly choosing a pension scheme based on cost rather than performance. Employers are also unlikely to switch or change providers. Evidence from the DWP employer survey showed only 5% of employers with a DC pension provider had switched to a different provider and employers' main focus when selecting a provider was on convenience of enrolment and cost, not on overall VfM[26]. Employees are often not incentivised to switch the provider chosen by their employer due to low engagement and information. Additionally, they may risk losing employer contributions if they do switch (the employer does not have to contribute to a pension into which they have not enrolled their employee). This issue further applies to other elements, such as decumulation. An employer may not necessarily choose a scheme offering a range of decumulation products, which subsequently impacts the employee who bears the cost of this. For example, to access a pension product, such as an annuity or income drawdown, the individual may have to pay a transfer cost (potentially around 1% of their total pot[27]). The Bill, through ensuring decumulation products are provided and with a strong emphasis on value, should significantly reduce this problem.
27. **Fragmentation** – The pension market is currently fragmented with over 1,000 pension schemes in the DC market and around 5,000 schemes in the DB market. Across the DC landscape, there are also 1,000s of different arrangements and funds across Master Trusts and GPPs, adding further fragmentation. This is bad for schemes and bad for members. Schemes cannot move members into other funds without their consent (which is costly and timely) and being spread across 1,000s of funds adds additional overhead costs to manage and reduce the opportunities to maximise economies of scales. This can then result in individuals being stuck in expensive or inefficient funds, either unaware of the higher costs (due to information failures) or unable to switch (as outlined above). Exiting the market is not always possible either or exit options might be limited. For example, employers with DB schemes have a commitment to run their pension scheme and can only wind-up the scheme where the scheme has paid the final member or has passed their scheme onto an insurer via "buy-out". Superfunds, regulated for in the Bill, will provide another credible and secure alternative. The Bill will accelerate consolidation in the DC market, both across the number of arrangements and number of providers.

[26] https://www.gov.uk/government/publications/department-for-work-and-pensions-employer-survey-2022/department-for-work-and-pensions-employer-survey-2022-research-report
[27] https://online.email.hsbc.co.uk/HSBC_Tomorrow_Report_Converting_pension_pots_into_incomes.pdf

28. **Positive externalities** – The Bill aims to build a pension market with fewer, larger, and better pension providers which have greater capabilities to invest in more illiquid and productive assets (such as infrastructure). These investments are more likely to be UK-based compared to some other asset classes (e.g. listed equities) and the UK Government has sought to produce an investable pipeline via initiatives such as the National Wealth Fund. As a result, pension funds increasing their allocations to these assets may generate spillover and positive externalities to the UK economy. There are 4 main routes this could arise from (further details can be found in "Pension Fund Investment and the UK Economy" [28]):
    - **Capital market development** - Pension investment makes the market deeper and more liquid. This can lead to increasing market capitalisations leading to higher volume and improved valuations. This may all lead to a positive investment spiral.
    - **Supporting start-ups to scale-up** - Pension funds' long-term horizons, scale and expertise mean they can access and support promising companies to scale-up, succeed and remain in the UK.
    - **Promoting 'block ownership', corporate governance and management** - Investing in businesses directly may improve their governance, improving management and ensuring long-term performance is prioritised. This is because the incentives between owners and managers become better aligned and longer-term decisions can be made[29].
    - **Long-term investment in productive domestic assets** - Pensions funds can invest in assets that other types of investors may not be able to. This is from pension funds having longer-term horizons or being able to support high capital requirement projects e.g. infrastructure.
29. **Asymmetric and imperfect information** - The absence of a consistent framework and standardised, accessible data means there are a wide variety of definitions, methodologies and metrics used to determine whether a pension scheme is delivering value. This data is hosted on thousands of different provider websites, and some providers do not publish this data at all. This makes it difficult for both employees and employers to objectively compare the VfM provided by schemes and means some schemes may have lower standards in assessing value. The proposed VfM framework aims to address these issues to promote consistent, accessible comparisons of value and drive competition on this basis. Transparency, standardised price and value comparison, and competitive pressures have

[28] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy
[29] https://www.sciencedirect.com/science/article/pii/S1062940817302917

improved outcomes in other markets, such as energy markets; that is hoped to be emulated in the DC market through the VfM framework[30].

Providers also accept the members an employer signs-up, without perfect knowledge of which members may leave/stop saving shortly after. This creates loss-making deferred small pots (now estimated at 13m worth £4bn in assets and growing by around 1m a year). Some providers may only accept certain employers to mitigate this or charge greater fees to insure against the risk of members leaving. This will be addressed through the small pension pots consolidation policy.

Across the DB landscape, over the last 4 years, sponsoring employers have contributed over £50bn in Deficit Reduction Contributions (DRCs)[31]. However, market conditions have meant schemes are now much better funded and, for some schemes, this money will be well above the amount needed to meet future benefit payments. A sponsoring employer cannot know how financial markets may change and therefore whether they are over- or under-contributing towards the funding of their pension scheme. Without being able to access a surplus, a sponsoring employer is at risk of over-funding their scheme or may seek to limit funding or extend contributions over a longer time frame to minimise this risk. Being able to access a surplus minimises the risks of schemes being "over" funded on a sustained basis and improves incentives for sponsoring employers to fund their DB schemes.

30. **Financial stability** – The workplace pension industry is worth around £2tn with over half of the working-age population saving into a pension. As this grows further, and a greater proportion of the population have larger pension entitlements, it becomes of greater importance that there are sufficient legislative requirements around the industry. It is imperative to deliver financial and macroeconomy stability through an appropriate regulatory regime for such an important industry. The Bill puts in place measures designed to create a more stable and secure pension regime to encourage long-term investments and innovation. This is particularly important for superfunds, ensuring these large entities have an appropriate level of regulation in place. In addition, the requirements for DC schemes meeting the statutory scale requirement will help drive up standards across the DC market to ensure funds with significant assets are appropriately identified and regulated.
31. **Low take-up of guidance and advice.** There is a positive correlation with pot size and take-up of advice/guidance. However, many people are accessing DC pots without advice or guidance, despite the introduction of the 'Stronger Nudge to Pensions Wise guidance'

[30] https://publications.parliament.uk/pa/cm201415/cmselect/cmenergy/899/899.pdf

[31] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/fundedoccupationalpensionschemesintheuk

legislation[32]. DWP's Planning and Preparing for Later Life Survey found that nearly three in ten people (29%) who had accessed a DC pension had not received information, advice or guidance from their pension provider, Pension Wise or a financial advisor[33]. This suggests greater support may be needed, via legislation, to support individuals in their decision-making. Individuals currently face longevity and investment risk which they need to manage for decades in retirement, which presents a significant risk. Feedback to the consultation 'Helping savers understand their pension choices: supporting individuals at the point of access'[34] also suggested that for many members of occupational pension schemes the idea of people making decisions on their behalf was crucial. The role of guided retirement should help support members and provide a default approach that members are able to opt-out of.

32. **Maximising flexibility for employers.** Across the DB measures, the changes are designed to lower costs to businesses and seek to increase the likelihood of members benefits being secured. The measures will remove poor performing pension funds from the market, provide access to alternative DB solutions, and opportunities to access a surplus in their DB scheme. This should all support further business investment, reduce search costs, and deliver better value.
33. **Merit good.** Pensions can be considered a merit good given individuals underestimate the benefit of pensions. For example, 79% have never thought a lot about how much they should be paying into a DC pension[35]. As a result, individuals are unlikely to respond themselves or put competitive pressure on employers or providers to improve performance. This therefore requires additional protections to be put in place, for example, through the VfM framework (to address underperforming schemes) or through the small pension pot solution (as individuals are highly unlikely to consolidate pots themselves nor can schemes currently move individuals).

Legislation & alternatives to legislation

34. Engagement across the industry and stakeholders clearly identified the preferred option to address the market challenges and aims identified was to **legislate via the Pension Schemes Bill**.

[32] Introduced in 2022, requiring all pension scheme providers to refer their members to Pension Wise guidance when they decided to access their pension savings, unless the member actively opted out (https://www.legislation.gov.uk/uksi/2022/30/contents/made)
[33] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life
[34] https://www.gov.uk/government/consultations/helping-savers-understand-their-pension-choices-supporting-individuals-at-the-point-of-access
[35] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf

35. Alternative approaches were considered for each measure (see individual IAs for details). The most common alternative was placing the measures in guidance. This would be non-enforceable and has already been tried in a number of instances in an effort to encourage the market to respond via information and guidance from TPR. However significant issues remain:
    - **Decumulation solutions are not in place across the market** and no default is on offer. This is leading to the majority of individuals taking out their pensions as cash[36] and having to make significantly challenging financial decisions managing longevity and investment risk throughout their retirement. This is despite the increasing focus on supporting members in retirement being a key theme for Government and across the industry. This risks sub-optimal outcomes for members and the industry.
    - **Data on performance across investment, costs and services is incomplete and inconsistent**, therefore comparisons across the market cannot be accurately made leading to underperformance across a number of providers.
    - **Trustees remain cautious** in decision-making, such as sharing DB surplus, without clear legislation to support their decisions[37].
    - **A large number of Master Trusts and GPPs remain** in the market despite some providing high cost and poor performance, highlighting market forces alone are not enough to drive inefficient schemes.
36. The workplace pension market is also unique, making legislation the most appropriate form of intervention. The market has not responded to several of the challenges with a wide range of evidence demonstrating the outstanding issues that remain, for example:
    - **Market failures** – As outlined above, there are a significant number of market failures identified in the market which make legislation the appropriate vehicle to address these and improve the competitiveness of the market and deliver good long-term outcomes for members.
    - **Industry support many of the measures and recognise need for Government intervention** – The ABI and PLSA's Small Pots Cross-Industry Co-ordination Group[38] in its conclusion recommended that the UK Government should explore a number of solutions to address the proliferation of small pots. Since then, engagement with industry through a call for evidence and the small pots delivery group has focused on how industry and Government can co-operate on a government-legislated solution. There has been extensive engagement with industry

[36] 55% of pots accessed have been fully encashed since 2018: https://www.fca.org.uk/data/retirement-income-market-data-2023-24
[37] https://www.ftadviser.com/defined-benefit/2025/2/20/scheme-members-must-remain-priority-in-any-db-surplus-distribution-proposals/
[38] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf

in the development of a solution which further suggests broad industry support for the requirement of Government legislation.

- **Low engagement and awareness from individuals** – As identified by OFT[39] on the DC workplace market "product complexity made decision making very difficult. This was leading to low levels of competitive pressure and ultimately poorer value for money". This is perhaps not surprising. AE has enrolled millions of new savers into workplace pensions, particularly for groups who were not previously saving. For example, in 2012 only 17% of low earners in the private sector were saving into a workplace pension; this is now 75%[40]. Individuals are highly unlikely to drive employer or pension provider behaviour through competitive forces as:
    - **They do not choose the pension provider.** An individual is enrolled into a pension selected by their employer. The individual risks losing their employer contribution if they choose to select another provider as the employer does not have to pay into another scheme.
    - **Pensions are complex** with over 50% of savers having very low, or low, pension engagement[41]. DWP has undertaken significant research into pension engagement and find people don't have a sense of control (often from lack of knowledge or external factors such as financial markets).
    - **Individuals do not consolidate their pensions.** Only around 5% of individuals had consolidated a pension pot in the last 12 months[42]. DWP research found *"Barriers to consolidating deferred pots were knowing whether or not they could; fear of scams; not knowing information about their deferred pensions; not knowing how to consolidate; believing it would be hard work or not understanding the benefits of consolidation"*[43].
- **Low engagement and awareness from employers** – AE has resulted in over 2.5m employers fulfilling their duties[44] and it is for the employer to decide on the pension scheme for their employees. However, employers are highly unlikely to drive employer or pension provider behaviour through competitive forces such as:

[39] https://www.fca.org.uk/publication/feedback/fs19-05.pdf
[40] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023
[41] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf
[42] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf
[43] https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions
[44] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report

- **Employers rarely switch their pension provider.** Research[45] found "it was too difficult a process" and latest information shows only around 5% of employers have switched pension provider (driven by large companies)[46].
- **Employers choose convenience or cost.** DWP's Employer Survey finds the most common reasons for choosing a pension scheme is the convenience or ease of the scheme. However, the individual, not the employer, bears the cost of a bad decision when selecting a provider. This means incentives are misaligned.
- **Information is complex and incomplete.** Currently, there is not one single place to compare and contrast performance, which adds time and cost to employers. The resource implication was a notable barrier found for employers' reluctance to switch: *"switching was incredibly difficult to do because of the resource implications (time and financial costs). As such, these employers would only switch if the security of the scheme was threatened, or there was a worrying drop in the scheme's investment."* [47]

37. There are other important reasons why legislation is appropriate, most notably the size and systemic importance of the pension system. The UK workplace pension industry is worth around £2 trillion and will continue to grow, with tens of millions of people having some form of pension wealth[48]. Pension funds are an integral part of capital markets; for example, UK private sector DB funds own an estimated 80% of the long-dated index-linked gilt market[49]. As a result, it can only be right there is appropriate legislation to ensure the right safeguards are in place for savers, providers, and the economy.

Delivery Timetable

38. Across the measures, the timings of when the policies come into force may be slightly different. This is still subject to change, but Table 2 below highlights the emerging timetable.

[45] https://assets.publishing.service.gov.uk/media/6358e5a08fa8f557d9a2d573/workplace-pensions-and-automatic-enrolment.pdf

[46] https://www.gov.uk/government/publications/department-for-work-and-pensions-employer-survey-2022/department-for-work-and-pensions-employer-survey-2022-research-report

[47] https://assets.publishing.service.gov.uk/media/6358e5a08fa8f557d9a2d573/workplace-pensions-and-automatic-enrolment.pdf

[48] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/fundedoccupationalpensionschemesintheuk/october2023tomarch2024

[49] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2023/Pensions-and-Growth-Jun-2023.pdf

Table 2: Provisional outline of delivery dates of policies

Measure	Estimated Commencement Date (subject to change)
VfM	Regulations process: 2026/27 First publication of VfM data and assessment in 2028
Small Pots	Regulations process: 2027/28 Duties come into force from 2030
Guided Retirement	Regulations process: 2026/27 MTs start complying with Guided Retirement 2027
Scale and Asset	2030 deadline for £25bn (or £10-25bn with clear path)
Superfunds	Regulation consultation 2026 with view of 2028
DB Surplus	Regulation consultation in 2026 with view of 2027

Data

39. A wide-range of data sources have been used to support the evidence-base and understand the impacts of the proposals. Each IA discusses the sources used for each policy, but a number of the key sources are captured here for completeness and to demonstrate the breadth of evidence sought. It should be noted that, while certain data sources relate primarily to GB, they have been included as the insights derived from them have informed the development of UK-wide policy. Data sources include:
    - TPR Scheme Returns – TPR publish annual scheme returns from DC schemes, providing a comprehensive overview of the DC trust landscape on assets, memberships, and scheme numbers. This will be critical to monitor the rate of consolidation happening across the market. In addition, an annual overview of DB schemes is provided (and publication of triennial valuations) to monitor the patterns in the DB market.
    - PPF's Purple Book – PPF produce a thorough assessment of DB schemes and trends each year. This will help understand the movement into the superfunds market and the latest funding levels across the DB landscape.
    - FCA's Retirement Income Market data – Every year the FCA publish information on how people are accessing their pension in the contract-based market. This offers in-depth information on the amount being accessed, the method this is being accessed through (e.g. drawdown, annuity) and trends over time.
    - Corporate Adviser Group Personal Pensions and Master Trust Report – Corporate Adviser produce an in-depth assessment of the multi-employer market each year, offering insights on memberships, asset allocations, and returns. This is, and will be,

essential in understanding the changing market and growth of large-scale DC schemes meeting the statutory scale requirement.

- DWP Employer Survey – DWP has regularly run a survey of employers with a pensions module. This has included questions around the types of factors employers consider when choosing and switching pension schemes. This will be important in monitoring switching levels and whether there is a trend towards greater value, over cost, when choosing a scheme.
- FCA Financial Lives Survey – Every 2 years, the FCA publish a large-scale quantitative survey covering all aspects of accumulation and decumulation. This will help understand trends and plans of people accessing a pension.
- HMRC RTI data – DWP utilised HMRC Real Time Information (RTI) data to provide evidence on employment patterns, earnings and job movements. This informed analysis of workplace pension participation and projections used to assess the impacts of the proposed reforms.
- Consultation Responses – As part of the evidence gathering for individual policies, DWP have often issued "data gathers" from providers to understand the latest position across the industry. This has been particularly helpful on Small Pension Pots, DB surplus, and Scale and Asset provisions, through accessing sensitive data on pension scheme holdings.
- Workshops – There have been multiple roundtables and workshops with industry to gather new insights, discuss emerging areas of interest, and to listen to stakeholders. This information has been critical in shaping the policy areas and understanding the likely impacts.

40. Recognising the impacts of the policies, DWP have further invested in 2 new quantitative surveys to further enhance the policy area, support IA development where timings allow and will further support the Bill. They will also be key sources of monitoring and evaluation. These are:
    a. Planning and Preparing for Later Life (PPLL) – Previously run in 2021, this survey asks around 4,000 40-75 year olds their views and attitudes towards retirement, pension provision and decision-making. This particularly sought to improve the understanding of the benefits of policies to individuals, through the innovative use of Willingness to Pay modules. This has been used, where possible, to add consumer surplus benefits to the policy areas.
    b. Pension Provider Survey – DWP regularly runs a survey, every three years, about pension charges. This latest survey has been expanded to collect more detailed information about where pension money is invested, how well it performs, and what

costs are involved. The aim is to get a better understanding of single-employer pension schemes, which are often overlooked in other research. This will help show how Government policy changes might affect these types of schemes.

Summary of Impacts

41. The summary of the key costs and benefits, along with the Equivalent Annual Net Direct Cost to Business (EANDCB) (2024 prices), are presented in Table 3a below. This aims to summarise, for all of the measures, the estimated overall direct cost to business. Each individual IA contains further details on methodology and approach taken. It is important to note that, due to likely interactions between the measures (see next section on interactions), the sum of individual measures may overstate the business costs.
42. The EANDCB figures in Table 3a are expressed in 2024 prices. It is important to note the EANDCB represents the direct cost to business; however, there are wider indirect benefits to business which arise from the policies (e.g. accessing a DB surplus) which are significant, but ultimately dependent on employer behavioural response. The measures are also focused on improving saver benefits (e.g. VfM aims to improve outcomes for members) which could be significant (see later section). Table 3b shows the estimated Net Present Social Value, Business Net Present Value and EANDCB of each of the measures.
43. Recognising the importance of the EANDCB, each direct cost/benefit is outlined in detail about its inclusion and the rationale to support the decision. Further details are also provided within each IA.
44. Across each IA, unless otherwise stated, all aggregated monetised impacts use 2024 prices and 2025 present value base year, as given in the RPC/Department for Business and Trade Impact Assessment Calculator. 2024 prices are used because this is when the policy evidence was considered. A 2025 present value base year is used because this is when the individual policy measures, and the equivalent GB Pension Schemes Act, were expected to start having an impact on the market. The exceptions to this are the 'Small Pots' and 'Guided Retirement' IAs, which use 2024 prices but a 2028 present value base year as there is no reasonable expectation for there to be any real market impacts across these policies until 2028 at the earliest.
45. There are also one-page summaries across all the measures in the Bill. IAs have not been produced for all measures as this was not considered proportionate or necessary. For example:
    - **PPF Levy** – This is out-of-scope of the RPC coverage given it is in relation to a Levy.

However, one-page summaries are included for transparency on the potential impacts as outlined in Table 4.

46. The tables below bring together the key information across all the measures in the Bill:
    - Table 3a outlines the key benefits and costs alongside the EANDCB estimate across the measures.
    - Table 3b outlines the estimated 10-year net present social value and 10-year net business present value.
    - Table 3c outlines which benefits are considered direct for the purposes of the IA, following RPC guidelines.
    - Table 3d outlines which costs are considered direct (or unavoidable) for the purposes of the IA, following RPC guidelines.

Table 3a: Summary of individual policy measures

Measures	Key Benefits	Key Costs	EANDCB (2024 prices, £m)	Regulatory Measure?
Value for Money	**Members:** Savers may potentially receive greater investment returns which will grow their pension pots, contributing to more income in retirement. Estimated market-wide benefit of **£20bn over a 10-year appraisal period (£2bn per year)**. **Schemes:** Pension schemes benefit from improved performance due to charging structures (monetised) and have more availability of information (non-monetised). Estimated benefit of **£100m over the appraisal period (£10m per year).**	**Members:** Most members should not face an increase in costs; but there is a risk some costs may be passed on or there may be indirect impacts (such as wage impacts or contributions). **Schemes:** Will need to familiarise and implement the new regulations (around £140m) and face ongoing costs over the 10-year period **(£330m cumulative).**	£43m	Yes
Small Pots	**Members:** Should see a reduction in the average charge faced on their pension pot. In addition, the consolidation of pension pots automatically will generate a consumer	**Members:** Expectation that members **should not see an increase in costs**. There is a risk that some members could face higher charges if their pots are moved to a higher charging scheme.	-£64m	Yes

	surplus. These benefits are estimated at **£700m over the 10-year appraisal period**. **Providers:** The reduction in loss-making pots will generate estimated benefits of **£960m to providers**.	Authorisation (including a Value for Money requirement) and market-wide reduction in charges should help mitigate such risk. **Providers**: The cost for scheme trustees to familiarise with the new legislation and the development and implementation of a Central Data Service is estimated at around £220m. Transferring small pots will cost industry around £220m over the 10-year appraisal period.		
Guided Retirement	**Members:** May no longer fully withdraw their pension and can potentially receive greater investment returns through remaining invested for longer. There are also benefits from reduced transfer fees. Benefits estimated at **£1,660m over 10 years**, largely driven through improved investment returns. **Providers:** Through managing larger pension pots, will see an increase in	**Members:** Most members should **not face an increase in costs**; but there is a risk some costs may be passed on by pension schemes. **Providers:** running a decumulation service will face additional costs alongside those providers who need to choose, and review, their partnership arrangements. These ongoing costs are estimated at **£310m over 10 years** with one-off costs of around **£60m**.	£13m	Yes

	revenue from charges of around **£260m over the 10 years**.			
Scale and Asset	**Members:** The monetised benefits occur in the form of higher net returns, attainable through the lower charges and higher diversification that can be accessed as pension scheme scale increases. Together, these benefits are estimated to be around **£1,680m over the ten-year period**. **Schemes:** The monetised benefits occur due to the lower investment fees attainable as pension scheme scale increases, with it modelled that providers retain a portion of the profits, as well as additional charge revenue given the larger pension pots built by members. Together, these benefits are estimated to be around **£350m over the ten-year period.**	**Members:** None monetised. **Schemes:** A reduction in the number of pension schemes will be a cost to some schemes due to the transfer of funds. Estimated to be around **£110m over the ten-year period**.	-£26m	Yes

DB Superfunds	**Members:** Entry into a superfund should increase the likelihood of members receiving their pension benefits in full, relative to a counterfactual where these schemes would face limited prospects for consolidation. **Estimated benefit of £710m**. **Superfunds:** superfunds would see a return on their investment (around **£1,110m over 10 years**) **Schemes/Employers**: See a reduction in running costs of their scheme (**£270m**).	**Members:** None. **Employers:** In total, employers who voluntarily choose and recognise the additional benefits of entering a superfund would need to pay around **£1,110m to transfer their scheme**.	Less than £1m	Yes
DB Surplus	**Members:** Share of surplus extracted of around **£4,200m over a 10-year period**. **Employers:** Share of surplus extracted of around **£4,200m over a 10-year period.**	**Members:** No monetised costs. However, there may be an increase in risk of schemes being underfunded (impacting future ability to pay future benefits). Though this risk is considered low.	Less than £1m	Yes

		Schemes/Employers: Less than **£10m** from trustees/employers understanding the new legislation and ongoing costs reflecting additional time spent considering and commissioning scenarios of DB funding levels.		
PPF Levy	**Employers:** Benefit from a reduction in costs when PPF Levy is set to zero. This could yield potential benefits through greater investment in their business or improved financial situation.	N/A	N/A	No

Note: Figures rounded to the nearest £10m. See individual IAs for the full results.

Table 3b: Total net present social value, business net present value and EANDCB summary of individual measures

Across the measures, the **individual IAs estimate a £33bn Net Present Social Value, a £4.7bn Business Net Present Value and an EANDCB of -£34m (i.e. a net direct saving of £34m per year for businesses).**

Measures	Total Net Present Social Value (£m)	Business Net Present Value (£m)	EANDCB (2024 prices, £m)
Value for Money	£19,364	-£371	£43
Small Pots	£1,245	£551	-£64
Guided Retirement	£1,550	-£109	£13

Scale and Asset	£1,911	£231	-£26
DB Superfunds	£935	£230	£0
DB Surplus	£8,393	£4,193	£0
Total	£33,399	£4,724	-£34

Note: A positive (+) estimated EANDCB is a direct cost to business. A negative (-) estimated EANDCB is a direct benefit to business. Rounded to the nearest £m

Table 3c: Main monetised benefits of individual measures, to whom they accrue and whether they are direct or indirect

Policy	Main monetised benefit	Direct/Indirect	Explanation
Value for Money	Higher returns	Direct to members	Improved returns are the main aim of the policy; the scheme (agent) invests on behalf of the member (principal) so the benefit of improved returns wholly passes through to the ultimate asset owner (the member).
	Charge Revenue	Direct to business	Directly/automatically follows from above, no new steps.
Scale and Asset	Provider savings	Direct to business	This is the first consequence of building scale; achieving greater economies of scale and being able to deliver a wider range of investments for lower costs.
	Savings for members who are transferred into larger schemes	Direct to members	Members who are transferred into larger schemes, necessary as their existing scheme leaves the market, automatically access the lower charges that the larger scheme is already offering.
	Savings for existing members of schemes	Indirect to members	This element of cost savings relies on schemes passing some of their initial cost saving on, which is an additional step in the chain and dependent on schemes actively choosing to do this.

	that achieve more scale		
	Higher returns	Indirect to members	Members benefit from better performing, better diversified pensions on a net return basis as scale is achieved. However, this is dependent on schemes actively making changes to invest in a wider range of asset classes (such as private markets) and being able to achieve greater returns.
	Increased charge revenue	Indirect to business	This is an indirect benefit, requiring pension schemes to either pass on lower investment fees as lower charges, or diversify their portfolios to invest in wider asset classes, thus enabling the increases in net returns for members that can enable this higher charge revenue (as a percentage of larger pension pots).
Small Pots	Admin saving	Direct to business	This is the main policy aim and first step in the logic chain of consolidating small pots.
	Lower charges for members	Indirect to members	As for schemes meeting the statutory scale requirement this relies on providers passing on some savings; an additional step in the chain and not automatic.
	Consumer surplus	Direct to members	Members receive their stated 'willingness to pay' benefit of no longer having multiple small loss-making pots, this is a primary policy objective and 'automatic' members do not have to actively do anything to benefit from receiving a service they would have been willing to pay for (consumer surplus and involves no 'pass through').
Guided Retirement	Higher returns	Direct to members	Ensuring a market-wide decumulation offering alongside a default retirement product for members is expected to lead to a reduction in full-cash withdrawals and transfers – members are expected to receive greater returns by remaining invested with their pension scheme in the long run, as schemes will be able to invest in higher-returning asset allocations.

	Savings in transfer fees	Direct to members	Ensuring a market-wide decumulation offering is expected to lead to a reduction in transfers for members seeking to access certain decumulation products – members are expected to save on fees that are associated with transferring a pension pot.
	Charge Revenue	Direct to business	Ensuring a market-wide decumulation offering alongside a default retirement product for members is expected to lead to a reduction in full-cash withdrawals – a greater number of members are expected to remain invested in the trust-based market, leading to increased revenue for schemes from charges pots remaining invested.
DB Surplus	Access to surplus funding - employer	Indirect to business	Surplus access is the prime policy aim but relies on the trustees choosing to access surplus and agreeing with employers; they are not required to do so.
	Access to surplus funding - members	Indirect to members	Surplus access is the prime policy aim but relies on the trustees choosing to access surplus and agreeing with employers; they are not required to do so.
DB Superfunds	Investment Returns to Superfunds	Indirect to Business	Superfunds present a business opportunity for financial intermediaries that deem it profitable to enter the market. Benefit classed as indirect as entry into a superfund is optional and will be dependent on the business model taken.
	Reduced scheme running costs for employer	Indirect to Business	Once a sponsoring employer has transferred their DB scheme to a superfund, they will no longer be required to pay on-going expenses of running the pension scheme. Benefit classed as indirect as entry into a superfund is optional.
	Increased likelihood of receiving full scheme benefits	Indirect to members	Entry into a superfund should increase the likelihood of members receiving their pension benefits in full, relative to a counterfactual where these schemes would face limited prospects for consolidation. Benefit classed as indirect as entry into a superfund is optional.

Table 3d: Main monetised costs of individual measures, to whom they accrue and whether they are direct or indirect

Policy	Main monetised cost(s)	Direct/Indirect	Explanation
Value for Money	Familiarisation, implementation and ongoing costs	Direct to business	One-off and ongoing cost impacts to schemes are immediate and unavoidable; schemes are accountable for compliance each year and the first step in the logic chain.
Scale and Asset	Familiarisation costs	Direct to business	Necessary costs for all schemes to ensure compliance with the measures.
	Search costs	Direct to business	Necessary costs for schemes leaving the market, with them required to engage a larger scheme to consolidate their assets into.
	Consolidation costs	Direct to business	Further necessary costs of the measures, incurred when transferring assets from schemes leaving the market.
Small Pots	Transition Costs – Central Mechanism and Familiarisation Costs	Direct to business	Necessary costs involved for schemes in the implementation of the policy and therefore are direct costs as a result of the measures.
	Transfer Costs	Direct to business	The first step in the logic chain as schemes will be required to send their pots to the relevant consolidator. As the costs of the immediate action required to be undertaken to achieve the policy objectives, these are therefore direct costs.
Guided Retirement	Familiarisation and training	Direct to business	Familiarisation and training costs will occur as schemes understand and comply with the new regulations.
	Developing an in-house	Direct to business	Schemes that do not currently offer decumulation services to their members will be expected to develop an offering in-house or transfer their members to a

	decumulation/default product		scheme at decumulation. Developing a decumulation offering in-house is expected to accrue upfront and ongoing running costs.
	Transfer arrangement	Direct to business	Where unfeasible to develop in-house decumulation and default offerings, schemes are expected to transfer their members reaching decumulation to an appropriate scheme which can offer these services – this is expected to accrue upfront arrangement costs as well as ongoing costs at intervals as schemes review their transferring arrangements.
DB Surplus	Familiarisation Costs	Direct to business	Trustees and sponsoring employers of all DB schemes would be expected to undertake some level of familiarisation to understand the implications of the policy change.
	Implementation and Ongoing Costs	Indirect to business	Schemes that choose to undertake surplus extraction would face additional costs to modify scheme rules and extract surplus.
DB Superfunds	Initial Familiarisation Costs for schemes	Direct to business	Trustees of all DB schemes would be expected to undertake some level of familiarisation to understand the implications of the policy change, in line with their obligations under trust law and fiduciary duty.
	Employer contribution to enter a superfund	Indirect to business	Additional costs on sponsoring employers for a scheme to enter a superfund. The measure does not mandate schemes to enter a superfund; therefore, costs would only be incurred if this is in the best interest of members.
	Superfund running costs	Indirect to business	Superfunds will have running costs of their own in taking on DB pension schemes. These would only be incurred if superfunds decide to take on these schemes.

Table 4a: Value for Money (VfM): summary of policy measure

Summary of the measure	VfM aims to shift the competitive focus of the DC market from cost to value, encompassing investments, services and costs. It aims to improve the value schemes offer to savers, ensuring better retirement outcomes by enhancing transparency, comparability, competition and performance. Underperforming schemes must either improve or exit the market.
Impact on savers	Savers are the main policy beneficiary from saving into better performing pension arrangements. Driving up standards and investment returns means savers should have larger pots at retirement. Savers are not expected to see higher charges on their pensions as the market is already competitive on cost, making pass-through costs unlikely.
Impact on pension providers	Schemes will earn higher charge revenue from member pots as their performance improves (as charges are set as a % of pot value). Therefore, better returns are in provider interests too. Schemes will have to familiarise themselves with the policy and implement relevant systems, as well as complete VfM assessments annually and store the required data.
Impact on employers	Employers should find it easier to select good-value pension schemes for their employees as value is driven up. VfM scores should inform scheme selection and shift the market focus from cost to value, mitigating principal-agent problems.
Impact on Government	VfM reforms may result in greater regulatory costs through TPR/FCA compliance and additional pressures on MaPS/TPO as a result of the changes. However, the submission of consistent and greater levels of data should allow for easier comparisons of performance across schemes. This could additionally support wider UK Government aims of increasing productive investment in the domestic economy as these larger providers are better equipped to access such investments.
Wider impacts	Better-performing, larger pension schemes can invest productively and at scale, helping markets function more efficiently, improving diversification, capital markets, and supporting economic growth. VfM's competitive

	focus could help spur innovation in the market as schemes seek to maintain/improve their 'value' rating and best practice is shared.

Table 4b: Small Pots: summary of policy measure

Summary of the measure	A multiple default consolidator model aims to address the proliferation of deferred small pots (pots initially below £1,000). There are currently 13m pots worth less than £1,000 across the DC pensions market. The policy aims to reduce the number of these loss-making pots that providers must administer and improve retirement outcomes for members by combining members' small pots into one pot within an authorised consolidator scheme.
Impact on savers	Savers would be a significant policy beneficiary from the consolidation of their potentially multiple small pots into one pot within a consolidator scheme. Due to the competitive nature of the DC pensions market, specifically in terms of annual management charges, all members across the DC market would be expected to benefit from lower charges as a result of industry savings, through the reduction in the number of small pots, being passed on to members. There may be further non-monetised benefits such as making pots easier to manage – saving time and reducing the likelihood of members losing their pension pots.
Impact on pension providers	Providers will have to facilitate the transfer of members' small pots into the authorised consolidator schemes; however, the consolidation of small pots should help reduce the number of loss-making small pots that providers must administer and therefore ultimately reduce providers' administration costs. Delivery arrangements are being assessed in more detail including through a Feasibility Review. There would also be a cost of a central mechanism to facilitate identifying and data matching with the expectation that this would be met by industry.
Impact on employers	Only deferred pots would be within scope and therefore any pots transferred will no longer be receiving any employer contributions. For a pot to be eligible, it will need to have been deferred for at least 12 months and therefore there is no envisaged impact on

	employers as the consolidation and transfer process would be the responsibility of pension providers.
Impact on Government	DWP are assessing delivery options to refine the cost/benefit analysis. There would be a cost to regulators in authorising / supervising the system albeit this may be reduced through addressing existing costs in the system (e.g. derived from lost pots).
Wider impacts	The automatic consolidation of small pots may support the wider consolidation of the DC pensions market and help drive investment performance with the growth in scale of the consolidator schemes. The increased share of assets saved in large, well-governed DC schemes could potentially direct funds to longer-term illiquid investments which could have wide-ranging benefits across society. This measure also supports public trust and confidence in workplace pensions saving, which risks being eroded if small pots are 'lost' or members incur costs to find and consolidate.

Table 4c: Guided Retirement: summary of policy measure

Summary of the measure	For DC pension schemes to develop decumulation solutions for their members, including a default decumulation solution which the member would be placed into unless they opt-out.
Impact on savers	Savers are the main policy beneficiary; they are expected to receive greater investment returns through being defaulted into a decumulation option(s) rather than having to fully withdraw their pension as cash at point of access. Schemes are likely to enter members into higher return-seeking assets for a longer period in anticipation of them entering a default solution with later life income protection, further enhancing investment returns. Members will save on transfer costs by no longer having to transfer to another scheme to access decumulation products.
Impact on pension providers	Providers benefit from earning greater revenue as members remain invested for longer and their pots are greater from investment return; increasing the total amounts of charge revenue received. However, there may be significant costs for providers to familiarise themselves with the legislation, provide training to staff, and either

	develop in-house decumulation products for their members or set up contracts to transfer them to another provider to facilitate this.
Impact on employers	Employers will benefit through knowing all their employees will be signed into a pension scheme that provides pension income solutions. This may reduce search costs when looking for a new scheme.
Impact on Government	There may be greater regulatory oversight required from the measures, particularly to ensure all schemes are meeting the requirements and regularly reviewing the default solution(s) is appropriate for their members. Further details will be developed. There may be long-term savings from the measures through individuals having greater income protection and not becoming reliant on the state in later life after exhausting private pension savings.
Wider impacts	The legislation encourages schemes to keep pension pots invested (rather than moving to liquid assets in anticipation of individuals withdrawing them). This may have benefits for capital markets and private companies through larger pools of risk capital becoming available to be invested and invested for longer (due to defaults). This can indirectly help to boost economic growth, deepen capital markets and increase the UK's low investment levels.

Table 4d: DC Scale and Asset: summary of policy measure

Summary of the measure	For multi-employer DC workplace pension schemes, there will be an introduction of a minimum Assets under Management threshold of £25bn at arrangement-level to be met by 2030. There is a time-limited transitional pathway for schemes with AUM exceeding £10bn and exemptions for certain specific type of schemes (such as certain schemes with both DB & DC arrangements).
Impact on savers	For savers whose assets are consolidated into larger schemes, or whose schemes achieve significant additional scale, a reduction in charges is expected. These lower charges are passed on by providers, who gain access to lower investment fees with additional scale. Given existing market competition on price, savers are not expected to have costs passed on to them. Savers may further benefit through larger schemes being able to access a wider range of assets including UK productive

	markets, helping diversification and this may help generate additional returns.
Impact on pension providers	Providers are expected to benefit from lower investment fees and greater efficiencies, with a portion of the benefits retained as profits. However, familiarisation costs are expected to be faced as schemes understand and implement the legislation. There are additional costs of consolidating schemes, including engagement with other schemes, the selling and buying of funds, and other supportive activity including legal, consultancy and communication. A number of pension providers are expected to close as a result of not meeting the AUM threshold.
Impact on employers	There will be fewer, larger pensions schemes from which to select a scheme for their employees; this may result in a reduction in search costs. However, impacts are expected to be minimal. Larger providers may be able to support employers with workforce retirement planning and engagement more easily.
Impact on Government	With a reduced market of larger pension providers, this may reduce regulatory costs as there are fewer schemes to oversee.
Wider impacts	The establishment of a market of fewer, larger pension schemes should support the UK economy through these schemes being able to access a wider range of asset classes, such as infrastructure and private equity, which tend to have a stronger “home bias” compared to some other asset classes. Additionally, ‘block ownership’ of UK firms by pension schemes may also be enabled, further supporting economic growth through improved governance and adoption of longer-term investment horizons.

Table 4e: DB Superfunds: summary of policy measure

Summary of the measure	The measure seeks to introduce a legislative framework and authorisation regime for DB Superfunds. These are commercial consolidation vehicles that can take on pension scheme liabilities, in exchange for a significant injection of capital from the ceding employer. The aim is to provide an alternative route for schemes that are unable to secure member benefits through the insurance market, thereby improving the chances of member benefits being paid in full.
Impact on savers	The policy is intended to protect DB members by increasing the likelihood of receiving their pension benefits in full. Superfunds will have to

	demonstrate a high probability (at least 98%) that their members will receive their benefits in full.
Impact on pension providers	For superfunds, taking schemes on from ceding employers is a business opportunity intended to earn them a profit. These benefits will be offset by some of the costs around familiarisation, authorisation fees, and scheme running costs. However, any entry to becoming a superfund is expected to be with a view of profitability in the long run (therefore benefits being greater than costs).
Impact on employers	Sponsoring employers are expected to benefit from discharging their ongoing DB pension liabilities, allowing them to focus on their core business. However, there will also be some upfront costs to implement the new arrangement.
Impact on Government	The UK Government, through TPR, will incur costs related to the authorisation and supervision of superfunds. However, these costs may be transferred to the superfunds via application fees and bespoke levies, resulting in no expected overall cost to the regulator.
Wider impacts	The policy is expected to benefit the Pension Protection Fund (PPF) by reducing the amount it would have to pay out in benefits. There may be additional wider benefits to the UK economy through superfunds being greater in size, being able to access a wider range of diverse assets and therefore investing in assets such as private equity and infrastructure.

Table 4f: DB Surplus Flexibilities: summary of policy measure

Summary of the measure	This measure aims to remove legislative barriers that currently prevent DB schemes from accessing surplus funds. The measure will introduce a power for trustees to modify scheme rules to allow for the sharing of surplus with sponsoring employers, subject to funding safeguards and a requirement to consider member interests
Impact on savers	Members of DB schemes could benefit from surplus extraction, for example through cash payments and/or benefit improvements where their scheme/employer come to an arrangement. However, there is a potential risk extracting surplus funds could impact the security of member benefits, and increase PPF liabilities, if this scheme was to later enter the PPF, due to employer insolvency. This risk is considered low given planned legislative requirements for schemes to be prudently funded.

Impact on pension providers	Schemes who agreed to allow their employer to access the surplus would see a reduction in their funding level. However, any surplus would only be extracted where there is sufficient confidence that funding levels would continue to remain high. The measure may result in familiarisation costs and greater discussions with employers.
Impact on employers	Sponsoring employers could benefit from surplus extraction, for example through benefit extraction and/or using surplus funds to pay their employer contributions for DC pensions, where they come to an arrangement with the scheme's Trustees. However, there will be costs for employers associated with familiarisation, modifying scheme rules and surplus extraction.
Impact on Government	The UK Government will benefit from the additional tax revenue on surplus payments. However, there may be a small additional risk of members not receiving their full benefits if surplus extraction results in greater risk-taking or a significant worsening of funding levels (though this risk is expected to be low).
Wider impacts	The return of surplus funds to businesses and members is expected to boost economic growth through increased investment and consumption effects. The measure may help generate distributional benefits by reallocating investment from DB to DC pensions, potentially improving pension outcomes for DC members by going beyond AE minimum levels. The ability to access surplus funds may influence DB schemes' investment strategies, potentially leading to greater investment in more productive assets.

Table 4g: PPF Levy: summary of policy measure

Summary of the measure	This measure seeks to provide the Board of the PPF greater flexibility to adjust the annual pension protection levy it collects from DB schemes when it is not required, by removing legislative restrictions. The PPF has introduced provisions within their levy rules allowing them to set a levy rate of zero, pending this legislative change being approved.
Impact on savers	Impact on savers is likely to be small as the levy is paid in practice by employers who ultimately bear the pension scheme costs. However, some schemes do have cost-sharing where a small benefit may be

	gained. If reductions in the levy paid by employers are passed onto savers, then this may benefit them through larger benefits at retirement.
Impact on pension providers	It is expected that the impact on pension providers would be minimal, as employers tend to cover the cost of paying the PPF levy. However, pension providers may experience a small benefit from the levy being reduced to zero, as the administrative burden of paying the levy would be eliminated.
Impact on employers	Employers tend to bear the cost of paying the PPF levy and would therefore see the biggest impact from this change. Being able to reduce the levy, would directly benefit them in terms of cost savings. This could yield second-order benefits through greater investment in their business and/or improved resilience. £173m was collected in 2023/24[50] and £43m was planned in 2025/26[51] - with the PPF in surplus by around £13bn, a movement of the Levy to around £0 in the future could significantly benefit employers in future years.
Impact on Government	These measures have no impact on Government, as setting the levy is managed by the Board of the Pension Protection Fund.
Wider impacts	The reduced level of the Levy offers opportunities for employers and schemes to benefit, either through further supporting their members or being able to make greater levels of investment within their business, supporting the UK economy.

Powers to mandate asset allocation

47. Though not covered in a dedicated IA, the Pension Schemes Bill plans to establish a measure which could enable a legal minimum allocation of investment in productive private and UK assets to be applied across schemes subject to the large DC scheme scale requirements, that is, those multi-employer schemes with a minimum AUM of £25bn by 2035.
48. The industry has already expressed a level of support for improving UK and productive investments, citing many of the measures (such as the VfM requirements) as key enablers to support investment in more illiquid assets such as private equity and infrastructure. The recent Mansion House Accord[52] saw 17 providers pledge to invest 10 percent of their

[50] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf
[51] https://www.ppf.co.uk/news/Levy-estimate-2025-26
[52] https://www.gov.uk/government/news/pension-schemes-back-british-growth

default workplace growth phase portfolios in assets such as infrastructure, property and private equity by 2030. At least 5 percent of these portfolios will be ringfenced for UK-based investments.

49. For several reasons, the potential costs and benefits associated with the use of this power has not been monetised at this stage:

- **The aim is for voluntary industry compacts and goodwill to meet the requirements – not the legislation.** Many pension providers have already signed up to a voluntary Accord, accounting for around 90% of active savers in the DC market. As a result, the power is only intended to be used should the reforms elsewhere in the package not lead to sufficient changes in productive investment or the voluntary commitment is not realised. On current estimates, around £50bn could be unlocked (with around half of this being additional UK-based) by 2030 from the Accord.
- **Additionality is hard to estimate to measure**. The Pension Schemes Bill measures, along with wider UK Government policy such as the National Wealth Fund, are already expected to drive additional investment in productive domestic assets. A DC market of large-scale schemes meeting the statutory scale requirement will be able to access these private investments much more easily due to scale, and these investments often have a higher domestic bias compared with traditional asset classes (e.g. listed equities). This should allow the UK Government's aim of increased pension capital being invested in productive domestic investments to be met without such mandating powers being utilised. As schemes continue to grow, there has already been an increase in scheme-set targets towards greater productive assets, and therefore the net additionality would also be challenging to know (especially as not all schemes disclose, due to commercial sensitivity, the detailed allocations and forward projections). This will also be dependent on the supply of investable opportunities available.
- **The policy specifics would be in secondary legislation**. Ahead of any use of the power, there will be a market assessment report to shape the design of any powers used. This means if these powers were to be utilised, it will be subject to a range of, currently unknowable, factors. For example, the power may specify asset classes - such as private equity or infrastructure – but this could vary and would significantly impact the estimated cost/benefit. The required amount may be higher or lower than current industry requirements – hugely impacting the potential cost/benefit.
    - The powers would also need to be tailored to the state of the market and recognise the transition time that may be required to achieve a certain

threshold. Consequently, if an example policy were set out and monetised, this may differ significantly from the true policy if it were ever implemented, with the costs and benefits estimated being misleading.

- **The implementation period is unknown.** As well as the specifics regarding the powers being unknown, they could also be implemented at various points in time. Consequently, given the utilisation of discounting, assumptions regarding the exact implementation period would impact monetisation. Alongside this, the size of costs and benefits would be dependent on the state of the market at the point of implementation, which will also be highly sensitive to the unknown implementation period.
- **The market response to the other Bill measures is highly uncertain.** If a higher proportion of schemes were already investing at a level which exceeded any thresholds, then the monetised costs and benefits would be smaller, given that fewer schemes would be required to adjust their investment strategies and there would be less 'additionality' delivered by the power. While projections can be made regarding the state of the future market, these are ultimately highly uncertain and determined by provider behaviour, particularly the reaction to the other Pension Schemes Bill measures, which is currently uncertain. Any monetisation of mandatory asset allocation changes would also have to assume, at provider level, which specific assets are divested from, and which are then invested into, and the returns then earned on these specific investments; all of which cannot be known.
- **Fees paid for productive assets are commercially sensitive**. There is currently limited publicly available information regarding the fees paid by providers when investing in productive assets, which are highly commercially sensitive. Given these would be an important input into any monetisation exercise, any resulting costings would be highly uncertain and could only be estimated at a high-level. The absence of publicly available information likely stems from market competition, with providers being unwilling to disclose the exact commercial agreements they have made, with competitors being able to utilise this information in their own strategy and negotiations.

50. The Department remains committed to better understanding the impact of this proposal as details are finalised.

51. Although formal impacts cannot be estimated, any (reasonable) increase in productive assets may deliver positive outcomes[53] as (and as outlined further in the DC Scale and Asset IA):
    - **Member outcomes may be greater** through a slightly greater allocation to private markets.
    - **Investing in private markets leads to greater diversification** which should help support risk-adjusted member outcomes
    - Investment in the UK could support the **wider UK economy and growth**.
52. As outlined in paragraph 48, the Mansion House Accord demonstrated the willingness from industry to voluntarily boost allocations to private market assets, without the need for legislative powers. An indication of the potential level of unlocked investment through such changes to asset allocation (delivered through the Accord) is detailed below.
53. The 17 signatories of the Mansion House Accord, accounting for around 90% of active DC savers, have estimated to the Association of British Insurers (ABI) that £252 billion worth of assets are currently in scope of the pledge[54].
    - As the Accord is only due to be met by 2030, this starting in-scope AUM of £252 billion is projected to 2030 based on historical Master Trust growth rates (average over the last 5 years[55]). This is halved to reflect a maturing market and the fact GPPs may be growing more slowly. This results in **an annual assumed growth rate of assets of 17%.** This is also broadly consistent with average investment returns (around 8%) and contribution levels entering the DC market[56].
    - To reflect further consolidation in the pensions market (for example, due to scale requirements for DC Schemes and VfM, which could be expected to lead to more assets in these in-scope default funds), **an additional £60bn is added into the 'in-scope assets' projection from 2027-2029** (in £20bn increments). This is based on, and consistent with, the methodology laid out in the DC Scale and Asset IA.
    - This means it could be expected around **£735 billion** worth of assets are in scope of the Accord by 2030.
    - It is currently estimated that the DC market allocates 3.5% of assets to the 'private market' asset classes covered by the Accord[57]. In the baseline scenario (without any change), this would mean the £735 billion in-scope market size would allocate £26

[53] www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy
[54] https://www.gov.uk/government/news/pension-schemes-back-british-growth
[55] Based on TPR DC scheme assets data
[56] Around £70bn is saved into annual private-sector schemes, for example, from an industry AUM of around £600bn.
[57] https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf

billion to private markets. It is also estimated that 40% of these existing private investments are 'UK-based'; this would mean £10 billion worth of UK-based private investment in a baseline scenario.

- The success of the Mansion House Accord would instead mean 10% of in-scope assets are allocated to private markets. This would mean of the £735 billion worth of assets allocated, £74 billion would be allocated to private markets, **£48 billion higher than the 'baseline' scenario**. This would also mean 50% of private market investments are UK-based, resulting in £37 billion worth of UK-based private investment, **£26 billion higher than the baseline scenario.**

£bn (cash terms)	**Private Market Investment**	**… of which UK-based**
Baseline	£26	£10
With Accord	£74	£37
Additionality (impact)	**+£48**	**+£26**

Cost savings

54. Alongside the potential additional investment in private markets, there has been a strong interest in the savings which might arise to industry from the reforms. Individual policies are assessed in detail (see individual IAs). Evidence suggests scale could deliver over 10 basis points (bps) reduction in fees. This is derived from a number of sources:
    - The Pension Investment Review consultation responses suggested consolidation of pension providers could lead to reduced charges by up to 10-20 bps over the longer term.
    - DWP charges survey shows around 12bps difference in charges between smallest and largest GPP/MTs[58].
    - People's Partnership research, conducted by Toby Nangle[59], found:
        - Internalising investments could save members hundreds of millions a year with "nearly £1bn in potential fee savings available".
        - Australia had around 12bps cost reduction through scale, based on CEM Benchmarking data.

[58] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

[59] https://peoplespartnership.co.uk/media-centre/press-releases/workplace-pensions-industry-could-save-hundreds-of-millions-of-pounds-in-private-market-fees-new-report/

55. Taking a “top down” approach, if the overall DC market is estimated to be around £800bn-£900bn (current earnings terms) by 2030[60], then a 12bp reduction in cost applied to a £800bn industry would result in a £960m saving in 2030. This is likely an ‘upper bound’ estimate as it assumes gains are made across the entire market.
56. To assess the likelihood of this approach, a “bottom up” approach is applied considering the various measures and impacts within this IA. The IA shows:
    - DC Scale and Asset could generate around £200m average annual savings from 2030 onwards[61].
    - Other measures, such as small pots, are likely to generate savings of £100-£200m per year.

    Taking into account savings associated with the Contractual Override provisions (estimated at £20m to £90m annually), which were taken forward separately through the GB legislation and Legislative Consent process, annual average savings are estimated to be closer to around £0.5bn. These calculations are likely on the conservative side as further economies of scale may be realised from the measures, they should therefore be regarded as a ‘lower bound’ estimate.

Interactions

57. As previously outlined, the impacts of each measure in the Bill have been considered individually, with separate IAs produced for each relevant policy. This was considered the most appropriate mechanism given the very wide-ranging nature of the Bill, covering significantly different parts of the pension industry and savers, along with the available evidence and available time to produce an assessment.
58. However, the Bill is a package of measures all designed to support a number of outcomes and designed to complement each other in achieving this. The Bill seeks to:
    - **Deliver stronger member outcomes** through supporting members during accumulation by ensuring providers are delivering good value for money and supporting decision-making at retirement through offering decumulation products.
    - **Support economic growth** through pension funds being able to invest in more productive assets (such as infrastructure and private equity), which have a stronger home bias, compared to other assets such as listed equities.

[60] For example: https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market; and https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf

[61] It is estimated, within the IA, around half of this gain may be passed onto members in the form of lower charges.

- Build a pension market with **fewer, but larger, pension providers** with the scale and capability to invest in a wider range of asset classes.
- **Support employers** by removing poor performing pension funds from the market, provide access to alternative DB solutions, and opportunities to access the surplus in their DB scheme.

59. Table 5 outlines the potential interactions between the DC measures in the Bill and discusses the likely impacts this may drive. This focuses on the DC industry, but there may be interactions between DB measures, though to a lesser degree. Interactions are estimated on a qualitative basis as estimating quantitatively cannot be known in advance. It will be dependent on industry reaction/response, final policy details, and a large number of behavioural responses. Any attempt to do this would add even greater uncertainty and would require a number of uncredible assumptions.
60. The interactions may impact the cost/benefits across the total package, with potential for movement in either direction:
    - **Overstate the benefits** – The interactions may mean some of the benefits are reduced. For example, VfM will drive improved performance and may result in poor performing larger schemes exiting the market and delivering scale to other providers when their assets are merged. This would reduce the benefits of the DC Scale and Asset policy.
    - **Understate the benefits** – A number of the costs may be reduced as the market responds in advance of the measures coming into force. This may happen through merging/consolidating into other providers (and thereby reducing the number of schemes and thus cost of implementation). For example, providers who are unlikely to meet the AUM threshold by 2030 (DC Scale and Asset policy) may:
        - **Exit** the market earlier;
        - **Not invest in developing future policies**, such as decumulation products, as they know they will not be staying in the marketplace.

    On balance, the interactions could work in either direction, therefore the individual policy estimates are considered the most appropriate way to estimate the impact of the Bill. Further details can be developed at secondary legislation and as final policy details emerge.
61. The interactions between the measures also highlight challenges of delivery which continue to be a focus for policymakers in making the measures a success. There are notable challenges, which are being mitigated against, around:
    - **Industry capacity** – There are a large number of reforms to be implemented over the rest of the decade, which may put pressure on the pension industry. However, many of the reforms have been in the pipeline for years (such as VfM) and some reforms are

designed specifically to address industry challenges (such as Small Pots). Many measures, such as via the Pension Investment Review, have been consulted on as a wider package to give industry notice.

- **Sequencing** – It is important to get the sequencing of policy reforms right. For example, delivering VfM tests ahead of Small Pots and DC Scale and Asset will ensure pension pots are not consolidated into poor performing schemes, as those funds/providers will no longer be operating in the market. This is a key area of focus for Government.

62. Overall, taking the various DC measures together, it is estimated by 2030:
    - There will be around **300-400 DC schemes** remaining (down from around 1,000 currently).
    - Around 15-20 large scale multi-employer DC schemes, which meet the statutory scale requirement, operating (down from around 60 multi-employer schemes currently). This would constitute around a doubling in large scale schemes compared to current levels.

Table 5: Interactions in DC Market

	Value for Money	DC scale and asset allocation requirements	Small Pots	Decumulation
Value for Money		Both aim to increase consolidation in the DC market and build scale among providers. Fewer providers and default arrangements from the introduction of scale requirements for DC schemes will likely reduce the cost of VfM as fewer assessments will be needed across the industry (though such large-scale schemes will only impact multi-employer schemes). VfM and large-scale DC schemes meeting the	Both should improve value for members. Reducing costs to industry via removing loss-making pots should make greater returns and value for members easier to achieve. Fewer providers should mean fewer pension pots under £1,000 and therefore fewer transfers required. VfM will ensure small pots are only consolidated into good value default consolidator schemes. VfM also helps build scale for providers who become a	VfM will decrease the number of schemes in the DC market, reducing the cost of schemes developing a decumulation product. Although VfM is focused on accumulation, the transparency of information may help deliver better decumulation investment strategies and lead to greater investment returns. This would lead to greater pension pot sizes and generate greater benefits for the decumulation policy.

		statutory scale requirements should accelerate scale benefits quicker, leading to greater investment in the UK and help improve member outcomes.	default consolidator, which should drive efficiencies and reduce the cost of holding low value pension pots.	
DC scale and asset allocation requirements	Both aim to increase consolidation in the DC market and build scale among providers. Fewer providers and default arrangements from the introduction of scale requirements for DC schemes will likely reduce the cost of VfM as fewer assessments will be needed across the industry (though such large-scale schemes will only impact multi-employer schemes).		Fewer providers should mean fewer pension pots under £1,000 and therefore a lower number of transfers required. Additional scale should help reduce the cost of managing small pension pots and therefore result in default consolidators becoming a more attractive proposition.	Scale requirements for DC schemes will decrease the number of schemes in the DC market. This would reduce the overall number of schemes required to offer decumulation thus lowering cost/requirement. Such large-scale schemes will drive scale which may help increase investment in innovation in the decumulation market and increase the likelihood of multi-employer schemes

	VfM and scale requirements for DC schemes should accelerate scale benefits quicker, leading to greater investment in the UK and help improve member outcomes.			offering their own suite of decumulation products.
Small Pots	Both should improve value for members. Reducing costs to industry via removing loss-making pots should make greater returns and value for members easier to achieve. Fewer providers should mean fewer pension pots under £1,000 and therefore fewer transfers required. VfM will ensure small pots are only consolidated into	Fewer providers should mean fewer pension pots under £1,000 and therefore a lower number of transfers required. Additional scale should help reduce the cost of managing small pension pots and therefore result in default consolidators becoming a more attractive proposition.		Fewer pension pots at retirement (and those pots being of greater value) should help increase the likelihood a default product is offered (rather than being exempt through a small pot value). Fewer pots should also help members be able to better manage their pots as they have fewer pots to oversee and a lower likelihood of pension pots becoming lost.

	good value default consolidator schemes. VfM also helps build scale for providers who become default consolidators, which should drive efficiencies and reduce the cost of holding low value pension pots.			The reduction in loss-making pots should free up money for investment in decumulation products and services.
Guided Retirement	VfM will decrease the number of schemes in the DC market, reducing the cost of schemes developing a decumulation product. Although VfM is focused on accumulation, the transparency of information may help deliver better decumulation investment strategies and lead to greater investment returns. This would lead to greater pension pot sizes and	Scale requirements for DC schemes will decrease the number of schemes in the DC market, reducing the cost/requirement of schemes to offer a decumulation product. Such large-scale schemes will drive scale which may help increase investment in innovation in the decumulation market and increase the likelihood of multi-employer schemes	Fewer pension pots at retirement (and those pots being of greater value) should help increase the likelihood a default product is offered (rather than being exempt through a small pot value). Fewer pots should also help members be able to better manage their pots as they have fewer pots to oversee and lower likelihood of pension pots becoming lost.	

	generating greater benefits for the decumulation policy.	offering their own suite of decumulation products.	The reduction in loss-making pots should free up money for investment in decumulation products and services.	

Individual benefits

63. The Pension Schemes Bill has significant impacts on individual outcomes, enabling people to receive greater amounts from their DC pension pot (and increasing the likelihood of receiving their full DB pension).
64. To examine the impacts, DWP's individual Pension Outcomes Model (iPEN) case study has been analysed to present an illustrative case study of the potential benefit of the measures on an average earner. This is helpful to demonstrate the potential benefit of the Bill. But it is important to recognise the actual benefits will differ for all savers and may be higher or lower – this estimate is based on a given set of assumptions. Four key measures are considered, with each providing benefits to members:
    - **Value for Money** – The VfM IA estimates a potential increase in investment returns across the industry by **around 40bps**. This is based on the spread of returns across the UK industry currently and evidence from international experiences. See VfM IA for further details.
    - **Small Pots** - It is estimated reducing the number of small pots will reduce charges by around 2bps. This reflects the current situation where schemes are cross-subsiding pots. See Small Pots IA for further details.
    - **Scale and Asset** – By building scale in the market it is envisaged that this should drive significant efficiencies and reduce costs. This is evidenced through industry engagement/feedback along with looking at international costs charged by large pension schemes. This is estimated at supporting a **6-basis point** reduction in fees. In addition, the development of scale should increase investment in productive assets, offering a diversification benefit. Past evidence from DWP/Government Actuary's Department (GAD)[62] has highlighted that higher allocations to private markets may result in a modest uplift to pension pots. This is estimated as a 2% uplift to the final pension pot, reflecting returns and diversification benefits. This could be greater; depending on the level of investment made and returns seen. See the DC Scale and Asset IA for further details.
    - **Guided Retirement** – Estimating the benefits of defaults is challenging within a simplistic model. To proxy the potential benefits of defaults resulting in individuals remaining invested for longer and schemes being able to make longer term investment decisions, it is assumed lifestyling (where schemes move from equities to bonds) is

[62] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy

shortened from 10 years to 5 years within the model. This is a simplistic assumption but aims to capture the multiple ways individuals may benefit.

65. The case studies presented below are for an average (median) earning male, average (median) earning female, and the average between those cases, for those saving into a DC pension, who enters the labour market in 2024/25 at age 22, and works/saves their entire career until State Pension age (see full list of assumptions below). All of the benefits outlined above are phased in over 5 years. This highlights an average earner entering the labour market this year could see an increase in their pension pot at retirement when saving over a career by around £29,000. Using recent annuity rates[63], that equates to around £2,200 per year additional income in retirement. However, it is important to note the actual benefits will differ for all savers and may be higher or lower – this estimate is based on a given set of assumptions. An alternative case study is provided for someone who is older and starts saving later in their career.

Median earning male **Aged 22 (born 2002)**	**DC Pension Pot**	**Change**
Under current AE conditions	£163,600	
Increase investment returns by 0.4 percentage points (ppts)	£180,700	+£17,100
Decrease costs by 0.02 ppts (Small Pots)	£181,700	+£1,000
Decrease costs by 0.06 ppts (DC Scale and Asset)	£184,500	+£2,900
Reduced lifestyling due to defaults (down from 10 years to 5 years)	£190,800	+£6,300
Diversification benefits from wider asset classes (2% uplift)	£194,600	+£3,800
Pension Pots after all the reforms	**£194,600**	**+£31,000**

Median earning female **Aged 22 (born 2002)**	**DC Pension Pot**	**Change**
Under current AE conditions	£135,800	
Increase investment returns by 0.4 ppts	£150,500	+£14,700

[63] https://www.hl.co.uk/retirement/annuities/best-buy-rates 16th March 2025 – age 65 person could receive 7.585%.

Decrease costs by 0.02 ppts (Small Pots)	£151,300	+£800
Decrease costs by 0.06 ppts (DC Scale and Asset)	£153,800	+£2,500
Reduced lifestyling due to defaults (down from 10 years to 5 years)	£159,000	+£5,300
Diversification benefits from wider asset classes (2% uplift)	£162,200	+£3,200
Pension Pots after all the reforms	**£162,200**	**+£26,400**

Median earning (average between male and female) Aged 22 (born 2002)	**DC Pension Pot**	**Change**
Under current AE conditions	£149,700	
Increase investment returns by 0.4 ppts	£165,600	+£15,900
Decrease costs by 0.02 ppts (Small Pots)	£166,500	+£900
Decrease costs by 0.06 ppts (DC Scale and Asset)	£169,200	+£2,700
Reduced lifestyling due to defaults (down from 10 years to 5 years)	£174,900	+£5,800
Diversification benefits from wider asset classes (2% uplift)	£178,400	+£3,500
Pension Pots after all the reforms	**£178,400**	**+£28,700**

Median earning male Aged 45 (born 1980)	**DC Pension Pot**	**Change**
Under current AE conditions	£116,600	
Increase investment returns by 0.4 ppts	£124,100	+£7,500
Decrease costs by 0.02 ppts (Small Pots)	£124,600	+£500
Decrease costs by 0.06 ppts (DC Scale and Asset)	£125,700	+£1,100
Reduced lifestyling due to defaults (down from 10 years to 5 years)	£129,900	+£4,100
Diversification benefits from wider asset classes (2% uplift)	£132,500	+£2,600
Pension Pots after all the reforms	**£132,500**	**+£15,900**

IPEN 2024 Core Assumptions

The following key assumptions have been made when calculating these case studies. The modelling is known to be sensitive to assumptions made about future economic determinants and the methodology used. The model baseline assumptions are:

a. Each individual saves into a DC scheme with an annual management charge of 0.3% and a contribution charge of 1.8%.

b. Each individual contributes 5% and their employer contributes 3% within qualifying earnings bands.

c. Each individual's fund is invested in 88% equities and 12% bonds with real fund growth of 4.07% and 2.39% respectively.

d. Each individual retires at 68.

e. The automatic enrolment earnings trigger, lower earnings limit and upper earnings limit are frozen until 2028 and then increase in line with earnings over the long-term.

f. Each individual does not opt-out of pension saving.

i. Each individuals' earnings increase in-line with average earnings growth. The final pension pot size is reported in 2024/25 earnings using the Average Weekly Earnings growth deflator.

k. Earnings in the first-year of employment are increased in line with average earnings growth.

l. The median annual salary for a female working full-time is £31,672 (Source: ASHE 2024)

m. The median annual salary for a male working full-time is £37,382 (Source: ASHE 2024)

66. There are also estimated benefits to members across the package of DB measures. However, as a DB pension is a promise based on earnings and length of service, the measures do not translate as easily into monetary gains. Nevertheless, the two key measures could deliver material gains to individuals:
    - **An increased likelihood of members receiving their full benefits** of around 4 percentage points for those entering a superfund.
    - **A share of the £4,200m** which it is estimated could be accessed from a pension scheme and provided to pension savers, should there be the assumed 50:50 split of benefits between employers and members.

Risks & Assumptions

67. The Pension Schemes Bill will have a wide-ranging and significant impact on the pensions landscape. Although best available evidence, data and assumptions are used, there remain a number of significant risks and uncertainties with the impacts. As a result, sensitivity analysis across all the measures has been conducted with each measure outlining the key uncertainties and risks from the estimates.

68. The main areas of risk are listed and RAG-rated below (Red = significant analytical/policy risk or significant driver of IA modelling; Green = low impact risk or assumption and/or unlikely to significantly impact IA modelling).
69. **Final policy detail (red)** - At this stage there remains uncertainty about the detail of some proposals where detail will be added in secondary legislation. As a result, the IAs present the best available estimate but recognise these could change as policy details are finalised.
70. **Investment returns and market movements (red)** – Market performance may significantly impact the proposals across a number of measures. For example:
    - DB schemes funding positions are constantly changing in response to market movements. This has an impact on the amount of surplus and whether schemes are better or worse funded when considering whether to enter a superfund or be able to reach buy-out with an insurer. Market movements cannot be known in advance, and an increasing number of DB schemes are "hedging" their assets, limiting (or fully) mitigating the risks of future funding levels.
    - Across VfM and decumulation, a significant benefit to members is the improvement in investment returns. Although it is anticipated, relative to the counterfactual, there would still be a gain in performance, this may be impacted by financial market movements which cannot be known in advance.
71. **Behavioural change (red)** – The impact of several measures will be dependent on how providers and individuals respond to the reforms. Any behavioural assumptions are highly uncertain and will depend on the design of the policy, particularly around the ease of opting out. Assumptions on behavioural change are based on responses to similar policies and the best available evidence. Nevertheless, for some policy areas a simplistic, arbitrary assumption is used. For example:
    - **Share of DB surplus split** – It is assumed this is evenly split between the employer and the member. This is not Government policy, rather the assumption that has been made. However, in reality this will likely vary by each provider and cannot be known in advance, given the limited evidence available at this point.
    - **Take-up of default decumulation offer** – Defaults in pension systems are powerful, such as around 9-in-10 eligible employees saving into a workplace pension from AE and over 94% of savers remain invested in their schemes' default investment strategy. However, other defaults may have less of an impact depending on how well the options are communicated, engagement by individuals, and individual preferences. For the proportion entering a default retirement product, it is assumed people currently engaging via financial advice or guidance do not change their decision. Of those who

do not seek support, then around 50% are assumed to enter the default solution (based on evidence from similar initiatives from the FCA's Investment Pathways policy).

- **The number of Multiple Default consolidators** – For the purposes of the Small Pots IA it is assumed that there are five consolidators. This is not Government policy and will be decided by the number of providers who apply, and meet the criteria, to be a consolidator. Based on informal discussion with industry as part of the Small Pots Delivery Group, five was decided as the best assumption. However, providers may respond to the reform in a different way, leading to a different number of consolidators. This would not necessarily impact the overall magnitude of the change but may increase/decrease the transfers across providers.

72. **Commercial sensitivity (amber)** – Some policy areas may have a noticeable impact on a small number of providers, (such as DC Scale and Asset). This presents a challenge in both the level of information available (as not all information will necessarily be shared with Government) and what can be included in the IAs (as it would not be appropriate to discuss individual schemes who may be impacted). This has an impact on the coverage of some of the IAs; but the balance between transparency and commercial sensitivity has been sought throughout.
73. **Competition impacts (amber)** – The DC pensions market continues to consolidate, and the reforms will further drive consolidation, reducing the number of providers in the market. The vast majority (over 90%) of savers are in multi-employer schemes which are estimated to reduce from around 60 schemes to 15-20 schemes. However, the vast majority of savers are already in a small number of providers and competition is already very strong across the industry (reports suggest business is won or lost by a few bps). Therefore, although this will be monitored closely, the impacts from competition are not expected to be significant.
74. **Cost and data assumptions (Green)** - Where robust survey data does not exist, the industry costs calculated across the IAs have been extrapolated from industry feedback, similar policy initiatives, and discussions with key stakeholders. The costs and data will be further improved as the policy is finalised.

Sensitivity Analysis

75. Recognising the uncertainty across the methodologies and data (outlined in the section above), sensitivity analysis has been conducted across all of the measures. More detail is outlined in the individual IAs, but key variations have included:

- **Investment returns** are a key driver of the returns on VfM and decumulation. This reflects that even just small changes in investment can accumulate and add up over time. As the evidence shows, there is a huge variation in investment returns across the market (from less than 4% annualised returns to over 12%)[64] and markets are inherently volatile. Therefore, adjusting on this assumption is appropriate to test the potential impacts on returns.
- **Take-up of measures**. A number of measures are dependent on take-up of individuals and employers. Therefore, these have been adjusted to reflect potential lower and higher scenarios of take-up, such as the extent to which employers will access a surplus or the take-up of a default offering at retirement.
- **Differences in familiarisation costs**. Most costs of implementation are based on industry feedback and surveys. However, these have been adjusted to reflect the uncertainty given some of the final details are still to be decided.

76. The table below presents the summary low, middle, and high net present social value estimates across the measures. It can be shown the Bill is estimated to deliver an overall net benefit to society (largely to members) even under a low scenario. For more detailed sensitivity analysis, please see the individual IAs.

	Low NPSV (£m)	Best estimate NPSV (£m)	High NPSV (£m)
Value for Money	£6,014	£19,364	£29,669
Small Pots	£600	£1,245	£1,936
Guided Retirement	£270	£1,550	£6,424
Scale and Asset	£847	£1,911	£2,976
DB Superfunds	-£1,670	£935	£3,559
DB Surplus	£1,332	£8,393	£15,454
Total	**£7,393**	**£33,399**	**£60,019**

Wider Impacts

77. Economic growth. The measures across the Pension Schemes Bill are pro-growth in a number of ways, as they seek to encourage greater investment in the UK economy. For example:

[64] Based on DWP calculations of Corporate Adviser Master Trusts and GPP Defaults Report 2024 and Q2 2024 Returns (https://corporate-adviser.com/research/)

- **Employers reinvesting in their business** – The return of a surplus to a business would allow employers to invest in their business and generate longer term returns. This could support future growth and employment across the employer, driving wider macroeconomic impacts. The Bank of England previously analysed the impacts on business behaviour when they were paying into schemes to meet large pension deficits (i.e. the reverse of the current situation). This found[65] "firms with larger pension deficits voluntarily pay lower dividends, but they do not invest less. However, firms that are required to make deficit recovery contributions by the regulator have lower dividend and investment expenditure compared to other firms, and more so if they are financially constrained." Consequently, there is a link between funding towards DB schemes and investment expenditure which could be influenced by the policy.
- **Greater wages** – Businesses receiving additional money from accessing a surplus may seek to increase wages across the workforce. If this happens, this could boost economic growth through individuals receiving a higher-than-normal pay rise and thus increasing consumption. The Resolution Foundation[66] previously estimated funding DB deficits was potentially contributing to lower average employee pay by 0.2%-0.3% in the 2010s. As a result, there is a link between DB funding and wages across the economy.
- **Higher consumption** – Money paid to members may ultimately be spent in the economy, boosting growth.
- **Greater allocation towards more UK assets** – By achieving scale in the DC market, pension funds should be able to access a wider range of productive asset classes, including private market assets (private equity and venture capital, infrastructure and property, private credit, etc.). These assets require more direct, expert investment management and have closer links to improved economic growth outcomes. Analysis[67] supporting Phase One of the Pension Investment Review found these wider asset classes to have a 'home bias' when compared to more traditional assets, such as listed equities. Consequently, a market that is better able to access these assets will, provided there is an investible supply of opportunities, also invest more in the UK economy.

[65] https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/growing-pension-deficits-and-the-expenditure-decisions-of-uk-companies.pdf
[66] https://www.resolutionfoundation.org/app/uploads/2017/05/The-pay-deficit.pdf
[67] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy

- **Greater investment in the UK may support more liquidity in capital markets**. Additional inflows into UK asset classes and capital markets could create a virtuous cycle, whereby these markets becoming deeper, more liquid, and more efficient. This could in turn improve the attractiveness of UK markets, increasing both the supply of, and demand for, investible opportunities across UK markets.

78. **A DC Market with greater scale can increase 'block ownership'** of UK economic assets. A market characterised by large-scale DC schemes meeting the statutory scale requirement could be expected to increase 'block ownership' of UK economic assets, making asset ownership less dispersed and more focussed on long-term performance. Block ownership is where a business has a shareholder that can influence decisions through their voting rights. Ownership of UK businesses has become increasingly remote and dispersed over time – pension funds owned 32% of UK-listed businesses in 1992 but this had fallen to under 2% by 2022 as ownership increasingly became overseas based. This means UK-listed businesses often lack a 'blockholder owner' that used to be fulfilled by the pension fund. By contrast, Germany has also seen its listed businesses become more overseas owned; however, family owners continue to be prevalent, meaning its businesses still have significant domestic block ownership[68]. As the Resolution Foundation outlines "the large stakes of blockholders also insulate managers from short-term pressures to boost earnings at the expense of investment" [69]. Achieving scale in the UK DC market means pension funds will have the capacity and expertise to once again take significant equity stakes and become block owners in businesses and large-scale projects, such as infrastructure.
79. By having material stakes in domestic businesses and projects, pension fund investment can **improve corporate governance**, as institutional investors with long-term horizons can engage more actively with management, promoting sustainable business strategies and improved performance over short-term shareholder returns. Owning such large stakes can also give enhanced, or more direct, voting rights to the pension fund, further allowing long-term performance to be prioritised. Larger stakes in critical projects such as renewable energy and digital infrastructure can also facilitate strategic investment that aligns with national priorities.
80. **Distributional effects**. Currently, members of DB schemes have more generous pension outcomes and greater contribution levels. The average DB contribution level is around 20% compared to around 8% in DC schemes[70]. The ability to fund DC schemes from DB

[68] https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Beyond-boosterism.pdf
[69] https://economy2030.resolutionfoundation.org/wp-content/uploads/2023/06/Beyond-boosterism.pdf
[70] DWP analysis of ASHE 2023

surplus may help give a boost in contribution levels to members (often younger and lower paid) in DC schemes[71]. Additionally, guided retirement products should help ensure individuals are well supported at retirement, even if they are unable to access financial advice or guidance. This is most likely to benefit individuals who may have lower incomes and pots.

81. **Accelerated consolidation**. The Bill's measures will drive consolidation across the pension landscape, leading to fewer, but larger, pension schemes, with the scale benefits outlined previously.

Small and Micro Business Assessment

82. Pension schemes are different to many other businesses as they may hold a large amount of assets but not necessarily employ a large number of employees. Many pension schemes are also not businesses seeking a profit but looking after pension contributions to deliver for their members, and small schemes may be run by large businesses/employers.
83. It is important to note the Government is aiming for a pensions landscape which has fewer, but larger, pension schemes. This reflects the very strong evidence that scale can bring significant benefits, and strong governance and oversight is essential in an industry worth £2 trillion. However, it is recognised smaller providers can provide good value for their members too.
84. To be consistent with the Pensions Dashboard Impact Assessment[72], as well as with other Pension Schemes Bill measures, Small and Micro businesses are defined as schemes having fewer than 1,000 members (DC) and less than 100 members (DB). This is not a perfect definition of a small/micro business as scheme size and employer size do not always perfectly correlate, but a best attempt to estimate the impact on smaller schemes.
85. Each IA has a Small and Micro Business Assessment and outlines, in detail, the impacts and reasons for inclusion (or exclusion). Across the measures, 3 key areas have been considered in the policy-making process:
    - **Exemptions** – Should there be exemptions for small/micro schemes?
    - **Proportionality** – Is the measure proportionate and not putting disproportionate costs on business?
    - **Mitigations** – What mitigations can be put in place to support small and micro businesses?

[71] For example, Schroders recently announced using their DB surplus to support DC contributions. https://www.schroders.com/en/global/individual/media-centre/schroders-uk-pension-scheme-commits-to-running-on-and-harnessing-db-surplus-for-dc-contributions/

[72] Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

Exemptions

86. Most measures include small and micro pension schemes. The exceptions to this are the exclusion of DC micro schemes (those with less than 12 members) across the measures as these are often unique arrangements and exempt from other pieces of legislation. The exception is the scale requirements for DC schemes concept where no small/micro schemes are expected to be impacted.
87. The scope of the policies has been considered in detail. However, many of the challenges and problems across the market apply to smaller schemes in the same way as they apply to larger schemes. For example:
    - **Individuals are at risk of poor performance** regardless of whether they are working for a smaller or larger employer. It is therefore appropriate that all pension schemes are considered so individuals are not at risk of losing out given they do not choose their scheme.
    - **Imperfect information** means having consistent information across the market is imperative. This should support and help smaller businesses as they can more accurately assess their own performance against larger schemes to consider if they are still able to deliver value for money.
88. In addition, a number of the measures are directly aimed at providing support to smaller businesses, and therefore exclusion would mean they would lose out. This is particularly the case for:
    - **DB surplus** – The aim of the policy is to encourage, where appropriate, sharing of the surplus between employers and members which has arisen in the scheme. This could be a significant financial boost for smaller businesses. Therefore, excluding these schemes from the potential benefit would not be appropriate.
    - **DB Superfunds** – This creates a more permanent and regulated alternative for businesses to consider passing on their DB scheme. Excluding smaller schemes from accessing this alternative end game would not be appropriate, and result in them missing out on a key benefit.
    - **DC Small Pots** – These pots are loss-making for the industry; therefore, excluding smaller schemes would mean they'd continue to make a loss whereas larger schemes would be able to benefit through sending these to default consolidators. Therefore, it would not be appropriate to exclude smaller schemes.

Proportionality

89. As can be shown across the measures, the total cost on businesses is relatively low and, in some cases, generates a net benefit (such as small pots). This should also be considered in view of the potential indirect benefits estimated. For example, DB small schemes (those with less than 1,000 members) have over £110bn in assets[73]. Accessing just a small fraction of the surplus could easily result in hundreds of millions becoming available for smaller businesses. This could be a significant benefit to support smaller businesses.
90. The measures will also support small and micro businesses indirectly through the availability of information, helping reduce search costs. For example, the VfM measure is a cost for small/micro pension schemes. However, this delivers a benefit to all small and micro businesses across the economy through providing more consistent and timely information on the pensions market. This creates benefits for employers when selecting or switching pension schemes. These benefits are not captured but could be significant.
91. Additionally, as the VfM measure shows, there are large member benefits from including smaller schemes (over the 10-year appraisal, there is £320m (£240m NPV) additional money in these schemes) compared to the counterfactual where performance does not improve (sum of 'VfM Benefit to members' line). The vast majority of these benefits are direct benefits for members (not to small schemes directly, but members in these schemes) as they are the ultimate asset owner. However, smaller schemes will also see increased charge revenue on these improved returns, estimated at around £1m over the appraisal period (sum of VfM benefit to small schemes' line).

Mitigations

92. A number of mitigations have been identified and put in place to best support smaller schemes where appropriate. For example:
    - **Creating arrangements in guided retirement** – Schemes can choose to create an arrangement with a larger provider rather than needing to create and develop (at significant expense) their own decumulation solution. This was developed to support smaller schemes have a cheaper alternative to the legislation whilst still supporting members within those schemes.
    - **Phasing in** – Many of the measures may be phased in, such as guided retirement, which will start with the larger providers. This gives smaller schemes more time to understand the legislation and spread costs over a longer period of time.

[73] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

- **Voluntary nature** – Many of the measures, such as DB surplus and DB Superfunds are, ultimately, voluntary. It is expected Trustees will need to familiarise themselves with the legislation. However, they may choose not to take any action or take a light touch approach. This would bring down the costs.

Measures	Exemptions	EANDCB for Small and Micro Businesses (2024 prices)
Value for Money	The policy proposes to exclude Small Self-Administered Schemes (SSAS) and Executive Pension Plans (EPP). The measure will also exempt small arrangements (those with fewer than 1,000 members) unless this is their main default.	£31m
Small Pots	The policy proposes to exclude SSAS and EPP. At this phase the Default Consolidator framework would not be applied to these micro schemes due to the cost they would incur as a result.	-£0.7m
Guided Retirement	The policy proposes to exclude SSAS and EPP. The policy has also been adapted to allow schemes to create arrangements with larger providers to offer products rather than requiring smaller schemes to have to invest in creating new products themselves.	£3.6m
Scale requirements for DC schemes	The policy is restricted to multi-employer DC workplace pension schemes, none of which are estimated to meet the definition of being a small or micro business.	Nil
DB Superfunds	All DB schemes, of all sizes, are able to access a superfund should they choose to.	£0.1m
DB Surplus	All DB schemes, of all sizes, are able to access a surplus should these choose to.	£0.1m

Monitoring & Evaluation

93. The Bill presents a significant change to the pensions landscape over several years. Therefore, DWP and the Department are committed to putting in place a strong monitoring and evaluation plan to ensure: the measures are meeting the objectives; learning takes place; and policies are adapted as greater evidence emerges. Each measure has its own monitoring and evaluation strand, but further information assessing how the overall Bill will be monitored is presented here.
94. There are a wide range of existing sources which will provide key insights to monitor the changes. These include:
    - **TPR Scheme Returns** – TPR publish annual scheme returns from DC schemes, providing a comprehensive overview of the DC trust landscape on assets, memberships, and scheme numbers. This will be critical to monitor the rate of consolidation happening across the market. In addition, an annual overview of DB schemes is provided (and publication of triennial valuations) to monitor the patterns in the DB market.
    - **PPF's Purple Book** – PPF produces a thorough assessment of DB schemes each year, looking at trends in DB schemes and the latest funding position. This will help understand the movement into the superfunds market.
    - **FCA's Retirement Income Market data** – Every year the FCA publish information on how people are accessing their pension in the contract-based market. This offers in-depth information on the amount being accessed, the method this is being accessed through (e.g. drawdown, annuity) and trends over time.
    - **Corporate Adviser GPP/MT Report** – Corporate Adviser produce an in-depth assessment of the multi-employer market each year, offering insights on memberships, asset allocations, and returns. This will be essential in understanding the changing market and growth of large-scale DC schemes meeting the statutory scale requirement.
    - **DWP Employer Survey** – DWP has regularly run a survey of employers with a pensions module. This has regularly included questions around the types of factors employers consider when choosing and switching pension schemes. This will be important in understanding whether there is a trend towards greater value, over cost, when choosing a scheme.
    - **FCA Financial Lives Survey** – Every two years, the FCA publish a large-scale quantitative survey covering all aspects of accumulation and decumulation. This will help understand the trends and plans of people accessing a pension.

- **TPR Trustee Surveys** are regularly carried out across DC and DB schemes. This will be a key source to understand take-up (such as accessing a DB surplus) and to closely monitor how the benefits of a surplus are being shared between stakeholders.
- **HMRC Tax data** will allow timely monitoring of DB surpluses being accessed and the number of schemes which are accessing this.

95. The reforms within the Bill will further develop additional data and information to understand the changing market landscape. Most notable, Value for Money requires providers to provide historical data of their pension scheme. This will help assess the performance across the market by provider. As part of regulators' supervision of schemes, this will be crucial to understand compliance, whether self-assessments are working, and the level of detail is sufficient and transparent enough to support comparisons.
96. Further investment will be made in appropriate surveys and research to maximise the understanding. Key considerations include:
    - **Employer Survey** – The reforms are designed to have minimal impact on employers. The reforms should make it easier for them to compare across providers, ensure those providers offer good value for money, and have alternative options for their DB scheme. To measure this, it may be beneficial to have dedicated surveys (and potentially large-scale qualitative research) to explore employers' understanding of the measures, whether they have been impacted by the reforms, and assess if this has encouraged greater switching of pension provider for their employees.
    - **Provider Survey (quantitative)** – DWP has frequently conducted surveys with providers to understand costs/charges. This has, in 2025, been extended to look at investment returns. Alongside the existing surveys, a specific survey across the industry may be beneficial to understand the emerging changes in performance and asset allocation ahead of VfM being launched.
    - **Provider Survey (qualitative)** – DWP are mindful of the large-scale reforms taking place across the industry over a similar timeframe. Through qualitative research, the capacity constraints and additional burdens/costs could be explored to ensure policies seek to minimise these where possible.
    - **Member research (qualitative)** – DWP have previously explored individual decumulation journeys[74] and views on small pension pot consolidation[75]. Therefore, building on this work, it could be important to understand the views, attitudes, and

[74] For example, https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys

[75] For example, https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions

perspectives of individuals who may have (or will) be impacted by the measures. This could help shape the policy design going forward and ensure there is no consumer harm arising from the measures.

- **Planning and Preparing for Later Life** – DWP have run a large-scale quantitative survey[76] twice in the last 5 years. This survey does not cover Northern Ireland but offers vital information on views and attitudes towards retirement and pension saving for those aged 40-75 years old to aid policy development. A further wave could be important to understand the implications on individuals, how they are responding to the reforms, and the impact on decision-making.
- **Trustee survey** to understand the impacts and decision-making process they have gone through across a wide range of reforms. For example: did they allow/stop a DB surplus being accessed (and why) or how did they decide on their decumulation arrangement.

Overall, due to the UK wide nature of the pension scheme market and the cost of duplicating similar surveys for a Northern Ireland only cohort, the evidence gathered by DWP provides a comprehensive and proportionate basis for assessing the likely impacts of the proposed measures in Northern Ireland, in line with established parity arrangements.

97. This will all be supplemented by continuing to engage with industry, particularly through further consultations once further policy detail is finalised. This will aim to minimise the burden for schemes in scope. The Department does not want to create unnecessary administrative burdens on schemes which will take resource away from their ability to provide good outcomes for their members. Therefore, there is a commitment to keeping industry communication open and to learn from experience through different phases.
98. Recognising the strong interest in monitoring and evaluation, further preparatory steps have been undertaken in advance of potential introduction of corresponding provisions in Northern Ireland. This builds on engagement with the DWP, HM Treasury (HMT), and UK regulators, as well as feedback from parliamentary scrutiny processes and the RPC at Westminster. In the Northern Ireland context, the Department intends to:
    a) Feed into the **cross-jurisdictional steering group** with DWP, HMT, TPR and the FCA, while ensuring appropriate **Northern Ireland departmental representation**, to align data requirements, research programmes, and monitoring activity in line with parity arrangements.

[76] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life

b) Identify and develop a set of **key performance metrics across core impact areas**, aligned with the DWP framework, to enable early assessment of potential impacts both prior to and following any legislative commencement in Northern Ireland.
c) Work with stakeholders, including pension providers operating in Northern Ireland, to scope **industry readiness surveys**. These will assess the extent to which schemes are preparing for reform, drawing where appropriate on UK-wide surveys while considering any Northern Ireland-specific factors.
d) Contribute to (as appropriate), and draw upon, **UK-wide research initiatives** to address evidence gaps, including research on employer behaviour in relation to DB schemes.

99. To support the monitoring and evaluation, four core aims of the Bill have been identified with key metrics outlined against them. Key aims include:
    i. Improvements to member outcomes.
    ii. Greater UK investment and improved market performance.
    iii. Fewer, larger DC schemes alongside a strong DB market.
    iv. An industry adapting and ready for reform.
100. To help monitor this early progress, 12 key metrics have been developed to provide early insights on progress. This is not exhaustive; but aimed at understanding early performance and key indicators as to whether the Bill is leading to desired outcomes.
101. **Theme 1: Improvements to member outcomes:** The proposed reforms aim to improve outcomes for pension savers in Northern Ireland through enhanced returns, consolidation of small pots, and a stronger focus on value. Indicative metrics include:
    - **Metric 1: A reduction in the number of small pots** - There are roughly 13 million deferred pension pots worth less than £1,000 across the UK. The changes in the Bill are expected to significantly reduce this number by consolidating pots.
    - **Metric 2: All DC schemes offer (or partner to offer) decumulation products** - Currently not all DC schemes offer members an option on how to access their DC pension pot (nor the support to help them). The Bill introduces a requirement which will require all DC schemes to offer a default decumulation pathway, which members may opt out of. Therefore, there should be complete coverage across the market on decumulation products.
    - **Metric 3: An increase in the proportion of members in schemes with high investment performance** - The Bill's value for money framework aims to improve outcomes by encouraging consolidation into better-performing schemes, while also increasing overall market competitiveness. Over time, this is expected to lead to a

greater share of members being in schemes that consistently deliver strong investment returns. Given investment returns can account for around 60% of a DC pension pot at retirement[77], even small changes in investment returns can deliver big impacts to member outcomes.

102. **Theme 2: Greater UK investment and improved market performance**: The Bill aims to encourage greater investment in a wider range of assets to improve diversification and help improve returns for members. In addition, this should lead to greater home bias by pension funds and support UK economic growth.
    - **Metric 4: A decline in the range of investment performance seen between firms** - In Q1 2025, there was a 10ppt gap in the 5-year annualised gross returns amongst DC schemes of the lowest and highest performers[78]. The Bill aims to close this gap by raising the performance of the lowest performing schemes and improve the industry investment average.
    - **Metric 5: An increase in the proportion of DC assets invested in Private Markets and an increase in investment in UK-based assets by DC schemes** - The Bill supports the expansion of DC investments into private markets by ensuring more schemes achieve scale. This underpins the Mansion House Accord, an agreement backed by major DC providers, which sets a voluntary target of allocating 10% of default fund assets to private markets by 2030. The Bill also encourages schemes to reassess their UK-based asset allocation and to invest more domestically.
103. **Theme 3: Fewer, bigger DC schemes and a strong DB market**: The Bill aims to reform the private pension landscape. For DB schemes, this is through increasing the exit options available through the introduction of superfunds and facilitating greater access to the surplus, which schemes may hold, to support members and employers. For DC schemes, it aims to lead to fewer, bigger, but better schemes through increased consolidation and greater focus on value over costs.
    - **Metric 6: An increase in the number of large multi-employer DC schemes that are of scale** – Scale requirements for DC schemes are defined as businesses that have at least £25bn in assets under management. By 2035, it is expected there will be an increase in the number of such large-scale schemes in the industry, as smaller funds consolidate, with around 10-20 in existence[79].

[77] See Figure 1 of the VfM IA in this document below

[78] For more, see paragraph 114 onwards of the VfM IA in this document below

[79] See Scale and Asset IA in this document below

- **Metric 7: A decline in the number of default arrangements across DC schemes** - In order to achieve scale and strengthen their value for money, DC schemes may be required to consolidate the default arrangements they offer, resulting in a higher concentration of scheme assets within a single default arrangement. The expectation is the number of default arrangements will significantly reduce by 2030.
- **Metric 8: A growth in the number of authorised DB Superfunds** - DB Superfunds are consolidators that pool multiple DB schemes to ensure greater security for members benefits. By enabling TPR to provide authorisation of these superfunds, the Bill is expected to increase both the number of schemes considering superfunds as a Long-Term objective, and the total value of assets being transferred into them.
- **Metric 9: An increase in the number of DB schemes extracting their DB surplus and the value of asset surplus being released** - By relaxing the constraints put on DB schemes regarding surplus payments, the Bill is expected to increase the number of schemes extracting surplus, where members benefit, as well seeing an increase in the total value of surplus being released, without having an adverse effect on scheme funding levels.

104. **Theme 4: An industry adapting and ready for reform**: The Department want to ensure that the industry is prepared for the commencement of the Bill measures. The following metrics will help gauge how the industry is understanding the changes and what will be required of them, while also giving an insight into what is being done in preparation.
    - **Metric 10: Schemes are aware of and understand the reforms** – It is important schemes understand the additional duties being placed on them. Therefore, it is expected awareness of the Bill, and its implications will increase over time ahead of the implementation timelines.
    - **Metric 11: Schemes have started to put plans in place to be ready for implementation** – It is expected schemes will start to prepare ahead of the formal legislation timelines given the number of reforms being put in place. Therefore, it is expected the industry is likely to emerge with proposals and designs, such as on guided retirement offerings, over time.
    - **Metric 12: Schemes feel they will be ready when the reforms come in** – It will be important schemes are ready for the reforms. Therefore, it is expected readiness will increase over the next few years.
105. These are the main overarching metrics of early Bill performance that are intended to be used, but the list is not exhaustive and will continue to be developed. The Department will

continue to refine this approach in collaboration with DWP and UK regulators to ensure **continued parity to maintain a UK wide pension market.**

106. Annex: Individual Summary Impact Assessments

- DB Surplus Impact Assessment (from page 79)
- Value for Money Impact Assessment (from page 127)
- Small Pots Impact Assessment (from page 208)
- Guided Retirement Impact Assessment (from page 333)
- Scale and Asset Impact Assessment (from page 412)
- DB Superfunds Impact Assessment (from page 485)

Figures quoted throughout the IAs are UK wide unless otherwise stated.

Pension Schemes Bill (Northern Ireland) 2027

DB Surplus Flexibilities Regulatory Impact Assessment

Title: **DB Surplus Flexibilities**	**Regulatory Impact Assessment (RIA)**
	Date: May 2026
	Type of measure: Primary Legislation
Lead department or agency: **Department for Communities**	**Stage:** Bill
	Source of intervention: Domestic NI
Other departments or agencies: **Department for Work and Pensions**	**Contact details:**

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)
Funding levels in the Defined Benefit (DB) universe are currently high, with many schemes experiencing a surplus. Around £160bn of surplus is held in private sector occupational DB pension schemes in the UK. Many schemes are currently prevented from accessing surplus funds due to existing legislation. Legislative intervention would remove barriers to surplus extraction, whilst ensuring appropriate safeguards. This would provide pension trustees the flexibility to work with sponsoring employers to use surplus funds to generate positive externalities, including productivity gains in their businesses, boost wages, and benefit scheme members. Without intervention, surpluses may not be utilised effectively, impacting businesses and the economy, and information failures would continue to hamper decision-making.

What are the policy objectives and the intended effects? (7 lines maximum)
The policy objective is to level the playing field by ensuring all schemes have the option to access surplus funds and encourage its use in ways that contribute to economic growth - benefitting the sponsoring employer and members, where trustees consider this prudent to do so. Trustees may allow access for multiple reasons, including investing in sponsoring employers' companies, or directly benefiting members through benefit augmentation. The policy aligns with the wider UK Government growth agenda. The indicators of success would be trustees extracting more surplus, without those schemes becoming adversely affected or underfunded.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)
Option 1: Do nothing – doing nothing would leave a large amount of surplus not being effectively utilised.
Option 2 (preferred): Introduce powers in Primary Legislation for trustees to modify scheme rules by resolution to allow for sharing of surplus with sponsoring employers, where this is not possible in their existing scheme rules. Surplus extraction would be subject to funding safeguards and a requirement to consider beneficiaries' interests.
Option 3: Modify scheme rules by primary legislation to allow trustees to share surplus with sponsoring employers. Surplus extraction would be subject to funding safeguards and a requirement to consider beneficiaries' interests.
Option 2 is the preferred option, as it provides trustees with a choice to modify scheme rules by resolution rather than modifying scheme rules by legislation.

Will the policy be reviewed? It will be reviewed	**If applicable, set review date:** May 2030

Cost of Preferred (or more likely) Option [80]		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
£1.6	£0.2	N/A

Does Implementation go beyond minimum EU requirements?			**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?			**YES** ☒	**NO** ☐
Are any of these organisations in scope?	**Micro** Yes ☒ No ☐	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

[80] The aggregated monetised impacts are calculated for a ten-year appraisal period and all costs are given in 2024 prices and use 2025 as the base year for the present value calculation, as given in the RPC/DBT Impact Assessment Calculator. 2024 prices are shown because this is when the policy evidence was considered and 2025 is the present value base year as this is when the policy measures were agreed within GB.

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Date:

Summary: Analysis and Evidence Policy Option 2

Description: Introduce power for trustees to modify rules by resolution to allow for sharing of surplus (Preferred option)

ECONOMIC ASSESSMENT (Option 2)

Costs (£m)	**Total Transitional (Policy)** (constant price)	Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low	**£1.7**		**£0.1**	**£2.5**
High	**£3.0**		**£1.1**	**£12.4**
Best Estimate	**£2.3**		**£0.6**	**£7.4**

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

Trustee familiarisation (direct): ~2 hours per trustee to understand the legislation, with a total estimated cost of £1.2m. Employer familiarisation (direct): ~2 hours for sponsoring employers to familiarise themselves with the policy, totalling £0.4m. Scheme rule changes – trustee time (indirect, optional): ~8 hours for trustees to modify scheme rules, estimated at £0.2m. Professional advice & employer negotiations (indirect, optional): Actuary/adviser support (~8 hours) costing £0.5m, plus additional employer engagement (~8 hours) costing £0.06m. Ongoing surplus extraction costs (indirect, optional): Each extraction event incurs present-value costs of £1.2m (trustees), £3.6m (actuaries/advisers), and £0.4m (employers).

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

There may be a potential impact on the **security of member benefits**. If surplus funds are extracted, there is a risk that the pension scheme may not have sufficient funds to meet future liabilities, particularly if there are adverse market movements. This would require sponsoring employers to invest additional money in the scheme to bring it to the required funding level. However, trustees have a fiduciary duty to act in the interests of beneficiaries and guardrails will be in place to ensure that schemes remain funded on a prudent basis.

Benefits (£m)	**Total Transitional (Policy)** (constant price)	Years	**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low	**£0m**		**£153m**	**£1,344m**
High	**£0m**		**£1,762m**	**£15,457m**
Best Estimate	**£0m**		**£957m**	**£8,400m**

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

It is estimated around £8.4bn of surplus could be extracted (net of tax) over the ten years. Decisions on how surplus funds are shared would be determined through negotiations between trustees and employers. Purely for the purpose of this Impact Assessment, it has been assumed surplus funds are equally distributed between members (£4.2bn) and employers (£4.2bn).

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

N/A

Key Assumptions, Sensitivities, Risks Maximum 5 lines

How much surplus may be extracted and how this is split between employers and pension members. Take-up assumptions are based on current take-up levels and industry survey data – though these vary significantly and will depend on Trustee decisions and economic conditions. The split between employers and savers cannot be known in advance and, purely for the purpose of this IA, is assumed to be 50/50. As around 70 schemes hold around 50% (£600bn) of total DB assets; decisions made by a few large schemes could significantly impact numbers.

BUSINESS ASSESSMENT (Option 2)

Direct Impact on business (Equivalent Annual) £m				
Costs: £0.2	**Benefits: £0.0**	**Net: £0.2**		

Cross Border Issues (Option 2)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

The proposals in this Impact Assessment correspond to proposals in the Impact Assessment for the Westminster Pension Schemes Bill. Under the policy of parity, this option would only be introduced in Northern Ireland if it was introduced in the rest of the UK. The options only apply to members of UK-based pension schemes.

Evidence Base

The costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis using 2024 data

Policy Background

Workplace pensions

1. Workplace pensions are split into three markets:
   a. **Defined Benefit (DB)** – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:
      - **Public sector DB**
      - **Private sector DB** where there were around 5,000 pension schemes in 2024
   b. **Defined Contribution (DC)** – This is a type of pension whereby pension contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:
      - **Trust-based market** - A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2025, there were around 920 trust-based pension schemes with 12 or more members. [81]
      - **Contract-based market** - A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2024, there were estimated to be around 30 firms with an authorised DC workplace pension business[82].
   c. **Collective Defined Contribution (CDC)** – these schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under Defined Contribution schemes) and away from the employer (as is the case under Defined Benefit schemes). The only CDC arrangement in the UK so far is a scheme by the Royal Mail.

[81] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[82] Corporate Adviser 2024 MT GPP Default Report https://corporate-adviser.com/research/

2. Collectively, these types of workplace pensions account for over £2 trillion in assets and support tens of millions of people[83]. This makes the UK one of the largest pension markets in the world[84].
3. The contextual and background information within the Impact Assessment (IA) reflects the latest information available. However, it is important to note the calculations are using the previous years' (2024) worth of data. The changes in the landscape are in line with expectations and therefore it would not materially change the cost or benefits of the policies.
4. DB pensions are backed by a sponsoring employer ("the sponsor"), who is required to fund the scheme to a level which is expected to allow for the promised benefits to be paid when they fall due, and to put in place plans should the scheme fall into deficit.
5. The vast majority of private sector occupational DB (workplace) pension schemes are set up as a trust, run by a group of trustees (the "trustee board") who manage the assets of the scheme and who have a duty to act in members' collective best interests in line with the scheme's trust deeds and rules.
6. DB Pensions are regulated by the Pensions Regulator (TPR) with the Pension Protection Fund (PPF) acting as a compensation scheme of last resort by providing compensation to members whose sponsoring employers become insolvent and where benefits, at least equal to the level of compensation provided by the PPF, cannot be secured.

The Defined Benefit Landscape[85]

7. Although fewer than 700,000 people are actively saving into a private sector DB scheme, the sector remains a significant market within the UK economic landscape. Across around 5,000 schemes, around 9 million members are being supported with assets of around £1.2 trillion.
8. A DB scheme's funding position is the difference between the assets the scheme holds (based on contributions and investment return) and the net present value of its liabilities (how much it is expected to have to pay out to its members). A scheme is in surplus where it holds a greater amount of assets than liabilities. A deficit is having a lower amount of assets than liabilities. This means improvements in the funding position can arise through:
    - **Greater pension contributions** for open schemes made by the employee or sponsoring employer (increasing assets).
    - **Investment performance** from the stock of existing assets (increasing assets).

[83] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/fundedoccupationalpensionschemesintheuk/october2023tomarch2024
[84] https://www.oecd.org/en/data/indicators/pension-funds-assets.html?oecdcontrol-69798b0352-var8=PC_GDP
[85] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

- **Deficit Reduction Contributions (DRCs)** made by sponsoring employers to help improve the funding position of the scheme (increasing assets).
- **Higher interest rates** which lower the expected value of the liabilities due to be paid out by the scheme (as liabilities are discounted by a rate of return).
- **Lower life expectancies** as schemes will have to pay out a pension over a shorter period of time (lowering liabilities)

9. DB liabilities, however, inherently carry an element of uncertainty as it is impossible to estimate future longevity or investment returns with certainty. There are a range of DB scheme liability measures, each designed and used for a specific purpose. They differ in the way the assumptions needed to assess scheme liabilities (like future investment returns) are made. There are a range of common measures of liabilities and funding levels used including:

- **Technical Provisions basis** represent the amount a scheme needs to hold in order to meet its future liabilities. As of 30th September 2024, almost 4,000 schemes (around 4-in-5 schemes) were in surplus on a Technical Provisions basis, with these schemes holding over £200bn in surplus[86].
- **Section 179 (s.179) Basis[87]** which broadly represent what schemes would need to pay an insurer to secure PPF levels of compensation for their members (which is usually lower than full scheme benefits). The PPF Purple Book reports, as of 31st March 2024, around 3,600 schemes were in surplus on a s.179 basis with around £240bn in surplus.
- **Buy-Out Basis** represents what schemes would need to pay an insurer to secure full compensation (i.e. 100% of scheme benefits) for their members. As of 30th September 2024, around 2,400 schemes (around 1-in-2 schemes) were in surplus on a Buy-Out basis, with these schemes holding almost £100bn in surplus.
- **Low Dependency Basis** set out how much schemes will need to hold in order to minimise ongoing reliance on financial support from the sponsoring employer[88] by the time they are significantly mature. This is generally lower than the level required to buy-out. As of 30th September 2024, around 3,600 schemes were in surplus on a Low-Dependency basis, with these schemes holding around £160bn in Surplus.

[86] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management

[87] Section 179 of the Pensions Act 2004 sets out the way in which valuations determine scheme underfunding for the purposes of calculating the risk-based pension protection levy. The corresponding Northern Ireland reference is Article 162 of the Pensions (Northern Ireland) Order 2005. However, for this IA, the term section 179 basis is used to reflect the terminology in the Pension Protection Fund Purple Book etc.

[88] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/understanding-db-_scheme-funding.ashx

Table 1: Funding levels across DB landscape (2024)[89]

	S179 (Mar-24)	Technical Provisions (Sep-24)	Low Dependency (Sep-24)	Buy-Out (Sep-24)
Assets	£1,167bn	£1,240bn	£1,240bn	£1,240bn
Liabilities	£948bn	£1,033bn	£1,103bn	£1,233bn
Funding Ratio	123%	120%	112%	101%
Schemes in Surplus	3,670	3,970	3,620	2,380
Surplus of schemes in surplus	£240bn	£222bn	£164bn	£97bn

10. The DB landscape funding position has significantly improved over the last few years. This has been due to factors such as changing macroeconomic conditions as well as sponsoring employers making Deficit Reduction Contributions (DRC). Most notably funding levels have improved because of rising interest rates – the Bank of England rate was 0.25% at the start of 2022 and as of August 2025 is 4%[90]. This, along with other economic factors, has contributed towards long-term gilt yields rising (which lowers estimated DB liabilities through increasing the discount rate being applied) and, as a result, the aggregate DB scheme funding position has improved significantly. This is demonstrated by the buy-out funding ratio improving from 62.3% in 2014, to 79.2% in 2022, and is currently estimated by the TPR at 101% as of September 2024.
11. DB schemes may have different strategies and objectives regarding how they are run in the longer-term (a long-term objective). Currently, DB schemes have the following alternatives:
    a) To **run on** which means that the sponsoring employer continues to be liable for any changes in the funding position which may arise. Schemes may opt for a low-risk strategy and seek to reach low dependency on the sponsoring employer by the time they are significantly mature; or invest scheme assets with a view to generating a surplus.
    b) **Buy-out** with an insurer - this is a process where a pension scheme transfers its liabilities to an insurance company. The pension scheme pays a premium to the insurer for the insurer to take on the responsibility of paying the pensions to the scheme members.

[89] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management
[90] https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate

c) To **enter a commercial consolidator** vehicle such as a superfund.

What is surplus extraction?

12. Surplus extraction refers to the process by which DB pension schemes can access and utilise surplus funds that exceed the amount needed to meet their liabilities. This surplus can be used for various purposes, such as meeting scheme expenses, funding ongoing DB accrual costs, enhancing member benefits, or paying DC contributions where a DC section exists within the same trust.
13. Surplus extraction is the subject of this IA; the decision whether to extract surplus is voluntary. It is for trustees to decide whether to allow for this. Legislation and guidance will require trustees to expect their scheme would remain prudently funded following any proposed extraction. Trustees will be required to receive certification from their scheme actuary that their scheme is sufficiently funded and expected to remain so.
14. Only a minority of schemes currently allow for surplus extraction. These are schemes which have passed a resolution before 2016, stating how the power to return a surplus to the sponsoring employer was to be exercised. Article 228 of the Pensions (Northern Ireland) Order 2005 gave transitional power to trustees to modify their scheme rules. Legislation also sets the threshold for surplus extraction at the buy-out level of funding.
15. The proposed legislation will allow all schemes the ability to modify their scheme rules to permit surplus extraction, should the scheme and trustees wish to make this change. As with surplus extraction currently, schemes will be required to meet several conditions set out in legislation before extracting surplus. DWP intend to work with TPR to develop guidance to outline options for trustees to meet this requirement.

Policy development

16. The policy has been developed over the last two years, with extensive engagement across the pension industry and building on feedback received. A call for evidence was first published in July 2023[91] which sought responses to build the evidence. This was followed by the response published in November 2023[92] where the previous UK Government committed to publicly consulting on measures to make surplus extraction easier.

[91] https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence

[92] https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/outcome/government-response-to-options-for-defined-benefit-schemes

17. In February 2024[93], a consultation was launched with more detailed plans and questions around the role of surplus, seeking further feedback from industry.
18. From April 2024[94], a measure was introduced to reduce the amount of tax due on the amount of the authorised surplus payment from 35% to 25% from 6 April 2024. This was designed to encourage surplus extraction by lowering the cost of extraction via the tax system and to align the rate of tax incurred on surplus payments in line with other forms of taxation faced by scheme sponsors (i.e. corporation tax).
19. In January 2025, proposals were announced to provide additional flexibilities to trustees with respect to extraction of DB scheme surplus[95].

Rationale for intervention

20. From industry engagement and consultation, it is estimated that only around 20% of schemes allow for surplus extraction in their scheme rules[96]. This means that many schemes are unable to access the surplus they may be building in their pension scheme. Estimates from HMRC data suggests around £180 million in surplus has been extracted over the 5-year period between March 2018 to March 2023[97]. For schemes that do not permit surplus extraction, the only way of accessing surplus funds would be at the point of winding the scheme up, which could be decades away. As a result, tens of billions of pounds are potentially not being used as efficiently or effectively as possible to support businesses and their employees.
21. There are a number of key reasons to intervene in the market due to a number of market failures, including:
    - **Imperfect information –** Over the last 4 years, sponsoring employers have contributed over £50bn in Deficit Reduction Contributions (DRCs)[98]. However, market conditions have meant schemes are now much better funded and, for some schemes, this money will be well above the amount needed to meet future benefit payments. A sponsoring employer cannot know how financial markets may change and therefore whether they are over- or under-contributing towards the funding of their pension scheme. Without being able to access a surplus, a sponsoring employer is at risk of over-funding their

93 https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/options-for-defined-benefit-schemes

94 https://www.gov.uk/government/publications/amendments-to-the-authorised-surplus-payments-charge-variation-of-rate-order-2024/the-authorised-surplus-payments-charge-variation-of-rate-order-2024#background-to-the-measure

95 https://www.gov.uk/government/news/pension-reforms-to-go-further-to-unlock-billions-to-drive-growth-and-boost-working-peoples-pension-pots#:~:text=Unlocking%20surplus%20capital%20from%20defined,higher%20pensions%20for%20scheme%20members.

96 Respondents to the DWP DB call for evidence estimated that between 15% and 25% of DB schemes allowed for this in their scheme rules. For the purpose of this IA, the midpoint of 20% has been used - https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/outcome/government-response-to-options-for-defined-benefit-schemes

97 https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/options-for-defined-benefit-schemes#fn:8

98 https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/fundedoccupationalpensionschemesintheuk

scheme or may seek to limit funding or extend contributions over a longer time frame to minimise this risk. Being able to access a surplus minimises the risks of schemes being "over" funded on a sustained basis and improves incentives for sponsoring employers to fund their DB schemes.

- **Positive externalities –** Building up large surpluses in well-funded DB schemes may limit the opportunities to support wider growth initiatives across the UK economy. DB schemes generally invest in lower risk assets, mainly government bonds. However, money being shared between sponsoring employers and members could generate additional UK-wide benefits through greater investment by sponsoring employers, enhancing the sponsoring employer's financial situation (supporting employment), and generating additional consumption by pension members.
- **Consistency across the market –** There is currently inequality in the DB Landscape as not all schemes are currently able to access a surplus. The legislation will bring more consistency and enable a greater number of members and employers to benefit from surplus flexibilities.
- **Distributional benefits –** One potential outcome from the legislative change is the ability for sponsoring employers with DB pensions to offer greater investment into their DC schemes. DB pensions are significantly more generous, with average contribution levels of 20% whereas DC pensions have an average contribution level of around 8%[99]. As a result, it is expected that people saving into a DC pension will have comparatively worse outcomes to those saving into a DB pension. This measure may generate distributional benefits through reallocating pension investment from DB to DC schemes.

22. It is recognised that making it easier for schemes to access their DB surplus may present a risk to the market, members and the PPF. In particular:
    - **Schemes may extract too much surplus.** Schemes are currently benefiting from unusually high surpluses due to the macroeconomic environment. Any major shocks paired with high surplus extraction levels, could lead to schemes becoming underfunded. However, this is mitigated somewhat by schemes increasingly hedging their assets to minimise the impact of market movements on funding levels. In addition, it is expected Trustees (who have a fiduciary duty towards members) will only permit surplus extraction where it is appropriate to do so. Guardrails will also be in place to ensure that schemes remain funded on a prudent basis.

[99] DWP analysis of ASHE 2023: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2023

- **Underfunded Schemes may place more pressure on the PPF.** For schemes with a weak employer covenant, accessing scheme surplus may improve the employer's financial position. However, removing surplus funds could increase the risk of the pension scheme becoming underfunded, particularly in the context of extreme adverse market movements. If the sponsoring employers of underfunded schemes were to also become insolvent, these schemes would then transfer into the PPF, potentially increasing its liabilities. This risk is considered low given Trustees Fiduciary Duty to consider the best interest of all beneficiaries and guardrails to ensure that schemes remain funded on a prudent basis.

23. Legislation around the forms and circumstances in which surplus extraction can take place is important to help mitigate these risks. The legislation therefore seeks:
    - **To remove barriers preventing DB schemes from accessing surpluses,** which can then be used to support employers and members.
    - **To protect members and the PPF** from the different risks posed by surplus extraction by implementing appropriate guardrails.
    - **To prevent schemes extracting surplus inappropriately** where it would be unsafe to do from the perspective of the security of member benefits.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

24. A wide range of sources and evidence has been used to build an evidence-base to identify the problem and impacts of the solutions. This has included:
    - **TPR data on scheme funding levels –** TPR have information triennial valuations all schemes are required to publish. These can be "rolled forward" based on market performance to estimate the latest position of scheme funding. This has been used to understand the latest DB scheme funding levels across the landscape, assets & liabilities, and number of schemes and members.
    - **HMRC tax information –** HMRC receive information on the quarterly level of DB surplus accessed and how many schemes have requested this. This information provides an indication of current surplus extraction, helping to estimate current levels of take-up.
    - **PPF Purple Book –** The PPF publish a comprehensive overview of the DB landscape each year. This provides an estimate of the annual funding levels on a PPF basis and trends over time.

- **Call for evidence and consultation responses –** As outlined earlier, call for evidence and consultation responses have helped understand industry views and support for the measures. This also helps understand the potential levels of access already available and likely take-up of accessing surplus going forward.
- **Industry engagement –** Alongside consultations, DWP have continued to engage with industry, including through Ministerial roundtables, to understand views from industry to inform the policy development and evidence base.
- **A number of industry publications –** Papers and surveys from various sources have been used to build an evidence base and support assumptions made in the costings, including the Pensions and Lifetime Savings Association (PLSA).
- **Engagement with Government Actuary's Department (GAD)** to test and validate the assumptions and costings in the Impact Assessment.

25. Although a wide range of data sources are used, the level of surplus accessed is highly dependent on scheme behaviour. This cannot be known in advance and will be dependent on discussions between sponsoring employers and Trustees, and the level of risk tolerance both parties may have. It is also important to highlight the concentration of assets across the DB landscape which could significantly change the estimated numbers. For example, around 70 schemes hold around 50% (£600bn) of total DB assets and around 2,000 schemes hold just £10bn in assets[100]. This highlights how the behaviour of just one or two large schemes can significantly influence potential impacts.

Counterfactual

26. It is difficult to ascertain how much surplus would be extracted in the absence of the proposed legislation going forward. This is particularly the case given funding levels regularly change with shifting market conditions. For the purposes of this IA, the following assumptions have been made:
    - The proportion of schemes that already allow surplus extraction in their scheme rules is uncertain but has been assumed for the purpose of this impact assessment to be **20%**. This is based on consultation and industry responses which estimated around 15-25% of DB schemes currently allowed this (though it was recognised this was highly uncertain)[101].

[100] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management
[101] https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/outcome/government-response-to-options-for-defined-benefit-schemes

- The amount of yearly surplus extraction in the counterfactual will be the average yearly extraction over the past five years. This is estimated at **around £35m per year across the UK**.
- The number of schemes extracting surplus in the counterfactual will be the average yearly extracting schemes over the past five years (**around 40 per year**).

27. These are relatively simple assumptions, but the level of surplus accessed has been relatively low and stable in the last 5 years and therefore gives some confidence trends are likely to continue in the absence of any further policy intervention.

Table 2: Surplus extraction levels and number of schemes extracting (HMRC data)[102]

Year	No of Schemes	No of Authorised Surplus Payments	Total Value of Surplus Payments
2020	41	43	£39,500,000
2021	40	40	£42,500,000
2022	40	40	£11,000,000
2023	40	40	£21,500,000
2024	45	59	£60,500,000

28. In the counterfactual, it is assumed that in the first year around £40m is extracted and, in total over the ten-year period, around £310m is extracted (when discounted).

[102] Derived from Accounting for Tax data provided by HMRC, drawing on reported DB surplus payment charges divided by the charge rate to estimate total payments. NB - Where the number of schemes and authorised surplus payments is reported as <10 in a given quarter, this is rounded to 5. Where the value of surplus payments is reported as <£1m this is rounded to £500,000.

Table 3: Discounted surplus extraction in the counterfactual (rounded)

Year	Discounted surplus extraction in counterfactual
0	£40m
1	£30m
2	£30m
3	£30m
4	£30m
5	£30m
6	£30m
7	£30m
8	£30m
9	£30m
Total	**£310m**

Scope – how much surplus is available for extraction

29. This policy will apply only to DB schemes subject to the DB funding regulations, this is estimated at around 5,000 pension schemes across the UK.

30. It is difficult to determine, at this stage, how many schemes will modify their scheme rules to take advantage of surplus flexibilities and how much surplus will be extracted. Trustees and sponsoring employers will also need to come to an agreement on whether to extract surplus and how much surplus should be extracted. All of this will be voluntary, as the legislation does not require schemes to release the surplus. The legislation provides the power for trustees to modify scheme rules by resolution to allow for sharing of surplus with sponsoring employers, where this is not possible in their existing scheme rules. Any impacts will be highly influenced by:

    - **The behaviour of individual large schemes** - As previously mentioned, around 70 schemes hold £600bn in assets. If any of the large schemes accessed a large amount of their surplus, this would significantly increase the potential benefit.
    - **Other responses to improved funding levels –** For example, schemes may choose not to access a surplus (as this is taxed) but respond in a different way such as reducing sponsoring employer contribution levels towards future benefit accruals. However, it is important to note only around 700,000 people are saving into a DB pension and only around 4% of DB schemes are fully open.

31. Nevertheless, it is recognised that providing a sense of scale for the potential surplus extraction is important to indicate the potential impacts. An estimate has been derived based on the amount of available surplus and assumptions regarding the likely parameters around take-up. This is highly uncertain and dependent on the behaviour of individual sponsoring employers, sensitivity analysis has been supplied to provide an indication of the relative uncertainties.

32. It is estimated that **an additional £11.2bn surplus will be extracted as a result of the preferred option to legislate over a 10-year period**. This figure is highly uncertain, and the exact amount will depend on market response and future economic conditions. A number of key assumptions are used (see Table 4) and explained further below.

Table 4: Key assumptions of surplus extraction

Assumption	Value	Rationale
Surplus on a low dependency basis for schemes in surplus	**£164bn**	Latest TPR data, £164bn is held by schemes in surplus, on a low dependency basis. The policy will focus on low dependency funding levels as this provides the level needed to operate independently of financial support from the sponsoring employer. Around 75% of DB schemes are in Surplus on a Low Dependency Basis.
Surplus on a low dependency above 110% funding levels	**£97bn**	There will be guardrails in place to protect the scheme and members from reducing funding levels too much. Although this will vary scheme-by-scheme, a funding level of 110% (on a low dependency basis) has been used as a proxy. This is because: - It recognises schemes are unlikely to reduce funding levels too close to 100% as it exposes schemes to the risk of becoming under-funded as a result of market movements. - The higher the minimum funding level, the lower the risk to members if a sponsoring employer were to become insolvent or in the event of market shocks. - Trustees may be risk averse and therefore a level above 100% is likely to be the minimum level acceptable.

		Around 56% of DB schemes are likely to be funded above 110% on a Low Dependency Basis.
Schemes with long-term objective to run-on with a surplus	**7%**	It is expected that not all schemes will be aiming to extract surplus, as many schemes (around 62%)[103] are looking to buy-out in the insurance market. For these schemes, extracting a surplus may reduce the likelihood of achieving buy-out in the near-term. It is expected schemes which would take advantage of surplus flexibilities are those with a long-term-objective of running on to achieve low dependency on the sponsoring employer or to generate a surplus. Survey data from the TPR[104] shows 7% of schemes are looking to run-on to generate a surplus and 27% of schemes have a long-term objective of running on with low dependency.
Schemes with long-term objective to run-on with low dependency	**27%**	
Take-up rate	**25%**	The available evidence presents a broad range of estimates, ranging from 4% to 46%, hence a central estimate for take-up has been derived by taking an average of two points: **1.** Survey evidence implies greater level of support for surplus extraction. A survey carried out by **PLSA found that 44% of members surveyed were supportive of surplus extraction**.[105] This was similar to the proportion of respondents to the Government consultation who were supportive of surplus extraction (48%). The average of these two figures is 46%. However, there are often "say/do" gaps in surveys which are important to consider. Hence this is considered an upper bound. 2. Historic evidence implies relatively low levels of surplus extraction. Using the number of current eligible DB schemes able to access a surplus (20% of

[103] TPR's 2024 DB Schemes Survey: https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2024.ashx
[104] TPR's 2024 DB Schemes Survey: https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2024.ashx
[105] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2023/Options-for-Defined-Benefit-Schemes-Sept-2023.pdf

		schemes, equating to around 1,000 providers) and HMRC data on numbers currently accessing a surplus (around 40 a year), this implies a take-up rate of around **4% of permitted schemes[106].**
Schemes not currently eligible for surplus extraction	**80%**	This is based on estimates received from the government's Call for Evidence on Options for DB Schemes. A mid-point of 20% was taken from the estimated range of 15% to 25% of DB schemes which allowed for extraction of surplus in their scheme rules. Therefore 80% of schemes are estimated to benefit from the measure.

33. Using the key assumptions in Table 4, it is possible to derive an estimate for the total amount of surplus that may be extracted. Of the £97bn available (by assuming there remains a 10% funding safeguard), it is considered there are two possible types of schemes which may access a DB surplus:

    a) **Infrequent access –** Some schemes may choose to access surplus funds on an infrequent basis, as and when these emerge, for example through recent improvements in funding positions. This group is most likely composed of DB schemes with a long-term objective of operating with low dependency on their sponsoring employer (around 27% of schemes). Assuming a uniform distribution of surplus funds, it is estimated that there is around **£26bn surplus available in schemes aiming for low-dependency**[107]

    b) **Regular access –** Some schemes may decide to use their DB scheme to generate continuous investment returns for the purpose of having a surplus to access on a regular basis. Around 7% of schemes have "run on to generate a surplus" as a long-term objective. Assuming a uniform distribution of surplus funds, it is estimated that there is around **£7bn surplus available in schemes aiming to run-on for surplus**.[108]

34. Of the c.5000 schemes in the DB universe, TPR data suggests that around 56% are at least 110% funded on a low-dependency basis. This implies that around 2,800 schemes are potentially suitable for surplus extraction. Applying the assumptions as above provides an estimate of the number of schemes that would be expected to engage in surplus extraction. Based on this, **around 200 schemes would be expected to engage**

[106] 4% = 40/1000. According to HMRC data, around 10 schemes extract per quarter, which is assumed to be 40 schemes per year; out of 20% of DB schemes in the Universe (which is ~5000)

[107] £97bn of Available Surplus over 100% on a Low Dependency Basis * 27% of Schemes aiming for Low Dependency

[108] £97bn of Available Surplus over 100% on a Low Dependency Basis * 7% of Schemes aiming for Low Dependency

in surplus extraction[109] – of which around 20% are expected to be running-on for surplus and 80% are expected to run on for low-dependency.

35. Using the same assumptions, it is estimated **£5.2bn is extracted by schemes with an objective to run on for low dependency** (£26bn * 25% take-up * 80%). It is assumed that surplus extraction would occur through lump-sum payments over two years. Whilst it is possible that economic conditions may create situations for surpluses to re-emerge within these schemes, this has not been explicitly modelled for this IA.

36. A **further £7.5bn is extracted by schemes aiming to run on to generate a surplus**. It is assumed these schemes would extract surplus on a regular basis, whilst remaining invested in riskier assets to generate a higher rate of return. This necessitates a different methodology to that applied for schemes aiming for low dependency:

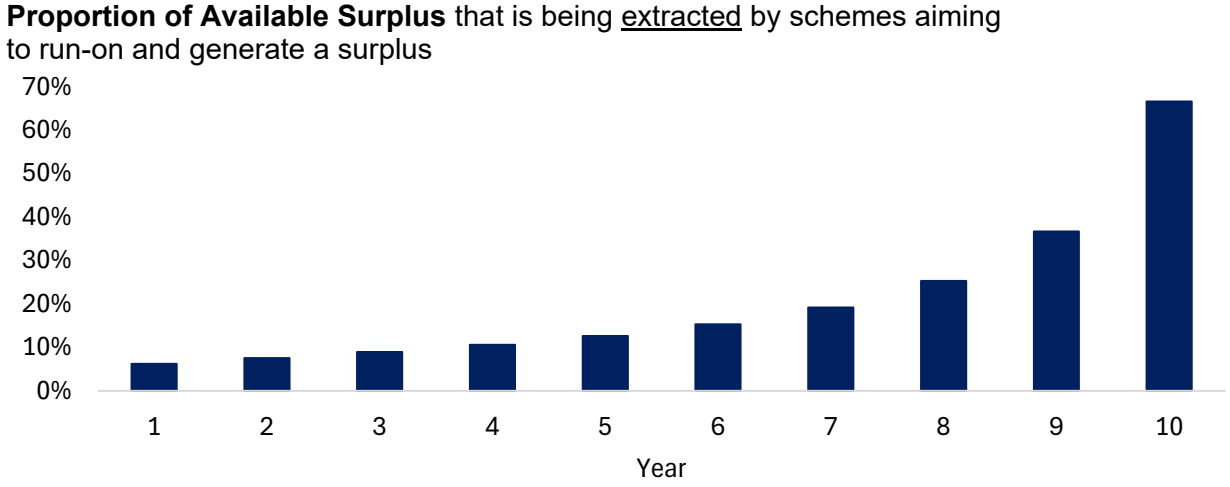
- Although 7% of schemes are aiming to run-on for a surplus, this is adjusted to **10% of assets** reflecting that larger schemes are more likely to run-on (e.g. those backed by financial companies/expertise in investment and a strong sponsoring employer covenant). As a result, it is estimated around **£12.6bn in Assets** (£630bn Assets held by schemes in surplus * 10% * 25% * 80%) are held by schemes aiming to generate a surplus.
- **Investment returns** of around 5% are achieved each year across the scheme (with liabilities remaining constant). This generates additional assets, and surplus, each year. Due to lack of data and a large number of parameters, changes in assets and liabilities due to increases in contribution levels have not been modelled.
- It is difficult to know how these schemes will profile surplus extraction over time. It has been assumed that an increasing proportion of the surplus in these schemes, above a buffer of 110%, would be extracted each year over the ten-year period[110]. The assumed profile of surplus extraction for schemes aiming to run-on to generate a surplus is shown in **Graph 1**. The profile reflects a greater willingness to leave scheme assets invested to achieve greater returns, and to extract surpluses over a period of time. 110% has been used as a proxy for the buffer that schemes may retain, as trustees under fiduciary duty would not allow all surplus to be extracted. This is to mitigate the risk of schemes being exposed to the risk of sudden market movements that could leave them underfunded. A 10% buffer above schemes being 100% funded is

[109] 2800 Schemes * 25% (Take Up) * 80% (Schemes not able to extract) * (27%+7%) (Schemes aiming to run on)

[110] Surplus extraction in year t is estimated by multiplying the available surplus over 110% by 1/(10-t). 10 reflects the time-period covered by the Impact Assessment, and the calculation reflects schemes aiming to generate a surplus being expected to profile surplus extraction into later years, allowing for time to invest and grow the surpluses they hold.

considered appropriate to cover most major market shocks. The probability of shocks larger than 10% is considered highly unlikely.

Graph 1: The projected profile of surplus extraction over 10 years for schemes aiming to run-on and generate a surplus



37. The total present value of surplus being extracted over the 10-year profile across schemes aiming to generate a surplus and schemes aiming to achieve low-dependency is shown in **Table 5** below.

Table 5: Discounted profile of gross estimated surplus extraction over the next 10 years:

Year	Additional surplus extracted by schemes aiming to run-on for generating a surplus	Additional surplus extracted by schemes aiming to run-on for low dependency	Total additional surplus extracted
0	£160m	£2,620m	£2,780m
1	£230m	£2,530m	£2,760m
2	£290m		£290m
3	£370m		£370m
4	£450m		£450m
5	£550m		£550m
6	£670m		£670m
7	£820m		£820m
8	£1,040m		£1,040m
9	£1,460m		£1,460m
Total	£6,040m	£5,150m	£11,190m

38. It is important to note the funding positions of DB schemes are not assumed to differ over the 10-year period. This is a simplistic assumption but reflects the significant uncertainty

and unknowns. For example, it cannot be known how financial markets will perform in the future. Funding positions may improve (and therefore, greater surplus extraction could be accessed) or worsen (and therefore lower levels of surplus extraction could be accessed). As the amount of surplus extraction would not materially impact the direct business costs; this is considered a proportionate modelling approach.

Description of options considered

Option 1: Do nothing

39. This option would retain the current counterfactual in which there would be no legislative change and only the schemes who currently allow surplus extraction in their scheme rules could extract surplus.

40. Under a "do nothing" option surplus extraction would only be accessible for a small number of schemes. It's estimated that around 20% of schemes[111] currently allow for surplus extraction in their scheme rules, and levels of extraction would remain close to current levels of around £40m a year, which is around 0.02% of total surplus.[112][113]

41. Legislation also sets the threshold for surplus extraction at the higher buyout level of funding. Buyout levels are substantially higher than low dependency. As not all schemes are seeking to enter the insurance market and low dependency is well above the required levels of payments to members, a buyout threshold may not be appropriate for all schemes.

42. Without intervention, it is likely that relatively low levels of surplus extraction would continue whilst surpluses in the system either continue to grow or exit the market through insurance buy-out. Which means that an opportunity to benefit members, businesses and to drive economic growth would be missed. Therefore "do nothing" is not considered a desirable option.

Option 2 (preferred option): Introduce power for trustees to modify rules by resolution to allow for sharing of surplus

43. This preferred option, introduced via Primary Legislation, would introduce a power for trustees to modify scheme rules by resolution to allow for sharing of surplus with sponsoring employers, where this is not possible in their existing scheme rules. Surplus extraction would be subject to funding safeguards and a requirement to consider beneficiary interests.

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[111] Respondents to the Government DB call for evidence estimated that between 15% and 25% of DB schemes allowed for this in their scheme rules - https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/outcome/government-response-to-options-for-defined-benefit-schemes

[112] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management

[113] HMRC Accounting for Tax Data (average over the last 5 years of data)

44. This option would enable trustees to choose whether to claim a power to modify scheme rules to allow sharing scheme surplus with sponsoring employers (where this is not possible in their existing scheme rules) rather than granting a blanket power to all trustees.
45. This would be accompanied by safeguards in legislation and guidance which would require trustees to have a high level of confidence that their scheme would remain prudently funded before surplus extraction could take place.

Option 3: Modify scheme rules by legislation to allow trustees to share surplus with sponsoring employers

46. Modify scheme rules by primary legislation to allow trustees to share surplus with sponsoring employers. Surplus extraction would be subject to funding safeguards and a requirement to consider beneficiary interests.
47. This would expand the pool of trustees with the ability to share surplus by granting a power to all trustees to share surplus with sponsoring employers.
48. This option provides trustees with a blanket power rather than giving trustees a choice to claim a power. However, this option was discounted as it does not take into consideration individual scheme rules or other issues schemes may face. Also, industry feedback has indicated that this approach would appear heavy-handed to trustees and that allowing them the freedom to claim a power would be preferable.
49. Given the feedback from industry discounting this option and many of the costs being the same as Option 2 (if not greater), this has not been explored in detail.

Policy objective

50. The proposed legislation seeks:
    - **To remove barriers preventing DB schemes from accessing surpluses,** which can then be used productively across the UK economy and to the benefit of millions of members.
    - **To protect members** from the different risks posed by surplus extraction by implementing appropriate guardrails.
    - To **prevent schemes extracting surplus inappropriately** where it is unsafe to do so from a member benefit perspective.
51. Given schemes are funded to record-levels, it is appropriate at this point to assess whether assets invested in DB schemes are being used in the most effective way to benefit sponsoring employers, schemes and members. The legislation aims to encourage more schemes to access surplus funds and use them in ways that contribute to economic growth

and benefit their members. For example, investing into sponsoring employers' companies, or directly benefiting members through benefit augmentation. This also aligns with the wider growth agenda.

52. A successful outcome would see:
    - **Greater number of schemes** accessing their DB surplus
    - **Members and sponsoring employers** benefiting from the surplus being extracted
    - **Funding levels remaining high** across the industry, showing the guardrails are working successfully
53. This IA underpins Primary Legislation. Details pertaining to the specific regulation around Surplus Flexibilities are to be worked through in Secondary legislation. Therefore, the IA presents the best picture based on current available evidence and policy design; however, it is important to note that this is subject to change as details are finalised. It is also important to note that a number of analytical assumptions are used; but any decision on surplus extraction and the sharing of this across different parties is for Trustees to decide (and assumptions should not be seen as a departmental recommendation).

Summary and preferred option with description of implementation plan

54. The preferred option would introduce a **power for trustees to modify scheme rules** to allow for sharing of surplus (where this is not possible in their existing scheme rules), subject to funding safeguards, while exploring additional benefits for members.
55. Currently only an estimated 20% of schemes across the UK have rules that permit sharing of surplus[114], which is around 1,000 schemes (out of around 5,000 schemes in the DB universe)[115]. The legislation therefore will look to make this option available to all schemes, where appropriate, so a greater number of sponsoring employers and members are able to benefit. Taking into account the different scheme objectives and willingness to extract the available surplus, it is estimated that less than 200 schemes would be looking to modify scheme rules to benefit from surplus extraction.
56. The legislation would be accompanied by safeguards and guidance which would require trustees to expect that their scheme would remain prudently funded before surplus extraction could take place; and to ensure members also benefit from surplus flexibilities.
57. Any take-up of surplus flexibilities is entirely voluntary. The legislation does not force schemes to undertake surplus extraction. As a result, the legislation aims to balance

[114] Respondents to the Government DB call for evidence estimated that between 15% and 25% of DB schemes allowed for this in their scheme rules - https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/outcome/government-response-to-options-for-defined-benefit-schemes

[115] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

encouragement with important guidance and safeguards to support trustees in their decision-making.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Summary of Costs and Benefits

Table 6: Summary of the total discounted cost and benefits.

Cost/Benefit Type	Total over 10-year period (£)
Direct Costs	
Familiarisation Costs:	**£1,553,000**
Trustees	£1,183,000
Sponsoring employers	£370,000
Indirect Costs	
Implementation costs	**£772,000**
Trustees	£179,000
Professional Advice/Actuaries	£537,000
Sponsoring employers	£56,000
Ongoing costs	**£5,124,000**
Trustees	£1,188,000
Professional Advice/Actuaries	£3,565,000
Sponsoring employers	£371,000
Benefits	
Surplus Payments	**£8,400,000,000**
Sponsoring employers	£4,200,000,000
Members	£4,200,000,000

58. Costs and benefits are modelled over the standard Green Book 10-year appraisal period. Although pension schemes work to long-term horizons, policy uncertainty and the uncertainty over scheme behaviour supports the use of a 10-year appraisal as opposed to any longer periods; especially as investment return benefits could lead to significant compounding over time and establishing the counterfactual becomes more uncertain with time.

59. It is assumed all costs (aside from initial familiarisation costs) would be **indirect costs**. This is because both modifying scheme rules and extracting surplus is optional. **The legislation does not mandate schemes to modify scheme rules or to extract surplus**

and therefore these costs are avoidable**.** As such, whether a scheme decides to permit this will involve many steps before a scheme or business decides to do so (i.e., needing to understand their funding levels, needing to decide if it's beneficial for the business/scheme/members, assessing options etc.). This makes it an indirect business cost. This is reflected in the Equivalent Annual Net Direct Cost to Business (EANDCB) calculations supplied throughout this assessment.

60. Where any decision is made to access a surplus, which is what generates the cost to business, **it is expected the benefit must be greater than the cost** (i.e. the amount of surplus accessed would be greater than the cost to access). Therefore, the legislation enables access where it may be in the interest of the sponsoring employer, members and schemes.

61. Consistent with past pension impact assessments, there are several assumptions, based on the best available evidence, around scheme and wage details. This is applied to the time estimations of familiarisation and implementation of the regulations. These have previously been tested with industry, TPR and GAD. These assumptions are:

- There are an **average of 3.2 trustees[116] per scheme** (based on TPR Trustee Survey data).
- The annual Survey of Hours and Earnings (ASHE) dataset[117] for the median hourly wage rate of corporate managers and directors (£28.75), has been uprated by 27%, in line with the green book, to account for non-wage costs to **£36.51** to represent a **trustee's and a sponsoring employers wage**.
- The **average hourly fee of schemes seeking advice from actuaries and other professionals** (including legal, investment consultants and covenant consultants) was £280.55[118]. This is based on analysis of actuarial team rates from the 2020 KGC associates 9th actuarial survey, that gives information on fees, services and trends for actuarial and administration providers. This encompasses a range of services we believe is a more accurate estimate of the hourly costs schemes will face when seeking professional support from external firms. This has been uprated using OBR's average wage growth[119] to **£350.90.**

[116] Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.3 Number of trustees by scheme size., page 14. https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

[117] Office for National Statistics. 'Annual Survey of Hours and Earnings 2024. Table 2.5a. 2024. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

[118] https://www.kgcassociates.com/wp-content/uploads/2021/11/KGcs-9th-Actuarial-Survey-VFinal.pdf £280.55 is an average of the estimated Scheme Actuary, Actuary and Actuarial support hourly charge out rate. We believe this is a good proxy for all scheme professionals' hourly fees.

[119] https://obr.uk/efo/economic-and-fiscal-outlook-october-2024

- There are **currently 5,063 DB schemes**[120] in total (based on PPF's 2023 Purple Book)

Costs to Business

Direct Costs

Familiarisation costs

62. It is expected some familiarisation will be required for scheme trustees as well as sponsoring employers to make an informed decision on whether to modify the scheme rules to enable surplus sharing.

63. It is expected trustees of all schemes would have to undertake familiarisation with the new legislation and to understand the implications for their scheme and members. Given trustees are bound by Trust Law and have a fiduciary duty to work in the best interests for their beneficiaries, these familiarisation costs are assumed to be a direct cost. It is assumed that this will be a one-off cost, **estimated to be around £200 per scheme, totalling £1.2m across the whole DB occupational pension scheme sector**.

This assumes that:

a. each of the 5,063 schemes in the DB universe has on average around 3.2 trustees[121].

b. it takes trustees around 2 hours of work to read and understand the policy change. This is based on the length and complexity of the legislation and is consistent with the expected time cost for trustees to familiarise themselves with the policy change on DB consolidation (through superfunds), where trustees are expected to read and understand the policy to determine whether their scheme is suitable for consolidation.

c. An hourly wage rate of £36.51 for trustees, based on the median wage for corporate managers and directors (£28.75) in the Annual Survey of Hours and Earnings (ASHE) dataset[122] uprated by 27% to account for non-wage costs.

64. Trustee familiarisation costs are estimated by multiplying the above (£36.51 per hour * 2 hours * 3.2 trustees * 5063 schemes).

65. It is expected that sponsoring employers will also undertake some level of familiarisation with the new legislation, given their vested interest as owners of the pension scheme. The surplus flexibilities policy has the potential to significantly benefit sponsoring employers through surplus payments, and therefore all employers should be expected to understand the rules; particularly as they carry the funding risk of the scheme. Sponsoring employer

[120] https://www.ppf.co.uk/-/media/PPF-Website/Public/Years/2022-11/PPF_PurpleBook_2022.pdf

[121] Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.3 Number of trustees by scheme size., page 14. https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

[122] Office for National Statistics. 'Annual Survey of Hours and Earnings 2024. Table 2.5a. 2024. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

familiarisation costs are **estimated to be around £70 per scheme, totalling £370k across the whole DB occupational pension scheme sector**.

This assumes:

- Sponsoring employers take a similar amount of time as trustees to familiarise themselves with the new policy (2 hours). Like trustees, it would be reasonable to expect that sponsoring employers would have some awareness of concepts around scheme funding and surplus levels – particularly with some sponsoring employers having made large deficit reduction contributions in recent years.
- A wage rate of £36.51 per hour for sponsoring employers, based on the median wage for corporate managers and directors in ASHE. Some sponsoring employers may be expected to have a dedicated job-role which would maintain oversight over the changing regulatory landscape to consider implications for their DB scheme, whereas other sponsoring employers may have corporate directors overseeing this as part of a wider job role. It is assumed that there will be one individual who will incur this initial familiarisation cost.

66. Sponsoring employer familiarisation costs are estimated by multiplying the above (£36.51 per hour * 2 hours * 1 corporate manager * 5,063 schemes).

Indirect Costs

Implementation costs.

67. Beyond familiarisation, it is expected some schemes may choose to modify their scheme rules to allow for surplus sharing as a result of the changes. This will involve some implementation costs; however, these are determined to be indirect costs as they would only be incurred should schemes choose to take advantage of the powers conferred by the policy change.

68. It is expected implementation (modifying scheme rules) would involve undertaking further costs arising from the time spent by trustees, sponsoring employers and external advisers (such as lawyers and actuaries) to agree to, and modify, scheme rules. The time taken is likely to vary scheme-by-scheme and depending on existing scheme rules in place. In the absence of detailed information, it has been assumed implementation costs would be comparable to the assumed time-costs in the Scheme Funding Impact Assessment[123]. This is because the requirements are similar in nature through involving trustees, actuarial advice, and employers, and require a strong focus on funding levels and future plans. The implementation costs for trustees and actuaries to implement funding and investment

[123] https://www.legislation.gov.uk/nisr/2024/90/pdfs/nisrem_20240090_en_001.pdf

strategies alongside a statement of strategy was estimated at around 1 day (or 8 hours). Costs have been modelled for:

- Trustees: It is assumed around 1 day (8 hours) would be spent by the trustees across the 191 schemes in scope[124] to undertake additional familiarisation and engagement with sponsoring employers to agree and modify scheme rules. This **is estimated to be around £900 per scheme, totalling £180,000 across all of the schemes estimated to take up the policy** (£36.51 per hour * 8 hours * 3.2 trustees * 191 schemes).
- Actuarial/Professional Advice: It is anticipated that implementation would likely require the services of actuaries or other professional advisers to support decision-making, who may have higher wage costs. Schemes may require work from an actuary to run scenarios modelling scheme funding levels or other forms of professional advice/services (e.g. lawyers) around modifying scheme rules. This has also been estimated to be around 1 day (8 hours) of an individual's time on average, at a cost of £350.91 (see para 58). This is **estimated to cost £2,800 per scheme, totalling around £540,000 across all the schemes estimated to take up the policy** (£350.90 per hour * 8 hours * 1 individual * 191 schemes).
- Sponsoring employers: Given sponsoring employers would be expected to have a vested interest in modifying scheme rules to benefit from surplus sharing, it is expected sponsoring employers with schemes considering surplus sharing would undertake further/more detailed familiarisation with the policy, negotiating revised scheme rules with trustees and following insight/communications shared by trustees and scheme actuaries. Here it is also assumed that sponsoring employers would spend around 1 day (8 hours), which is expected to cost around **£290 per scheme, totalling around £56,000 across all the schemes estimated to take up the policy** (£36.51 per hour * 8 hours * 1 individual * 191 schemes).

69. It is possible that there may be further implementation costs, for example, for schemes which already permit surplus extraction but wish to modify these in light of the new statutory regime.

Ongoing costs.

70. It is expected that ongoing costs would be the costs associated with carrying out surplus extraction. Given this would be undertaken voluntarily by schemes, these have been identified as indirect costs.

[124] 191 Schemes based on 5,063 (Total Number of Schemes) * 56% (Funding above 110%) * 25% (Take Up) * 80% (Cannot currently extract) * (7%+27%) (schemes with Long Term Objective to run on)

71. It is expected that ongoing costs are likely to be relatively small, in terms of time costs. This is because trustees and sponsoring employers already engage with each other on a regular basis, with schemes routinely reviewing their funding positions.

72. It is assumed, in line with the Scheme Funding Impact Assessment, that trustees would spend 1 day (8 hours) engaging actuaries and liaising with sponsoring employers regarding surplus extraction. This is expected to be comparable to the ongoing costs, in the Scheme Funding Impact Assessment, of reviewing a scheme's Funding and Investment Strategy and updating the Statement of Strategy. It is anticipated that extracting surplus will require a similar amount of work for trustees, involving various meetings with actuaries/advisers and sponsoring employers to understand funding levels and negotiating how much surplus should be extracted.

73. Based on this, ongoing costs for trustees are expected to be around **£900 per scheme** (based on 3.2 trustees, spending 8 hours at an hourly wage of £36.51).

74. It is expected actuaries/advisers and sponsoring employers will likely have a similar time commitment, given their involvement in various stages of the same processes. Therefore, it is assumed sponsoring employers and actuaries/advisers will also spend 1 day (8 hours). It is anticipated that ongoing costs for actuaries/advisers would be **£2,800 per scheme** (based on an hourly wage of £350.90 for one actuary/adviser for 8 hours of work); and ongoing costs for employers would be **£290 per scheme** (based on an hourly wage of £36.51 for one corporate manager/director for 8 hours of work).

75. It is also expected there will be some "learning effects" over time which could reduce the amount of time taken for trustees, actuaries/advisers and sponsoring employers to agree on surplus extraction. It has been assumed that this will take place from Year 5, where costs would be expected to halve. Therefore, from Year 5, trustee costs reduce to **£450 per scheme**; actuary/adviser costs fall to **£1,400 per scheme**; and sponsoring employer costs fall to **£145 per scheme**.

Table 7: Discounted ongoing costs for trustees, professional advice/actuaries and employers

Year	Discounted ongoing trustee costs	Discounted ongoing professional advice/actuary costs	Discounted ongoing sponsoring employer costs
0	£179,000	£537,000	£56,000
1	£173,000	£519,000	£54,000
2	£167,000	£501,000	£52,000
3	£161,000	£484,000	£50,000
4	£156,000	£468,000	£49,000
5	£75,000	£226,000	£24,000
6	£73,000	£218,000	£23,000
7	£70,000	£211,000	£22,000
8	£68,000	£204,000	£21,000
9	£66,000	£197,000	£20,000
Total	**£1,188,000**	**£3,565,000**	**£371,000**

76. Ongoing costs will only be incurred by schemes as they consider surplus extraction. It is expected that of the 5,000 schemes in the DB universe, fewer than 200 schemes would undertake surplus extraction. **Discounted ongoing costs are expected to total around £5m, of which £3.6m are due to costs for actuarial/advisory services; £1.2m due to costs for trustees; and £0.4m due to employer costs**.

77. It is assumed ongoing costs are experienced across all c.200 schemes that are considered in scope of surplus extraction. As explained in paragraph 35, it is assumed that schemes aiming for low dependency are assumed to extract any surplus amounts over the first two years. However, it is possible economic conditions may create the conditions for surpluses to re-emerge within these schemes. Whilst the potential size of these surpluses has not been explicitly modelled in this IA, it is considered possible that schemes will keep their funding position under review and incur ongoing costs to explore whether and how much surplus to extract. Given this, an average cost has been applied across all schemes in scope.

Costs to Members

78. If schemes choose to modify their rules to enable surplus extraction, this adds an indirect cost to members in terms of the increased likelihood of members not receiving their pension benefits in full. A scheme surplus can act as a financial cushion for members, to absorb unexpected costs or investment losses for the scheme. Without this cushion, the scheme

may be more likely to struggle to meet its obligations to members, especially in times of financial stress or economic shocks. However, schemes will be required to meet several conditions set out in legislation before extracting surplus, which are designed to protect members.

79. The PPF also acts as a safety net for members where their employer is made insolvent by paying 100% (where in receipt) or 90% (where not in receipt) of the pension entitlement. For employers with a weak covenant, accessing a surplus may improve the employer financial position but may risk the pension scheme becoming underfunded. If sponsoring employers of underfunded schemes were to also become insolvent, these schemes may then transfer into the PPF, increasing its liabilities and may mean members potentially losing out.

80. Overall, it is assumed this increased likelihood of members not receiving their benefits in full to be very low given the important role trustees will play in overseeing any decision.

Benefits

81. Schemes will only modify their scheme rules and undertake surplus extraction if this is deemed to be beneficial for sponsoring employers and members. Therefore, the policy should result in an overall net benefit. The most significant benefit from the policy change is the surplus extracted (net of tax). As outlined above, around £11.2bn is projected to be extracted from DB pension schemes over the 10-year period.

82. It is unclear how surplus payments would be shared between members and sponsoring employers, and what form surplus sharing will take. The distribution will likely be subject to the relative bargaining power of employers and members (represented by trustees). In addition, there are a range of delivery mechanisms that schemes could adopt to share surplus benefits with members (e.g. through cash payments, indexation of benefits for members, benefits for dependents, contribution holidays). Similarly, a range of delivery mechanisms could be adopted to deliver benefits to sponsoring employers (e.g. cash-payments, using surplus funds to reduce the cost of funding DC scheme contributions etc.). Therefore, benefit distributions are likely to vary from scheme to scheme.

83. Given the lack of evidence in this space, it has been assumed (for the purpose of the IA) that benefits would be equally split between sponsoring employers and members and would take the form of cash-payments. Confidential discussions with industry have suggested the any surplus extraction would be to the benefit of members and sponsoring employers, which gives confidence that there would be some degree of sharing. Emerging evidence from an industry survey shows a broadly equal split is expected between employers and

members[125]. It is expected that the decision would be ultimately made by trustees. Sensitivity analysis has been supplied to demonstrate the implications of different benefit distributions. It is important to note surplus sharing is a decision for trustees and the assumption of a 50/50 split between members and employers is purely for the purpose of the IA. It is not a UK government recommendation. Any decision is for the trustees to make.

84. Based on the assumed split, estimated cash payments as a result of surplus extraction to members and sponsoring employers the first year is £1,040m for both of these groups and over the ten-year period is £4,200m for both of these groups.

Table 8: Discounted value of total surplus extraction, with breakdown for benefits to members, employers and the UK government

	Total surplus extraction	***Of which Benefit to Members***	***Of which Benefit to Employers***	***Of which Benefit to Government***
0	**£2,780m**	£1,040m	£1,040m	£700m
1	**£2,760m**	£1,030m	£1,030m	£690m
2	**£290m**	£110m	£110m	£70m
3	**£370m**	£140m	£140m	£90m
4	**£450m**	£170m	£170m	£110m
5	**£550m**	£210m	£210m	£140m
6	**£670m**	£250m	£250m	£170m
7	**£820m**	£310m	£310m	£210m
8	**£1,040m**	£390m	£390m	£260m
9	**£1,460m**	£550m	£550m	£370m
Total	**£11,190m**	**£4,200m**	**£4,200m**	**£2,810m**

Benefits to members

85. The most significant benefit to members, as outlined above, is for members to receive (potentially) a large amount of money from their DB scheme. As outlined in Table 8, this is estimated to be around £1,040m in the first year of the appraisal period and at around **£4,200m** over the 10-year appraisal period. As mentioned above, this could arise in a number of ways. For example, via members gaining additional cash payments or through greater indexation on their pension.

[125] PLSA unpublished DB surplus results

Benefits to sponsoring employers/schemes

86. The most significant benefit to sponsoring employers, as outlined above, is for them to access (potentially) a large amount of money from their DB scheme. As outlined in Table 8, this is estimated to be around £1,040m in the first year of the appraisal period and at around **£4,200m** over the 10-year appraisal period.
87. There may also be secondary benefits for sponsoring employers, where access to DB scheme surpluses strengthens the business by providing an additional source of finance, increasing investment (and therefore generating future profits) or by reducing their costs (such as future pension contributions).

Benefits to government

88. A key benefit for Government from this change is the additional tax revenue that would result from surplus payments being unlocked. Currently, accessing a surplus, results in a tax charge of 25% (which is now aligned to corporation tax).
89. Any increase in the amount of surplus accessed would result in an increase in tax revenues for the exchequer. As outlined in Table 8, this has been estimated at around **£2,810m** over the 10-year appraisal period.

Sensitivity Analysis

90. Although implementation and ongoing costs have been estimated on the best available evidence, there is still considerable uncertainty around the level of take-up of surplus extraction.
91. Sensitivity analysis has been conducted by varying the take-up assumption (25% Central) to reflect an upper and lower bound as below:
    - 46% take up – upper estimate
    - 4% take up – lower estimate
92. According to PLSA survey evidence, **around 44% of members surveyed were supportive of surplus extraction**.[126] This was similar to the proportion of **respondents of the Government consultation who were supportive of surplus extraction (48%**). The average of these two figures is **46%**. However, it is important to note that just because schemes have reported that they are supportive of the policy, it does not mean they will take it up. Therefore, it is very unlikely that the take up will be as high as the upper estimate, but due to availability of data, this has been used as an upper bound.

[126] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2023/Options-for-Defined-Benefit-Schemes-Sept-2023.pdf

93. Historic evidence implies relatively low levels of surplus extraction. Respondents to the government's Call for Evidence on Options for DB Schemes[127] estimated that between 15% and 25% of DB schemes allowed for extraction of surplus in their scheme rules. Assuming 20% of schemes permit surplus extraction, there should be around 1000 schemes (5063 * 0.2 = 1013) who are allowed to share surpluses. HMRC estimates the number of DB surplus payments using the Accounting for Tax (AfT) data. This suggests that less than 10 schemes per quarter (or up to 40 schemes per year) undertake surplus extraction – which is around **4% of permitted schemes**.

94. As Table 9 shows, changes in the take up rate could mean that trustee implementation costs range from around £29,000 to £329,000, actuary/adviser implementation costs vary from around £86,000 to £988,000 and sponsoring employer implementation costs vary from around £9,000 to £103,000.

Table 9: Lower, central, and upper implementation costs.

Cost type	Central Estimate	Upper Estimate	Lower Estimate
Trustee implementation costs	£179,000	£329,000	£29,000
Actuary/Adviser implementation costs	£537,000	£988,000	£86,000
Sponsoring employer implementation costs	£56,000	£103,000	£9,000
Total	**£772,000**	**£1,420,000**	**£124,000**

95. *Ongoing costs*. Holding all other things constant (relative to the assumptions outlined in paragraph 63), varying the take-up rate along the lower and upper estimates (4% and 46% respectively), suggests that ongoing trustee costs are likely to range between £29,000 and £329,000 respectively in Year 0. Over the ten-year period, the estimated **ongoing trustee costs are expected to range between £191,000 and £2,186,000** – as shown in Table 10.

[127] https://www.gov.uk/government/calls-for-evidence/options-for-defined-benefit-schemes-a-call-for-evidence/outcome/government-response-to-options-for-defined-benefit-schemes

Table 10: Lower, central, and upper estimated ongoing trustee costs.

Year	Discounted ongoing trustee costs (lower)	Discounted ongoing trustee costs (central)	Discounted ongoing trustee costs (upper)
0	£29,000	£179,000	£329,000
1	£28,000	£173,000	£318,000
2	£27,000	£167,000	£307,000
3	£26,000	£161,000	£297,000
4	£25,000	£156,000	£287,000
5	£12,000	£75,000	£139,000
6	£12,000	£73,000	£134,000
7	£11,000	£70,000	£129,000
8	£11,000	£68,000	£125,000
9	£10,000	£66,000	£121,000
Total	**£191,000**	**£1,188,000**	**£2,186,000**

96. Similarly, it is estimated that ongoing costs associated with seeking actuarial/advisory services could range between £86,000 and £988,000 in Year 0. Over the ten-year period, the estimated **ongoing actuary costs are expected to range between £571,000 and £6,560,000** – as shown in Table 11.

Table 11: Lower, central, and upper estimated ongoing actuary costs.

Year	Discounted ongoing actuary costs (lower)	Discounted ongoing actuary costs (central)	Discounted ongoing actuary costs (upper)
0	£86,000	£537,000	£988,000
1	£83,000	£519,000	£955,000
2	£80,000	£501,000	£922,000
3	£77,000	£484,000	£891,000
4	£75,000	£468,000	£861,000
5	£36,000	£226,000	£416,000
6	£35,000	£218,000	£402,000
7	£34,000	£211,000	£388,000
8	£33,000	£204,000	£375,000
9	£32,000	£197,000	£362,000
Total	**£571,000**	**£3,565,000**	**£6,560,000**

97. It is estimated that ongoing costs associated with a sponsoring employer could range between £9,000 and £103,000 in Year 0. Over the ten-year period, the **estimated ongoing sponsoring employer costs could range between £60,000 and £683,000** – as shown in Table 12.

Table 12: Lower, central, and upper estimated ongoing employer costs.

Year	Discounted ongoing employer costs (lower)	Discounted ongoing employer costs (central)	Discounted ongoing employer costs (upper)
0	£9,000	£56,000	£103,000
1	£9,000	£54,000	£99,000
2	£8,000	£52,000	£96,000
3	£8,000	£50,000	£93,000
4	£8,000	£49,000	£90,000
5	£4,000	£24,000	£43,000
6	£4,000	£23,000	£42,000
7	£4,000	£22,000	£40,000
8	£3,000	£21,000	£39,000
9	£3,000	£20,000	£38,000
Total	**£60,000**	**£371,000**	**£683,000**

98. Take up is an area that will be monitored closely post-implementation to understand the impacts on schemes and if further guidance or support is needed.

99. *Potential benefits to members*. When allowing for sensitivity around take-up, the potential benefit to members as a result of surplus extraction in Year 0 is expected to range from £170m as a lower estimate to £1,920m as an upper estimate. Over the ten-year period, as illustrated in Table 13 below, the potential benefit to members is expected to range from £670m to £7,730m.

Table 13: Lower, central, and upper estimated member benefits.

Year	Discounted cash to members (lower)	Discounted cash to members (central)	Discounted cash to members (higher)
0	£170m	£1,040m	£1,920m
1	£170m	£1,030m	£1,900m
2	£20m	£110m	£200m
3	£20m	£140m	£250m
4	£30m	£170m	£310m
5	£30m	£210m	£380m
6	£40m	£250m	£460m
7	£50m	£310m	£570m
8	£60m	£390m	£720m
9	£90m	£550m	£1,010m
Total	**£670m**	**£4,200m**	**£7,730m**

100. *Potential benefits to sponsoring employers*. As explained previously, it has been assumed that surplus (net of tax) is shared equally between sponsoring employers and members. Therefore, the upper, central and lower estimates from varying levels of take-up are equal across both groups (see Table 14).

Table 14: Lower, central, and upper sponsoring employer benefits.

Year	Discounted cash to members (lower)	Discounted cash to members (central)	Discounted cash to members (higher)
0	£170m	£1,040m	£1,920m
1	£170m	£1,030m	£1,900m
2	£20m	£110m	£200m
3	£20m	£140m	£250m
4	£30m	£170m	£310m
5	£30m	£210m	£380m
6	£40m	£250m	£460m
7	£50m	£310m	£570m
8	£60m	£390m	£720m
9	£90m	£550m	£1,010m
Total	**£670m**	**£4,200m**	**£7,730m**

101. *Potential benefits to members and employers.* Overall, the total benefit to sponsoring employers and members over the ten-year period is expected to be around £8,400m as a central estimate. This is expected to vary between £1,340m (lower estimate) to £15,460m (upper estimate) depending on the level of take-up.

Proportion split of cash payments (as a result of surplus extraction)

102. Another key area of sensitivity is around the distribution of after-tax surplus, between members and sponsoring employers. For the purpose of this IA, an equal split (50-50) was assumed in the absence of available evidence. This is highly uncertain and likely to vary across the breadth of schemes in the DB universe. Therefore, sensitivity analysis has tested the implications of varying this assumption through the scenarios as below:
    a. Scenario 1: where the members receive 25% and the sponsoring employer receives 75%. Under this assumption, in Year 0 members received £0.5bn compared to £1.5bn for sponsoring employers. Over the ten-year period, cash payments to members are estimated to be £2.1bn versus £6.3bn for employers.
    b. Scenario 2: where the members receive 75% and the sponsoring employer receives 25%. Under this assumption, in Year 0 members received £1.5bn compared to £0.5bn for sponsoring employers. Over the ten-year period, cash payments to members are estimated to be £6.3bn versus £2.1bn for employers.

Table 15: Sensitivity around member and sponsoring employer benefits.

	Scenario 1		Scenario 2		Scenario 3 (central)	
Year	**25% cash to members**	**75% cash to sponsoring employers**	**25% cash to sponsoring employers**	**75% cash to members**	**50% cash to members**	**50% cash to sponsoring employers**
0	£520m	£1,570m	£520m	£1,570m	£1,040m	£1,040m
1	£520m	£1,550m	£520m	£1,550m	£1,030m	£1,030m
2	£50m	£160m	£50m	£160m	£110m	£110m
3	£70m	£210m	£70m	£210m	£140m	£140m
4	£80m	£250m	£80m	£250m	£170m	£170m
5	£100m	£310m	£100m	£310m	£210m	£210m
6	£130m	£380m	£130m	£380m	£250m	£250m
7	£150m	£460m	£150m	£460m	£310m	£310m
8	£200m	£590m	£200m	£590m	£390m	£390m
9	£270m	£820m	£270m	£820m	£550m	£550m
Total	**£2,090m**	**£6,300m**	**£2,090m**	**£6,300m**	**£4,200m**	**£4,200m**

Direct costs and benefits to business calculations

103. Any **Direct Costs** are associated with **familiarisation with the policy**. This is because trustees are bound by Trust Law and their fiduciary duty, meaning that they will have to familiarise themselves with the new policy. Familiarisation costs are considered direct costs to sponsoring employers, as they should demonstrate good ownership of their pension schemes and understand how the scheme could benefit from the new policy.

Table 16: Summary of direct cost and benefits and EANDCB.

Cost/Benefit Type	Total (£)
Direct Costs	
Familiarisation Costs:	**£1,553,000**
Trustees	£1,183,000
Sponsoring employers	£370,000
EANCDB	**£180,400**

104. Familiarisation costs are assumed to occur in the first year following implementation of the policy. Costs for trustees are estimated to be £1,183,000 and familiarisation costs for sponsoring employers are estimated to be £370,000.

105. Costs other than familiarisation costs (implementation and ongoing costs) are deemed to be indirect costs. This is because modifying scheme rules and extracting surplus is a voluntary decision and schemes would only choose to do so if it was beneficial to them. Therefore, implementation costs and ongoing costs are indirect in nature because they rely on a choice by the schemes.
106. Following the same logic as above, all benefits have been deemed to be indirect.
107. Table 16 details the specific costs/benefits that impact the £180,400 EANDCB figure. The EANDCB is a £180,400 annual direct cost to business. This is because only the familiarisation costs are direct and the benefits are indirect.

Risks and assumptions

108. Key risks and assumptions have been covered throughout the IA. The main areas of risk are listed and RAG-rated below (Red = significant analytical/policy risk or significant driver of IA modelling; Green = low impact risk or assumption and/or unlikely to significantly impact IA modelling).

    Key areas identified are:

    - **Scheme / Sponsoring Employer Response (Red):** There are 2 large behavioural assumptions made which are highly uncertain and cannot be known in advance:
        a) How many schemes decide to access their surplus (take up) will have a significant impact on the estimated benefits. Currently, very few schemes accessed a surplus. However, feedback from industry via roundtables and consultation responses suggests there may be strong support. This makes any estimate highly sensitive to levels of take-up.
        b) Which schemes decide to access their surplus will also have a significant impact on estimated benefits. As outlined, the DB market is highly fragmented with a very small number of schemes holding a large proportion of DB assets. As a result, just a small number of these large schemes/sponsoring employers making a decision on their surplus would result in a significantly different amount of surplus accessed.

        Although there has been engagement with industry, the behavioural response is highly uncertain and cannot be known in advance. Nonetheless, sensitivity analysis has been included to demonstrate the impact of varying the level of take-up.
    - **How surplus is shared (Red):** A big assumption is how any surplus may be shared amongst sponsoring employers and members. Given the lack of evidence, this is

currently assumed to be shared 50/50. Sponsoring employers could take a greater share of the surplus (for example, given they continue to bear the risk of the scheme). As a result, this would reduce the potential benefit for members. Equally, sponsoring employers may provide more to members to meet trustee concerns around fiduciary duty. The overall benefit is not expected to change, just the beneficiaries.

- **No change in funding position (Red):** Given the significant uncertainty of market movements, future employer/employee contributions, and ever-changing asset allocations, it cannot be known how DB funding positions will change over time. Therefore, this is assumed constant over the period. This is highly unlikely. However, there are factors which may improve funding (such as higher Gilt yields) or lower funding (poor performing assets). Therefore, on balance, a stable approach is most sensible for the purposes of this analysis.
- **Final policy details (Amber):** At this stage there is uncertainty over the full impacts of the proposal as policy details are yet to be finalised. This is particularly the case when the policy is relatively recently announced and further details will be worked through in secondary legislation and guidance by TPR. Nevertheless, the costs of the measures are relatively low and many decisions taken by schemes and sponsoring employers are voluntary rather than direct business cost, minimising the impact.
- **Market movements (Amber):** DB schemes' funding positions are often changing in response to market movements. Therefore, the level of available surplus will be changing depending on movements in the valuation of assets and estimated liabilities. This means the surplus estimated for the IA will continue to change over time. However, how markets move cannot be known. In addition, increasing numbers of DB schemes are "hedging" their assets, limiting (or fully) mitigating the risks of future funding levels. Market movements may ultimately result in greater, or lower, surplus being available. The sensitivity analysis highlights this impact.
- **Data and data assumptions (Green):** The industry costs calculated in this Impact Assessment have been extrapolated from industry feedback, similar DB initiatives, and discussions across DWP policy and GAD. The costs and data will be further improved as the policy is finalised.

109. One of the largest risks is ensuring Trustees continue to take their Fiduciary Duty seriously and only allow access to a surplus where this is in the beneficiary's interest and does not put the scheme at risk. The impact of this risk is significant, but the likelihood is low. Trustees have a legal duty to look after their beneficiaries and safeguards will be put in place to mitigate these risks. However, any reduction in assets in a scheme will add some

element of risk to the funding level of the scheme. Changes in funding may move the long-term objective of the scheme (such as buy-out) further away or mean changes in markets could result in schemes falling into deficit again (requiring further sponsoring employer contributions).

110. The potential for fraud has been identified as a risk. While surplus extraction may create additional opportunities for fraudulent activity, the Bill includes robust safeguards to protect members and ensure the security of their pension benefits.

- **Trustee Discretion -** the decision to amend scheme rules to allow surplus to be released, and the decision to release surplus, will remain in trustees' hands, in line with their duty to act in the interests of beneficiaries. Working with the sponsoring employer trustees will be able to negotiate how best members may benefit from the surplus.
- **Prudent Funding Threshold –** regulations are expected to set a threshold where schemes will only release a surplus when fully funded at low dependency basis. This means that scheme funding is sufficient to allow trustees to meet future liabilities with a very low risk of future employer contributions.
- **Actuarial Certification –** trustees will need to obtain actuarial certification to demonstrate the scheme meets these funding requirements.
- **Member Notification –** will be required before surplus funds are released.

The Pensions Regulator will act as the principal regulator overseeing the operation of the surplus regime, and trustees will be required to provide detailed information following any surplus release. The Pensions Regulator will monitor how the new framework operates and is expected to publish supporting guidance. Where trustees or employers do not comply with legislative requirements, The Pensions Regulator can use its existing regulatory and enforcement powers.

Small and micro businesses assessment

111. The Department has considered the potential impacts that the Surplus Extraction policy may have on micro and small businesses.

Context

112. Although there are a large number of small DB schemes, this does not necessarily translate into sponsoring employer size (as sponsoring employers may have run a scheme for a subset of employees). This makes it challenging to estimate accurately the potential impacts on small sponsoring employers. The size of the scheme does not always perfectly

correlate with the size of its sponsoring business. However, it is expected that, on average, scheme size is a sufficiently good proxy for business size for these purposes.

113. To be consistent with the Pensions Dashboard Impact Assessment[128], small and micro businesses have been defined as **DB schemes having fewer than 1,000 members**.

114. There are over 4,000 schemes with less than 1,000 members in the DB Universe[129]. It is therefore important to note around 4-in-5 DB schemes under this definition are classified as small/micro.

115. The cost impact on small and micro-businesses has been calculated based on the number of small schemes and applying the same methodology and assumptions as set out in paragraphs 61 and 63.

Exemptions

116. Small businesses have not been exempted from the policy measure, as this policy is expected to deliver a benefit should they choose to undertake surplus extraction.

117. According to the Purple Book, **almost half of schemes (48%)** with less than 100 members were sufficiently funded in order to buyout in the insurance market and **almost a third (31%) of schemes** with between 100 and 999 members were sufficiently funded in order to buyout in the insurance market[130]. Funding levels required to buyout in the insurance market are generally higher than those needed to operate on a low-dependency basis, which implies that these schemes would likely benefit from having this flexibility.

Proportionality

118. It is expected that all schemes would need to undertake an initial amount of familiarisation with the policy. However, it is anticipated that the proposed changes would not lead to any disproportionate costs on small and micro businesses.

Costs

a. All small schemes are expected to face familiarisation costs of around £300 per scheme (£230 covering costs incurred by trustees and £70 for costs incurred by employers). This amounts to around £1,250,000 for all 4,000 small schemes across the UK.

b. Of the 4,000 small schemes, it is assumed that around 56% would be at least 110% funded on a low-dependency basis (assuming a uniform distribution of surplus across schemes); around 34% of schemes would be looking to release surplus in some way (27% aiming for low-dependency and 7% aiming to extract surplus); and 25% would

[128] Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

[129] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf (Page 13)

[130] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf (Page 13)

take-up surplus extraction. Further adjusting this figure to account for the 20% that can already extract surplus within their scheme rules yields around **150 small schemes which would engage in surplus extraction**.

c. For the 150 small schemes who choose to modify their scheme rules and extract surplus, they would face implementation costs of around £620,000 (based on per scheme costs set out in para 67) and ongoing costs of around £4.1m (based on per scheme costs set out in para 72, 73).

Benefits

- According to the Purple Book, small schemes make up around 10% of total assets[131]. To calculate the value of the potential benefits that schemes may unlock, it has been assumed that the distribution of scheme surplus follows distribution of scheme assets.
- Therefore it is estimated that small schemes would unlock **benefits of around £840m to employers and £840m to members** (net of tax, excluding a potential benefit to government of around £280m).

Table 17: Summary of direct cost and benefits to small schemes.

	Estimated Number of schemes in scope	**… of which small schemes**	**Estimated costs to small schemes**	**Estimated cumulative benefits**	**Net**
0	190	150	£2.5m	£208m	£206m
1	190	150	£0.6m	£206m	£205m
2	190	150	£0.6m	£22m	£21m
3	190	150	£0.6m	£28m	£27m
4	190	150	£0.5m	£34m	£33m
5	190	150	£0.3m	£42m	£42m
6	190	150	£0.3m	£50m	£50m
7	190	150	£0.2m	£62m	£62m
8	190	150	£0.2m	£78m	£78m
9	190	150	£0.2m	£110m	£110m
Cumulative			**£6.0m**	**£840m**	**£834m**

119. Most of the costs to small schemes are expected in the initial year due to schemes facing familiarisation costs, (and for those who choose to proceed) implementation costs and ongoing costs. These costs are expected to decline over time to £0.2m in Year 9.

[131] £12.6bn + £99.7bn (schemes with up to 100 members, 100-999 members respectively) = £112.3bn in Assets; out of £1,167bn in Assets across DB schemes = 9.6%

120. The benefits the small schemes could unlock are much larger than the costs they will face to undertake surplus extraction. The discounted net benefit over the 10-year period is £834m.

121. Using the same direct/indirect cost and benefit approach as outlined in Table 6, a SAMBA-specific EANDCB calculation can be outlined below in Table 18 (using the RPC/DBT Impact Assessment Calculator). **The equivalent annualised net direct cost to small businesses is expected to be £0.1m.** This is because the only direct costs are the initial familiarisation costs for trustees and employers and any decision to then access a scheme surplus would be a scheme-specific choice and net beneficial for the scheme to do (see paragraph 59-60). All benefits are also classed as being indirect as they rely on a choice by the schemes and will involve many steps before a scheme decides to do so and before the benefits are unlocked.

Table 18: Direct impacts on small schemes (EANDCB)

Impact	**Overview**	**Cost / Benefit to business (NPV over 10-year appraisal)**
Costs to small business		
One-off costs	*Familiarisation for trustees and employers*	£1.2m
Ongoing costs	*No direct ongoing costs to small businesses (see Table 6)*	£-
Benefits to small businesses		
Benefits	*No direct benefits to small businesses (see Table 6)*	£-
EANDCB of £0.1m per year		

Mitigations

122. The Department's view is that the policy would **benefit small schemes**. It is therefore fitting that all schemes and sponsoring employers have an opportunity to benefit from this legislative change. Small schemes (those with fewer than 1000 members) have over £110bn in assets. Accessing just a small fraction of the surplus could easily result in hundreds of millions becoming available for smaller businesses. This could be a significant benefit to support smaller businesses who may have previously overfunded their DB scheme.

123. As outlined previously, schemes and sponsoring employers will only face additional costs should they anticipate the benefits (from accessing a surplus) being sufficiently greater than

the costs. Costs are deemed to be relatively small compared to the potential benefit arising from surplus extraction.

Wider impacts

Benefits to the wider economy:

124. This legislation is designed to encourage productive use of surplus funds. Whether schemes choose to give these directly to members or invest into their companies, there will be positive economic growth impacts. Quantifying this second order impact would be very complex and disproportionate for the purposes of this IA. Nevertheless, there are significant wider benefits from the measure that may be expected to arise.

125. **Economic growth.** The measures are pro-growth in a number of ways as they may result in billions being given back to individuals and sponsoring employers. Whichever direction the money is returned, this could lead to stronger UK growth, for example:

- **Sponsoring employers reinvesting in their business –** The return of a surplus to a business would allow sponsoring employers to invest in their business and generate longer term returns. This could support future growth and employment across the sponsoring employer, having wider macroeconomic impacts. The Bank of England previously analysed the impacts on firm behaviour when they were paying into schemes to meet large pension deficits. This found[132] "*firms with larger pension deficits voluntarily pay lower dividends, but they do not invest less. However, firms that are required to make deficit recovery contributions by the regulator have lower dividend and investment expenditure compared to other firms, and more so if they are financially constrained."* Consequently, there is a link between allocating funding towards DB schemes and firm investment expenditure, which could be influenced by the policy.
- **Greater wages –** Firms receiving additional money from accessing a surplus may seek to increase wages across the workforce. This would boost economic growth through individuals facing a greater than normal pay rise and thus increasing consumption. Resolution Foundation[133] previously estimated funding DB deficits was potentially contributing to lower average employee pay by 0.2%-0.3% in the 2010s. This highlights the link between DB funding and wage levels across the macroeconomy which may be reversed through being able to access surplus.
- **Higher consumption –** Money paid to members may ultimately be spent in the economy, boosting growth, through greater levels of consumption.

[132] https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/growing-pension-deficits-and-the-expenditure-decisions-of-uk-companies.pdf
[133] https://www.resolutionfoundation.org/app/uploads/2017/05/The-pay-deficit.pdf

126. **Distributional effects.** Currently, members of DB schemes have more generous pension outcomes and greater contribution levels than members of DC schemes. The average DB contribution level is around 20% compared to around 8% in DC schemes[134]. The ability to fund DC schemes from DB surplus extraction may help give a boost in contribution levels to members (often younger and lower paid) in DC, helping have a distributional effect and supporting pensioner outcomes in the long-term.

127. **DB investment strategies.** Being able to access a surplus may have an impact on DB investment strategies and asset allocations. This could move in a number of ways, for example:

    - **Selling assets, such as fewer Gilts –** DB schemes are predominantly invested in Bonds, around 70% of assets are invested in Bonds (and in particular Gilts, with around a quarter of Gilts in issue held by pension or insurance funds[135]). As a result, if surplus assets are being accessed, this may result in a reduction in holdings of certain assets. However, the specific type of asset that may be sold is unknown, and any surplus extraction will represent a very small fraction relative to the total assets invested.
    - **Invest in riskier assets –** The ability to access a surplus more easily may result in some DB schemes taking on more risk and investing in more productive assets to generate additional returns (and subsequently access a future surplus access). This may lead to DB schemes making greater investments in more illiquid and productive assets such as private equity and infrastructure. These tend to have a greater "home" bias and therefore could increase investment in UK companies and infrastructure.

Monitoring and Evaluation

128. The Department recognises the significant impact this intervention may have on the pension landscape and, therefore, the importance of monitoring and evaluation. As the policy is implemented, there are clear plans to closely monitor trends and impacts. Given that pension policy and administration operate within a wider UK framework, the Department will be informed by monitoring and evaluation undertaken by DWP, supported by consideration of NI specific impacts and outcomes. This includes:

    - **Monitoring of HMRC surplus data** which gives timely information on quarterly amounts of surplus and number of schemes accessing a surplus. This will allow monitoring of whether there is an increase in surplus extraction following the introduction of the measure.

[134] DWP estimates derived from ONS ASHE, GB, data. Relates to 2023 data. Is a % of pay, not qualifying earnings.

[135] https://assets.publishing.service.gov.uk/media/65e759a9ce8540001c12c412/Debt_Management_Report.pdf

- **Monitoring of DB funding –** Any surplus extraction will change the funding level of the scheme. Therefore, the funding positions across the pension landscape will be closely monitored through TPR scheme returns, triennial valuation returns, and PPF's Purple Book.
- **Pension industry engagement –** Engagement with the industry will continue in order to understand how the policy is being implemented, any remaining challenges, and how the surplus is being used.
- **TPR survey data –** TPR conduct an annual quantitative survey with trustees across a range of topical issues. This has already been adapted to understand views and attitudes towards "running on" and accessing a surplus with further questions in 2025 being adapted to understand the views of trustees towards the policy. Going forward, collaboration with TPR will help to monitor and evaluate the policy.

128. In addition, further evaluation will be considered to explore how the benefits are being shared and the decision-making process is being applied. For example, scoping out evaluation plans on:
    - **Qualitative research with trustees –** It is important to understand how trustees are making decisions. Have they established a good relationship with sponsoring employers; are they feeling pressure from sponsoring employers to enable access to surplus payments? How are they balancing the benefits to sponsoring employers, members, and the scheme? Is the legislation and subsequent guidance/regulations sufficient to support decision-making?
    - **Qualitative research with DB members –** A key aspect of the changes is to help members benefit too. Therefore, it is important to understand how this may be supporting members. As a result, qualitative research could explore questions around whether employees have benefited from schemes accessing a surplus. What type of benefit did they receive? Were they aware of the changes and how was this communicated?
    - **Qualitative research with sponsoring employers –** Sponsoring employers will be a key decision-maker in whether to ask for a return of the surplus. As a result, understanding the decision-making process will be critical. Alongside this, it is important to understand why schemes did (or did not) look to access a surplus. How did they share the surplus across the business, particularly whether they reinvested the surplus within the business?

Pension Schemes Bill (Northern Ireland) 2027

Value for Money Regulatory Impact Assessment

Title:	Regulatory Impact Assessment (RIA)
Value for Money	**Date: May 2026**
	Type of measure: Primary Legislation
Lead department or agency:	**Stage:** Initial
Department for Communities	**Source of intervention:** Domestic NI
Other departments or agencies:	**Contact details:**
Department for Work and Pensions	

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)

Automatic Enrolment (AE) has significantly increased workplace pension savers, with 88% of eligible employees across the UK (over 20m) participating in a workplace pension. This has grown the Defined Contribution (DC) pension market significantly. However, there are market failures/challenges that justify intervention: a principal-agent problem where employers choose pension schemes based on cost, but employees bear the risk of poor performance. This means the market competes on cost to employers, not value for members, risking a race to the bottom. Information failures mean key performance indicators across schemes are non-existent or inconsistent, impacting competition, comparability and member outcomes. The market is fragmented with around 900 smaller DC schemes potentially lacking the scale to invest effectively.

What are the policy objectives and the intended effects? (7 lines maximum)

The Value For Money (VFM) framework aims for schemes to publish standardised performance metrics, enabling regulators to remove poor-performing schemes from the market or require their improvement. By assessing investment, costs, and services holistically and consistently, VFM policy aims to: (i) reduce the number of savers in underperforming schemes; (ii) enhance transparency and comparability of key performance indicators, allowing schemes to compete on overall value and not purely on cost; (iii) foster market innovation and improvements through information transparency; and (iv) support UK growth by encouraging the consolidation of smaller/poor value schemes into larger, better-performing ones that can invest effectively and productively.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)

Option 0: Do nothing and let Financial Conduct Authority (FCA) use existing rule-making powers for the contract-based market only. This would create inconsistencies with the DC Trust market.
Option 1 (preferred): Introduce primary legislation (Bill) to provide a holistic, consistent, cross-market approach for implementing the VFM framework in full, with requisite expectations and powers delivered through legislation.
Option 2: Use existing powers/secondary legislation to address some elements of data disclosure, but this would fail to provide the regulator with necessary new powers to regulate.
Option 3: Expand existing regulation by amending VFMa requirements to cover all DC Trust schemes. This would not have full policy impact as it wouldn't cover the contract-based market nor grant sufficient new regulatory powers.
Option 4: Use statutory guidance in the absence of legislation. This would fail to have sufficient policy impact or provide TPR with necessary powers to regulate effectively.

Will the policy be reviewed? It will be reviewed	**If applicable, set review date:** May 2030

Cost of Preferred (or more likely) Option [136]		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
471	43	N/A

[136] The aggregated monetised impacts are calculated for a ten-year appraisal period and all costs are given in 2024 prices and use 2025 as the base year for the present value calculation, as given in the RPC/DBT Impact Assessment Calculator. 2024 prices are shown because this is when the policy evidence was considered

Does Implementation go beyond minimum EU requirements?			**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?			**YES** ☐	**NO** ☒
Are any of these organisations in scope?	**Micro** Yes ☐ No ☒	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.
Approved by: Date:

Summary: Analysis and Evidence Policy Option 1

Description: Introduce primary legislation to implement the VFM framework (Preferred option)

ECONOMIC ASSESSMENT (Option 1)

Costs (£m)	**Total Transitional (Policy)** (constant price) Years		**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Cost** (Present Value)
Low	£90m **Optional**	**1**	£29m **Optional**	£340m **Optional**
High	£151m **Optional**		£48m **Optional**	£567m **Optional**
Best Estimate	£138m		£38m	£471m

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

Pension Schemes (one-off, £138m): Familiarise with the requirements and implement relevant metrics, teams and software. Pension Schemes (ongoing, £33m annual): Complete and report on the annual VFM assessment. This involves storing and collecting data as well as comparing to other providers. Costs are estimated to fall over time as fewer schemes remain in market. Cost estimates are direct from an FCA survey of providers with 25% optimism bias is applied and responses are weighted by size to reflect the trust-based market.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

Members: May face indirect costs passed on from increased costs to schemes. However, this is unlikely given the 0.75% cap on charges. Instead, the expectation is additional costs will fall over time and as market competition on cost remains strong.

Regulators: May see additional costs of removing underperformers or closing schemes to new members.

Benefits (£m)	**Total Transitional (Policy)** (constant price) Years		**Average Annual (recurring)** (excl. transitional) (constant price)	**Total Benefit** (Present Value)
Low	**N/A**	**N/A**	£865m	£6,581m
High	**N/A**		£3,943m	£30,009m
Best Estimate	**N/A**		£2,606m	£19,835m

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

Members: See higher investment returns on their contributions. This could lead to £20bn of increased, 'additional' returns across the £600bn+ workplace DC market over the 10-year appraisal period, equivalent to £2bn annually. These benefits are assumed to accrue directly to members (as principals, asset owners) and pass through schemes (agents) who invest on their behalf. **Schemes:** As members are charged based on a percentage of pot value, higher returns and larger DC pots will benefit schemes with an estimated £10m increase in charge revenue per year compared to if performance did not increase.

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

Employers: Should find it easier to select, or switch, a good value pension scheme for their employees, as only good schemes remain in the market. However, the scale of this is unknown as are interactions with other Pension Schemes Bill measures.

Economy: A market of larger, better-performing pension schemes could benefit the UK macroeconomy by increasing investment in productive domestic assets.

Key Assumptions, Sensitivities, Risks Maximum 5 lines

Analytical Assumption (Green, low impact): Costs are from a representative survey of the contract-based market; the IA assumes trust and contract schemes will face similar costs (given many schemes operate in both markets and have similar business models).

Analytical Risk (Amber): Schemes may overestimate costs to influence policy development. The IA has used sensitivity analysis to account for this; and even in a higher cost/lower benefit scenario, large net policy benefits remain.

Analytical Risk/Assumption (Red, high impact): Investment performance benefits are monetised based on a range of evidence (current and past UK market data and from Australia's equivalent policy). This is the driving IA assumption. Small changes in returns would significantly impact monetisation (due to compounding) and future returns are highly uncertain. Sensitivity shows large policy benefits remain even in conservative return scenarios.

Policy Risk (Red): Schemes may 'herd' following VFM, where the framework's increased focus on performance leads schemes to invest safely in similar assets to avoid underperformance or being an outlier. This may stifle innovations/high performers.

BUSINESS ASSESSMENT (Option 1)

Direct Impact on business (Equivalent Annual) £m				
Costs: £55m	**Benefits:** £12m	**Net:** £43m		

Cross Border Issues (Option 1**)**

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

The proposals in this Impact Assessment correspond to proposals in the Impact Assessment for the Westminster Pension Schemes Bill. Under the policy of parity, this option would only be introduced in Northern Ireland if it was introduced in the rest of the UK. The options only apply to members of UK-based pension schemes.

Evidence Base

The costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis using 2024 data

Policy Background

Automatic Enrolment has led to a large increase in workplace pension participation

1. Automatic Enrolment (AE) was first introduced in 2012, where employers are required to default eligible workers into a workplace pension. This has led to a huge increase in the number of workplace pension savers with 73% of eligible employees (over 0.8m) in Northern Ireland participating in a pension[137] (compared to 89% of employees in Great Britain[138]). The number of savers saving into a Defined Contribution (DC) pension has increased in that time (in Northern Ireland this has increased from 4% in 2011 to almost 25% in 2024). A DC pension is a pot of money for retirement which depends upon factors including the amount the individual and employer pay in, the fund's investment performance and costs/charges.
2. The workplace pensions market is split into three markets:
    a. **Defined Benefit (DB)** – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:
        a. **Public sector DB**
        b. **Private sector DB** where there were around 5,000 pension schemes across the UK in 2024
    b. **Defined Contribution (DC)** – This is a type of pension whereby pension contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:
        a. **Trust-based market** - A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2025, there were around 920 pension schemes with 12 or more members[139].

[137] https://www.nisra.gov.uk/statistics/work-pay-and-benefits/ashe-pensions-results

[138] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2024

[139] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

b. **Contract-based market** - A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2023, there were estimated to be around 30 firms with an authorised DC workplace pension business

c. **Collective Defined Contribution (CDC)** – these schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under DC schemes) and away from the employer (as is the case under DB schemes). The only CDC arrangement in the UK so far is a scheme by the Royal Mail.

3. The vast majority of AE-eligible employees are saving into a Defined Contribution (DC) workplace pension[140] and this market is the focus of this Impact Assessment (IA) given this is where the policy applies.

4. Overall, it is estimated there are around £300bn and 5m active savers in the contract-based DC market[141] in the UK, and £200bn and 11m active savers in the DC trust-based market[142]. Data is more readily available on the trust side, which has a much greater number of schemes[143].

5. The DC-trust landscape is growing in scale and maturing quickly with 30.6 million DC memberships[144] in 2025, an increase of 6% since 2024. DC trust workplace pension assets have grown to £205 billion, increasing from only £22 billion in 2012[145].

6. There are three main types of pension schemes in the DC market:

- **Master Trusts** – an occupational pension scheme that provides DC pensions for two or more unconnected employers (though often a lot more).
- **Single Employer Trusts** (SETs) – pension schemes which are managed for and on behalf of a single employer.
- **Group Personal Pensions** (GPPs) – DC contract-based schemes which are regulated by the FCA.

Type	Number	Assets	Active Members

[140] https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

[141] https://www.fca.org.uk/publication/consultation/cp24-16.pdf

[142] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[143] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market

[144] 'Memberships' is used throughout this IA. This more closely represents the number of DC pots - the number of members/savers is not knowable given an individual may have multiple pots with different providers.

[145] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

Master Trust	30	£166bn	10m
Single Employer Trust	890	£39bn	1m
GPP	30	£300bn	5m

7. The DC market has been consolidating, with the number of pension schemes reducing from around 3,700 in 2012 to around 950 schemes now. Close to 900 of these schemes are single-employer trusts, traditionally set-up by employers to support their workforce. However, as AE resulted in all employers needing to enrol their employees (where eligible) into a workplace pension, there has been a rise in Master Trusts (multi-employer pension schemes). Across around 30 schemes, these now account for over 91% of total - and 90% of active - memberships and 80% of assets in the DC trust market. In addition, there are around 30 GPPs, which operate in the DC contract market. Across those two markets, there are now 7 DC schemes managing over £25bn worth of bundled assets, where economies of scale are most apparent enabling schemes to access a wider range of asset classes, negotiate lower fees and improve their governance[146].
8. AE has led to more people saving into a pension. However, inertia is strong and engagement is low. For example, 47% have not reviewed how much their pension is worth in last 12 months[147] and over 94% of pension savers are invested in a pension scheme's default investment strategy[148]. This highlights the importance of government intervention, where appropriate, to deliver outcomes for members who may not otherwise engage with their pension.

Regulation and types of DC pensions

9. DC pension schemes are either personal or stakeholder pensions. They can be workplace pensions arranged by an employer or private pensions arranged by an individual; the legislation focuses on workplace pension schemes. Regulation of the pensions industry in the UK is split between the FCA and TPR:
   a) **Financial Conduct Authority (FCA)** regulates personal pensions, including workplace personal pensions (contract-based pension schemes).
   b) **The Pension Regulator (TPR)** regulates occupational pensions (trust-based pension schemes).

[146] Corporate Adviser 2024 Master Trust and GPP Defaults Report (https://corporate-adviser.com/research/)
[147] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf
[148] https://www.thepensionsregulator.gov.uk/en/media-hub/speeches-and-speakers/the-changing-nature-of-trusteeship-2025

The VFM framework will cover all non-micro (schemes with 12 or more members) DC pension schemes when fully enforced (see paragraphs 68 to 74 for full outline of the policy scope). Operation and enforcement of these new requirements will therefore be split between the two regulators.

The Value for Money (VFM) framework

10. The Value for Money (VFM) Framework has engaged with industry throughout its development. On 4 July 2022 it was announced that DWP, the FCA and TPR would work together to develop a VFM framework and regulatory regime for DC pension schemes. This framework builds on preliminary work by TPR and FCA[149].
11. A joint policy consultation 'Value for Money: A Framework on metrics, standards and disclosures' was launched on 30 January 2023 and closed on 27 March 2023[150]. This sought views on policy proposals to require trustees and managers of relevant DC occupational pension schemes and the providers and Independent Governance Committees (IGCs) of workplace personal pensions schemes to disclose data, assess and compare the value for money that their workplace pension schemes provide.
12. There was broad support for the goals of the policy across all stakeholder responses, although there were mixed views over the detail of the proposals. The government-regulators response, including next steps and policy direction was published on 11th July 2023, responding to industry feedback[151].
13. The FCA published a Consultation Paper on 8th August 2024[152] setting out the updated policy position of the proposed VFM framework. This closed on 17th October 2024 and built on the joint response published in July 2023; FCA are analysing consultation responses closely with TPR and DWP to inform further joint framework developments. It also built on the subsequent industry engagement held since through a series of industry working groups. In this engagement, DC stakeholders (asset managers and trustees) provided technical insights and feedback to our policy proposals to ensure they aligned with industry best practice whilst minimising burden. TPR, FCA and DWP have continued to work jointly as a tripartite to develop the policy further based on this industry feedback. This consultation paper sought views on detailed policy proposals across the four pillars of

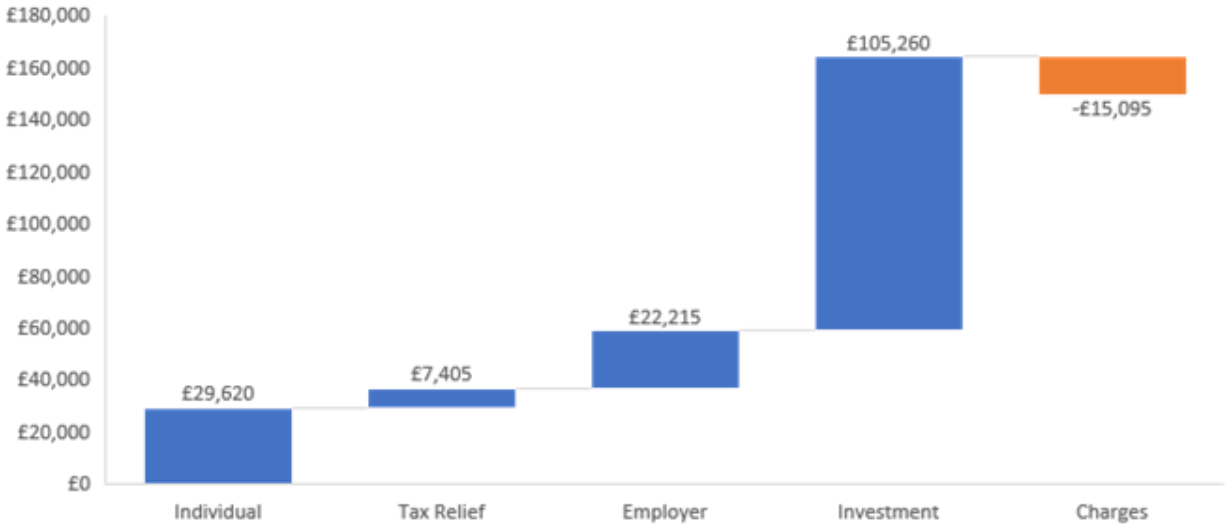
149 https://webarchive.nationalarchives.gov.uk/ukgwa/20230703102958/https://www.thepensionsregulator.gov.uk/en/document-library/consultations/value-for-money-discussion-paper/driving-value-for-money-in-defined-contribution-pensions
150 https://www.gov.uk/government/consultations/value-for-money-a-framework-on-metrics-standards-and-disclosures/value-for-money-a-framework-on-metrics-standards-and-disclosures
151 https://assets.publishing.service.gov.uk/media/64c25790331a650014934cc5/value-for-money-a-framework-on-metrics-standards-and-disclosures.pdf
152 https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework

VFM (investments, costs, services, assessments) as well as views on asset allocation disclosure, and how these would work in practice.

The need for VFM

14. The DC market prioritises competition on costs rather than on the overall provision of value. This is a particular risk for pensions as investment returns are a much greater driver of the final pension pot compared to costs/charges (investment returns can account for around 60% of the overall pot – see Figure 1). Industry feedback has suggested among Master Trusts that contracts have been won and lost over a few basis point cost differentials[153].

Figure 1: Illustrative case study of a median male earner's pension pot at retirement made-up of different components (assuming saves at AE minimum levels over a full career history)



15. Engagement with stakeholders and responses to DWP's 2020 Pension Charges Survey shows considerations of cost can dominate decision-making in many pension schemes, often being at the forefront of employers' minds when enrolling their employees[154]. This is significant given the principal-agent problem in workplace pensions:
    - Employers choose the pension scheme on their workers' behalf – DWP employer surveys show a large percentage of employers prioritise ease and convenience for themselves (64%) or on low costs (49%) to them[155]. Though it is important to note,

[153] https://www.thecityuk.com/media/czipdaln/20240925-thecityuk-response-to-the-pensions-investment-review-call-for-evidence.pdf
[154] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes
[155] https://assets.publishing.service.gov.uk/media/6501971439d9f1000d3d3a37/dwp-employer-survey-2022-report.pdf

49% of employers offering DC provision considered member value and some employers do look at a wider range of factors beyond cost.

- However, the pension is for the benefit of the worker, where investment returns play a greater role on outcomes over costs.
- Although a worker can ask to switch pension scheme, they may not have the information to make the decision and the employer does not have to contribute to an employee's pension if they choose to switch scheme.
- As a result, employees may end up in underperforming schemes and be unaware or unable to easily change (employers do not have to pay contributions into another provider an individual selects).

16. By shifting the focus from cost towards a holistic focus on value, the VFM framework will protect savers from becoming stuck in underperforming arrangements for extended periods. A robust regulatory regime aims to ensure appropriate oversight and enforcement to deliver this.
17. The framework also aims to shift the focus from costs to value by requiring consideration of other factors, alongside costs, critical to longer-term saver outcomes such as investment performance. The Pension Charges Survey found the DC market is already operating significantly below the 0.75% charge cap (the maximum schemes can charge members), with an average charge of 0.5% (of assets under management). This has continued to fall over time and is lower among larger Master Trusts (around 0.4%). Too great a focus on cost risks a race to the bottom and can preclude investment in a broader range of asset classes (including listed and unlisted assets) that may offer diversification benefits and potentially improved risk-adjusted returns but are often more expensive to invest in (for example, they may require more active management).
18. The overall VFM framework proposals aim to deliver the best possible value and long-term retirement outcomes for DC pensions savers by helping schemes shift their focus from cost to a more holistic assessment of value for money. This assesses 3 broad areas in a step-by-step assessment process.

- **Investment performance -** The VFM framework will provide a range of comparable data metrics which would help schemes effectively compare their performance against the market. This will be achieved by requiring schemes to disclose their historic investment returns to demonstrate the outcomes of their investment strategy. The actual experience of members, measured by backward-looking investment performance, is critical to assessing the overall VFM a scheme provides and has a much greater impact on final pot value than charges, as illustrated in Figure 1.

However, it is recognised that past performance may not necessarily result in future performance.

- **Services –** Alongside costs and investment performance, the overall value of a scheme is dependent on how well it provides information and support to its members – its 'quality of service'. DWP, TPR and FCA have worked with industry to develop quantifiable metrics around complaints data which, along with the other service metrics, will show the relative strength of schemes' quality of service.
- **Costs and Charges -** Standardised disclosure of costs and charges is essential to scheme comparability; and, understanding what is provided by a scheme for the price paid is a vital tool to drive competition and engagement. Costs and charges would be disclosed as an annual percentage charge to enable market-wide comparison and show how investment and service costs differ to increase focus on how different elements of cost impact on saver outcomes.

19. Schemes will be required to publicly disclose metrics across these three components of value and use these disclosures to inform a holistic assessment of VFM with each 'pillar' (investment, services, costs) having equal weight. Net investment performance will be the first pillar considered at the VFM assessment process – given its importance in determining the size of member pots at retirement and its quantifiable nature, the investment performance figure is where the Impact Assessment focuses on (See 'Benefits for Members' section).
20. The VFM assessment approach will require schemes to follow a step-by-step process, which will include comparing their performance metrics against those of at least three other schemes. When conducting an assessment, at least two of these comparisons will be required to be against schemes of 'scale'. The two 'at scale' schemes must manage assets in excess of £10 billion which is envisaged to increase over time as the DC market grows. This means schemes below this threshold can evaluate whether they can access the same scale benefits that these larger schemes have access to (such as improved governance and greater ability to invest in a wider range of asset classes[156]), and if they can't, whether their wider VFM offer compensates for this. At future stages of the VFM assessment process, regulator-defined benchmarks may be set/used to assess performance levels in place of the step-by-step comparison against a selection of chosen schemes.

[156] https://www.imcoinvest.com/pdf/research/CEM-Benchmarking-Report_A-Case-For-Scale-February-2022.pdf ; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4406642

21. Following these comparisons, the assessment will be RAG (Red, Amber, Green) rated on the overall VFM offer. This represents the proposed VFM assessment process as detailed in the FCA's August 2024 consultation paper[157]. Detail on the proposed RAG assessment and categorisation may subsequently change or update following consultation feedback.
    - **A Green-rated scheme** compares favourably against its chosen comparators and is deemed as providing value for its members.
    - **An Amber-rated scheme** is not currently delivering value for its members but has achievable and identifiable plans to do so in the near future by implementing either, or both, an improvement plan or an action plan.
    - **A Red-rated scheme** is not providing value for its members and has no credible plans to do so.

    Regulators will monitor plans to ensure their credibility and progress. VFM results will also be communicated to employers, increasing transparency and may lead to employers reconsidering their pension scheme if they are part of an underperforming scheme or consolidating their own single-employer trust into a Master Trust.
22. Underperforming schemes will be required to take action to improve the value they provide to savers. Or, they will have to consolidate (merging/transferring their scheme to another scheme) where this is in savers' best interest. The VFM framework will give regulators the necessary powers to enable the identification and removal of persistently poor performing schemes from the market.
    - This could include new powers to enforce wind-up and consolidation of schemes that are identified as consistently underperforming and unable to improve their VFM result.
    - The UK Government intends to consider legislative changes to enable contract-based providers to transfer savers in underperforming arrangements to better-performing arrangements without having to obtain the individual consent, with appropriate protections of all affected savers, for the purpose of the VFM framework and the wider Pension Schemes Bill. The FCA may also need new powers to regulate this action where necessary. These proposals were included in the consultation for the Pensions Investment Review issued in November 2024[158].

[157] https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework

[158] https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

Wider economic benefits

23. Driving a long-term focus on VFM across the DC market could encourage schemes to invest more in productive assets, such as private infrastructure, where it is in the member's interest to do so. These assets tend to have higher costs but have the potential for higher risk-adjusted returns for savers through diversification benefits. Analysis from Government Actuary's Department showed that increasing allocations to private markets could be expected to translate into a 2% (net) larger pension pot at retirement for a median earner after 30 years of saving compared to a traditional, lower cost portfolio made up of listed equities and bonds[159].
24. Further investment in productive asset classes can also benefit economic growth, a key UK Government priority, by deepening capital markets and helping early-stage companies receive UK-based risk capital[160]. The policy objective of fewer, larger, and better-performing schemes could further accelerate investments into these asset classes as larger schemes are better able to access these diverse opportunities through negotiation power, in-house expertise and good governance structures.

Replacing the Value for Members assessment which currently covers small DC schemes

25. VFM will replace the Value for Members assessment which currently cover small DC Schemes. Smaller trust-based schemes with assets under management (AUM) of under £100m are already in scope of a current "value for members" regulation (VFMa) which came into operation in October 2021. The aim is to increase this scope to all non-micro trust-based and contract-based DC schemes[161] and learn the lessons from this policy to improve compliance and effectiveness:
    - Findings from a TPR regulatory initiative pilot to monitor compliance with the VFMa requirements found some early signs that these were helping to drive consolidation, with 16% of schemes, having concluded their schemes do not offer good value, have opted to be wound up[162]. However, some issues remained with the framework's operation and scope:

[159] See Table 5: https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf
[160] https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf
[161] Non-micro defined as 12+ members.
[162] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2024-press-releases/poor-value-schemes-are-wound-up-as-tpr-takes-tough-action

- TPR's 2022 DC survey found that only around a third of schemes with assets under £100 million were aware they are now required to carry out more detailed VFM assessments. The survey also revealed only 24% of DC schemes met the key governance requirement on assessing value for money[163] (as set out in regulation 25 of the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997[164]). 84% of smaller schemes did not meet the key governance requirement compared with just 22% of Master Trusts.
- The VFM framework is being developed across the whole DC market using the lessons learnt from the VFMa rollout among smaller schemes. There will be a strengthened role of the regulator toward non-complying schemes – a URL hosting will clearly identify those who do not submit their VFM assessment/data. Schemes will also be subject to penalty, business closure, and an immediate 'RED' VFM rating in the event of non-compliance.

Rationale for intervention and intended effects

26. The overall aim of the VFM framework is to drive improvements in the value DC pension schemes provide to savers to ensure they receive better retirement outcomes. Many industry participants (including pension providers, employee benefit consultants and trade bodies) have welcomed the desire and intent of legislating for a VFM framework[165]. There are **a number of market failures and key issues** that this framework aims to address.

Market failure: Principal-agent problem

27. **A principal-agent problem in the DC market** whereby the controllers of DC assets may be incentivised to prioritise low costs at the expense of higher returns, which may not be in the best interests of owners of the assets:
    - The principal-agent problem may exist in the market whereby investment managers disregard better/more diverse investment opportunities due to higher costs. Employers who enrol their employees into a pension scheme choose the scheme into which their employees are enrolled, however employers do not gain from the investment growth of contributions.

[163] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-releases/too-many-small-dc-schemes-failing-to-meet-expectations-on-value This key governance requirement refers to the legal requirement for trustee boards to assess the extent to which member-borne charges and transaction costs provide good VFM

[164] S.R. 1997 No. 94; amended version available at https://iaccess.communities-ni.gov.uk/sspldbluevolumesinternet/users/internetsearchpage.aspx

[165] https://assets.publishing.service.gov.uk/media/64c25790331a650014934cc5/value-for-money-a-framework-on-metrics-standards-and-disclosures.pdf

- This risks a principal-agent problem as employees would like to maximise investment gains whereas employers might prefer a scheme with lower advertised costs and / or which is convenient to set up. Employees themselves are often not incentivised to switch the scheme chosen by their employer due to low engagement and information; they may also risk losing employer contributions if they do so (as the employer does not have to contribute to a pension they have not enrolled their employee into).
- This means the DC market is fiercely competitive on cost (cost marketed to employers) rather than value delivered to members, with reports of lucrative contracts won and lost over a few basis points of cost differentials. This risks a race to the bottom on costs, distorting and limiting investment capabilities which is detrimental to member outcomes (the ultimate asset owner). As Figure 1 shows, around 60% of a DC pot is accounted for by investment returns. This means the current workings of the market, focused on low cost, stifle the ability for net investment returns to be maximised for members (as assets which may cost more but deliver improved net returns are ignored as this would increase the cost offered to employers).
- Employers are also unlikely to switch or change schemes. Evidence from the DWP employer survey showed only 5% of employers with a DC pension scheme had switched to a different scheme and employers' main focus when selecting a scheme was on convenience of enrolment and cost, not on overall VFM. Additionally, only 2% of people with a non-workplace pension switched pension schemes in the last 12 months highlighting the strong inertia in place once a scheme is selected.
- The proposed VFM framework aims to mitigate the current principal-agent problem by increasing transparency of available information and removing underperformers from the market (so employees cannot be stuck, indefinitely, in underperforming schemes). It would also be beneficial for those high-performing pension schemes offering best value as more business would flow to them allowing them to gain market share and grow revenues.

Market failure: Information failures

28. **The inconsistent approach and imperfect information to assessing value in the DC market means savers/employers are not able to compare which scheme is the best for them and their needs**. The absence of a consistent framework and standardised, accessible data means there are a wide variety of definitions, methodologies and metrics

used to determine value. This data is hosted on thousands of different scheme websites and some schemes do not publish this data at all. This makes it difficult for both employees and employers to objectively compare the VFM provided by schemes and means some schemes may have lower standards or different definitions in assessing value. The proposed VFM framework aims to address these issues to promote consistent, accessible comparisons of value and drive competition on this basis. Transparency, standardised price and value comparison, and competitive pressures have improved outcomes in other markets, such as energy markets, that it is hoped to be emulated in the DC market through the VFM framework[166].

Key issue: Wide range in performance risks significant difference in pension outcomes

29. **The significant and persistent range in performance between different schemes leads to large differences in member outcomes.** Annualised 5-year returns for younger savers range from 5.1%, to 12.9% across a sample of large pension schemes (see Figure 2). This means for a pot of £10,000, assuming no further contributions and annual charge of 0.5%, the pot size would differ by more than £5,000 depending on the scheme after 5 years of saving[167] (see Figure 3).

Figure 2: 5-year annualised investment returns for younger savers vary among the large DC schemes across the trust-based and contract-based market

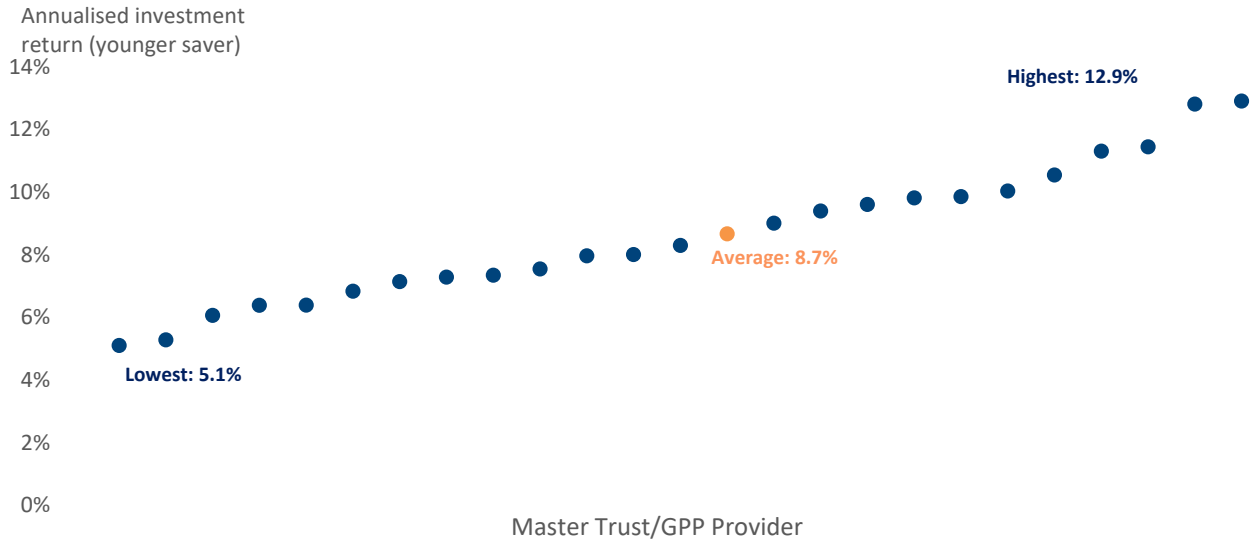
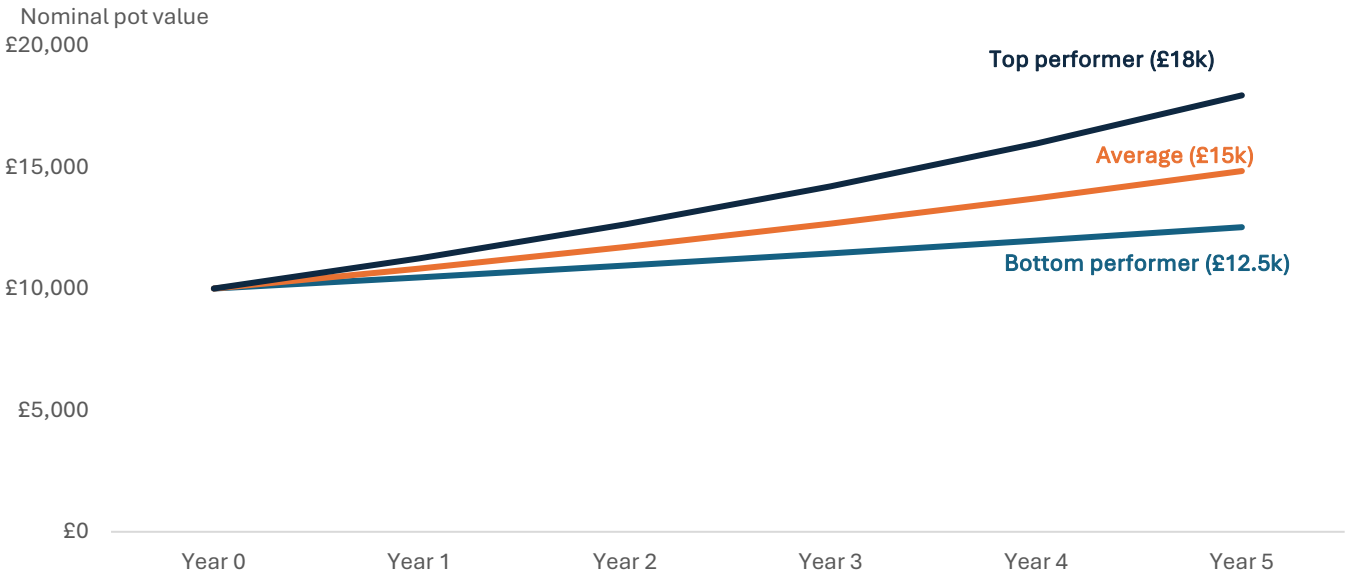


Figure 3: The range in returns across the DC market means a £10,000 investment would be worth over £5,000 less in the worst-performing scheme after 5 years compared to being in the best-performing scheme

166 https://publications.parliament.uk/pa/cm201415/cmselect/cmenergy/899/899.pdf

167 https://capa-data.com/younger-saver-30-years-to-retirement-5-year-annualised-line/



30. **The VFM framework intends to narrow and improve the range in investment performance by removing schemes that consistently fail to provide value from the market.** It is also envisaged there will be further improvements as schemes learn from each other and increasingly adopt best practice. Based on the latest data from the largest DC schemes, **there are nearly 6m pots at risk of significantly poor returns, with an investment return at least 2ppts below the market average**[168]. This could lead to savers with the same contribution levels entering retirement with significantly different incomes in retirement due to saving, and remaining, in a poorly performing scheme. This is a particular risk given how rare the 'switching' of pension schemes' is, meaning employees often remain in poor value schemes, often without sufficient information they are in such a scheme.

Key issue: The fragmented DC market is not meeting current requirements and may not be delivering value for their members

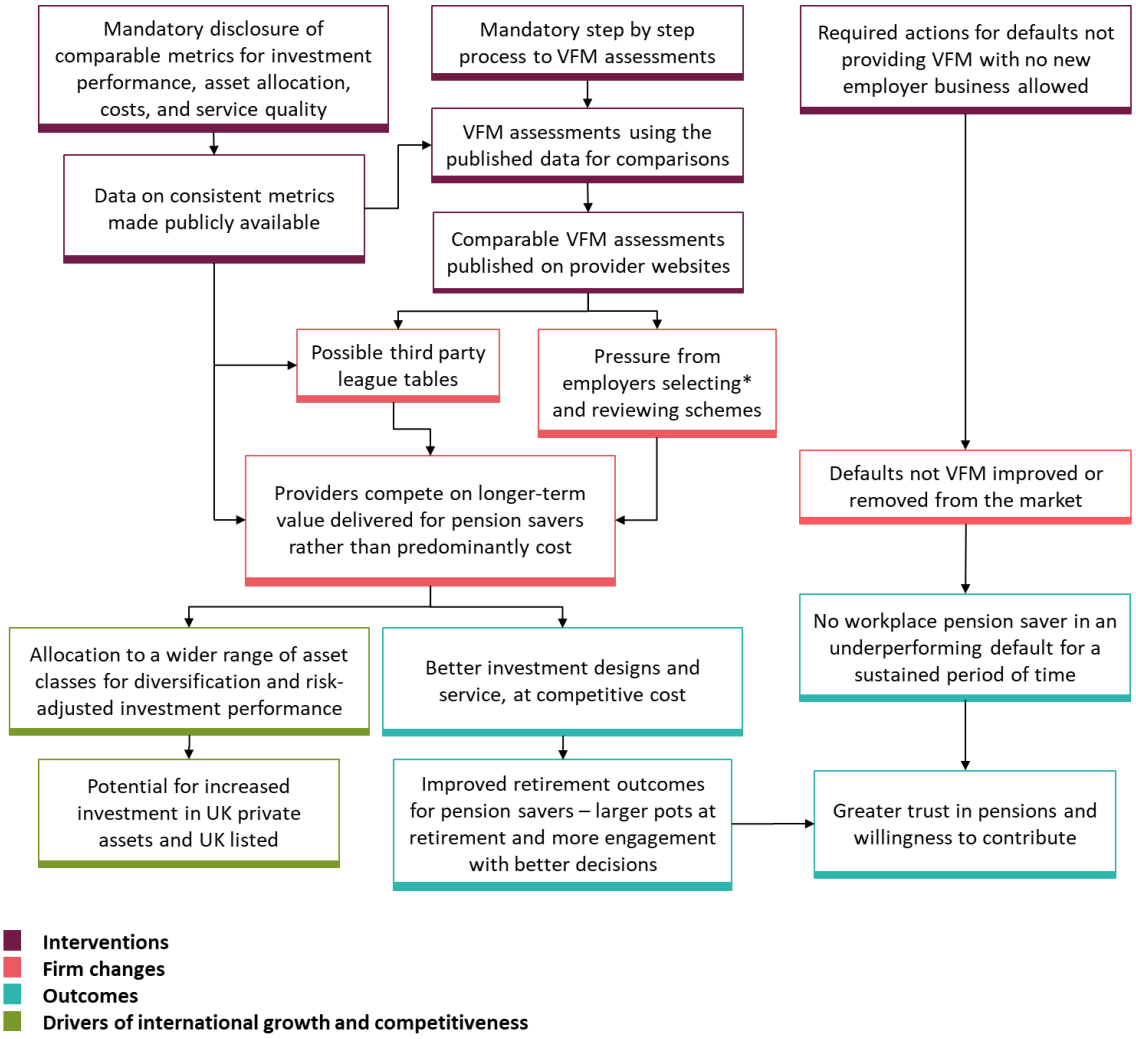
31. **Large numbers of Trust-based DC schemes are not meeting current requirements and many have low governance standards**:
    - As per paragraph 25, the VFM framework will replace the Value for Members assessment (VFMa) where many small schemes are not meeting existing requirements and just 16% were meeting key governance requirements of ensuring member-borne costs and charges represented value for money[169].

[168] https://corporate-adviser.com/research/ ; Corporate Adviser 2024 Master Trust and GPP Defaults Report

[169] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-releases/too-many-small-dc-schemes-failing-to-meet-expectations-on-value

- Links to schemes' VFM assessments and VFM data will be hosted on regulator websites making it easy to identify non-compliance and schemes will not want to be publicly singled out as not complying. Those not complying with the new requirements may be subject to a regulator penalty in line with the number of savers they have and be immediately rated as not providing value in their assessment. Figure 4 below presents the causal chain underpinning the VFM framework[170].

Figure 4: Requirements and potential outcomes of the VFM framework



32. Figure 4 shows the targeted actions the VFM framework proposes across the DC market taken from the August 2024 FCA consultation paper[170] – for example by requiring key disclosures of value and requiring schemes to publish the outcome of their assessment under a Red-Amber-Green (RAG) rating (which will evolve over time). In addition, the framework also seeks to drive behavioural change in the DC market. The main

[170] https://www.fca.org.uk/publication/consultation/cp24-16.pdf (Figure 1)

behavioural change among schemes is expected to be an increased focus on value rather than a focus on low cost. As DC products will be better regulated to provide VFM, more employees will be saving into a value-offering scheme as poor-performing schemes improve or exit the market. This should reduce the principal-agent problem (where the employer selects the scheme on behalf of the employee) as only good VFM schemes will remain in the market, and employers can use VFM scores to switch to better arrangements or negotiate better terms for their members.

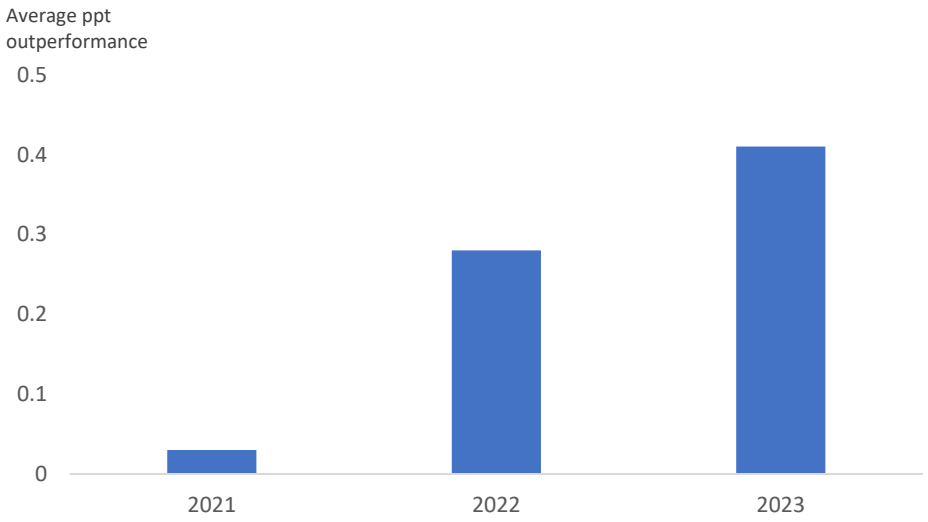
33. Where the existing Value for Members statutory guidance asks schemes to consider winding up and consolidating their members into better performing schemes, the proposed VFM framework intends to place a statutory requirement on trust-based schemes to wind up and consolidate if they consistently fail to improve the value they provide for members.

Evidence from Australia

34. This section outlines evidence from the Australian superannuation system. Australia's DC market is approximately 20 years ahead of the UK – introducing its equivalent of Automatic Enrolment in 1992 and now holds $A3.5tn (£1.8tn) in assets[171] - and is often used as a comparator for the UK given some similarities.
35. Australia introduced an annual 'Performance Test' in 2021 across its Superannuation (workplace pension) system. This is operationally similar to the proposed Value for Money framework and shares many of the same objectives in improving the value received by savers. However, the policy places a greater emphasis on net investment returns with scheme performance compared against a benchmark designed by the regulator.
36. After the first few years of the policy, key findings are emerging from the system which we are using to inform VFM policy development. Emerging evidence, presented in Figure 5, finds an overall improvement in the value offered. After implementation in 2021, average investment returns by 2023 were 0.4ppts higher than they were at the start of the policy initiative (defined as distance above benchmark)[172]. This is likely as a result of the removal and/or merging of poor performing schemes (for example, in 2021 75 products were tested and this had fallen to 58 by 2023 as underperforming products had exited the industry; though other factors may be contributors too).

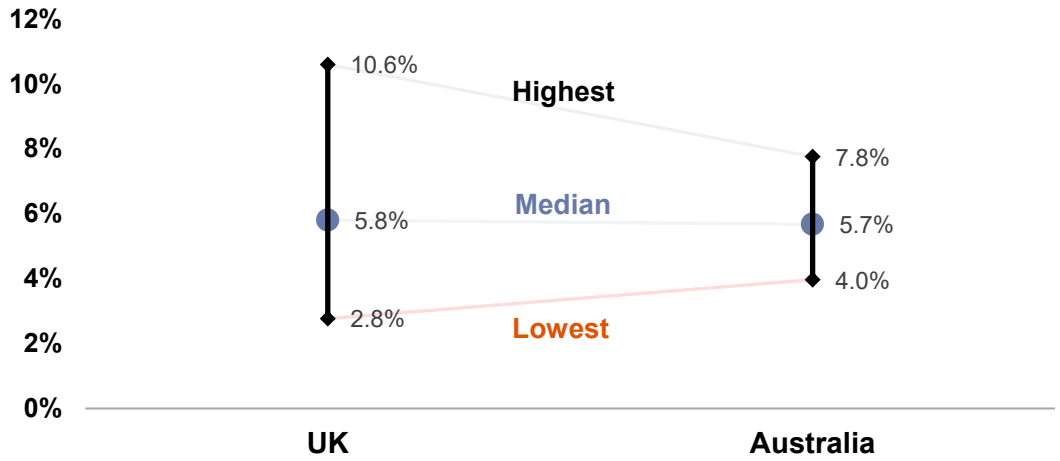
[171] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2024/super-insights-2024-report.pdf
[172] https://www.apra.gov.au/insights-paper-2023-performance-test

Figure 5: Since the annual performance test was introduced in 2021, Australian schemes have increased their margin of benchmark outperformance from 0.03ppts to 0.41ppts over a three-year period



37. The UK DC market already performs just as well, on average, as the Australian Superannuation DC sector with both markets earning around 6% annualised returns for younger savers. However, UK performance is much more dispersed; good UK schemes do better than good Australian schemes but poor performing UK funds do worse than poor performing Australian funds. This carries a high risk of UK members seeing significantly poor returns over long periods.

Figure 6: The range in investment performance for savers in the growth phase is around twice as large in the UK than it is in Australia despite similar average performance levels



38. The proposed VFM framework intends to learn from Australia in narrowing the performance gap. This minimises the risk of significant underperformance by improving the value offered by DC schemes, especially at the bottom of the market. For example,

the gap in Australia between the highest and lowest performing scheme is twice as narrow as it is in the UK.

39. However, there are also lessons learnt from the Australian system designed to mitigate the downsides in the UK. Herding around investment benchmarks (where schemes invest in the index they are assessed against, meaning all invest in a similar way) has been a recognised risk and the Australian regulators are currently exploring options to respond to this. This is helping to inform the UK's VFM assessment framework to ensure performance at the low end of the market is driven up without disincentivising innovation among existing high performing schemes.

40. The Performance Test in Australia has also resulted in fewer, larger, and better-performing schemes. For example, there are several examples of poor-performing, small-scale schemes failing the Test and then merging with better-performing, larger schemes. On average, affected members moved to schemes whose returns were over 1 percentage point larger – this gives confidence to our return improvement assumption outlined in the Benefits section. A selection of these examples is provided in Table 1 below. The Australian model will continue to be observed as the VFM framework is developed and there has been engagement with Australian counterparts to discuss elements of the VFM/Performance Test policy in greater detail.

Table 1 – Data on the 12 funds who merged into another Super after failing the Annual Performance Test [173]

(*Using APRA 10-year average investment returns (%))

Fund Name	Years failed	Action	Returns		Assets (Aus$)		Members	
			Pre-merge	Post-merge	Pre-merge	Post-merge	Pre-merge	Post-merge
Retirement Wrap - BT Super MySuper	2 years	Merged with Mercer Super in April 2023	5.9%	6.5%	17.2bn	420bn	540,000	843,000
Retirement Wrap - Westpac Group Plan MySuper	2 years	Merged with Mercer Super in 2023	n/a	6.5%	3.2bn	66bn	782,000	843,000
Labour Union Co-Operative Retirement Fund - MySuper Balanced	1 year	Merged with Australian Super	n/a	8.0%	7.4bn	317bn	133,000	2.4m
Commonwealth Bank Group Super - Accumulate Plus Balanced	1 year	Phased merger with Australian Retirement Trust began in late 2023	6.0%	6.6%	12.3bn	280bn	65,000	2.3m
AvSuper Fund - AvSuper Growth (MySuper)	1 year	Merged with Australian Retirement Trust in 2023	5.9%	6.6%	2.43bn	280bn	5,600	2.3m
The Victorian Independent Schools Superannuation Fund - VISSF Balanced Option (MySuper Product)	2 years	Merged with Aware Super end of 2021	7.3%	8.0%	0.9bn	154bn	200,000	1.1m

[173] https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.apra.gov.au%2Fsites%2Fdefault%2Ffiles%2F2023-12%2FAnnual%2520fund-level%2520superannuation%2520statistics%2520back%2520series%2520June%25202004%2520to%2520June%25202023.xlsx&wdOrigin=BROWSELINK

ASGARD Independence Plan Division Two - ASGARD Employee MySuper	1 year	Merged with BT super in 2021	5.2%	n/a	67bn	131bn	160,000	n/a
Australian Catholic Superannuation and Retirement Fund - LifetimeOne	2 years	Merged with UniSuper at the end of 2022	6.7%	8.7%	10bn	105bn	85,000	526,000
Maritime Super - MySuper Investment Option	1 year	Merged with Hostplus	7.2%	9.1%	6bn	100bn	23,000	1.6m
Energy Industries Superannuation Scheme-Pool A - Balanced (MySuper)	2 years	Transferred members from EISS to Cbus Q2 2023	5.5%	7.6%	5.3bn	70bn	17,000	875,000
BOC Gases Superannuation Fund - BOC MySuper	1 year	Merged with Equipsuper in 2021	n/a	7.7%	0.7bn	30bn	3,000	148,000
Christian Super - My Ethical Super	1 year (later passed)	Transferred funds to Australian Ethical in November 2022	7.0%	7.8%	2.1bn	9bn	30,000	72,000

Justification for the level of analysis used in the IA (proportionality approach)

41. The VFM framework is a large policy initiative, affecting hundreds of billions of market assets and tens of millions of savers. Costs and benefits are therefore expected to be large. DWP have therefore, alongside TPR and FCA, engaged in multiple consultation documents as the policy detail has been developed and continued to engage closely with industry at various stages of the policy development process[174,175] and received 100s of consultation responses. Steps taken include:
    - Following a joint FCA / TPR September 2021 Discussion Paper, 'Driving Value for Money in defined contribution pensions, the DWP, TPR and FCA carried out a consultation on the proposed Value for Money framework in January 2023. This consultation asked for feedback on how the policy should develop across the trust and contract-based market to reflect industry best practice and meet the aims of the framework whilst minimising industry burden. Responses were broadly supportive of the policy objectives and DWP, FCA and TPR released the Joint Response to this consultation in July 2023[176].
    - Following the Joint Response, a series of industry engagements involving four industry working groups were undertaken to further develop the proposals. This engagement sought to flesh out the detail on specific policy proposals in line with industry best practice and minimise the burden to firms.
42. The FCA have since written their own Consultation Paper on the detailed rules and guidance following these recent policy developments and engagement with industry[175]. This was published on 8 August 2024 and asked for further feedback on the design of the framework and the extent to which it is burdensome to firms against its proposed benefits. Industry engagement was carried out prior to the consultation closing on 17 October, since when analysis of responses has been undertaken.
43. Alongside the Consultation Paper, the FCA ran a comprehensive survey across 20 contract-based providers asking them to estimate their one-off and ongoing costs of complying with the VFM framework. This survey is used to inform the cost analysis used throughout this Impact Assessment. This is considered proportionate and robust as the survey covers the vast majority of the contract-based market therefore can be treated as

[174] https://www.gov.uk/government/consultations/value-for-money-a-framework-on-metrics-standards-and-disclosures/outcome/government-regulator-response-to-value-for-money-a-framework-on-metrics-standards-and-disclosures
[175] https://www.fca.org.uk/publication/consultation/cp24-16.pdf
[176] https://assets.publishing.service.gov.uk/media/64c25790331a650014934cc5/value-for-money-a-framework-on-metrics-standards-and-disclosures.pdf

representative. Although the survey focused on the contract-based market; it is reasonable to expect a similar level of business impact to both contract-based and trust-based schemes given both will be subject to similar regulations and requirements, and many firms operate in both markets. Therefore, it is considered a robust survey to understand the potential costs and implications.

44. In addition to years of industry engagement, the IA uses a wide range of data sources to further support the available evidence. This includes:
    - **Industry performance** data from important and highly reputable sources such as Corporate Adviser.
    - **International evidence** and engagement, particularly on Australia, to understand the potential impacts following their robust assessment and analysis.
    - **Scheme survey data** on costs/charges faced by members externally commissioned by DWP.
    - **Evidence from similar initiatives** undertaken by the regulators and **scheme returns to regulators** to understand the DC landscape.
    - **Annual Survey of Hours and Earnings (ASHE)** to understand the pension landscape.
45. **FCA's cost-benefit analysis** of the proposed VFM published in the FCA's consultation. It is important to recognise that at Primary Legislation stage, policy details are still being finalised and developed. As a result, the Impact Assessment presents the best available evidence on the potential benefits and costs of the reforms, but these will be refined as more evidence is gathered and policy details are finalised at secondary legislation stage.
46. The aim is to consult again once at the secondary legislation stage to gather the views of trust-based schemes especially. This will be an opportunity to enhance understanding of the potential costs to business and benefits of the policy, particularly as the policy is closer to being finalised. FCA also intend to consult further with published feedback, refinements and improvements to their policy proposals from their August 2024 consultation[177].
47. DWP's Pension Provider Survey 2024/25,[178] which reflects evidence from Pension providers operating across the UK pension landscape, will further allow for the improvement and refinement of policy proposals based on this data at the secondary legislation stage.

[177] https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework

[178] https://www.gov.uk/government/publications/the-pension-provider-survey-202425/the-pension-provider-survey-202425

Description of options considered

Policy Option 0: Do Nothing

48. Under a do nothing scenario, the Department/TPR would not be able take forward the policy without legislative changes. FCA are able to proceed with the proposed VFM framework utilising their existing rule making powers. However, this risks market-wide confusion and an inconsistent approach across the workplace pension market placing greater burdens on only a selection of schemes which would fail to meet the policy objective of transparent, comparable value metrics.
49. Without joined-up policy change, the focus of industry will remain on costs and charges, especially as the trust-based market has a significantly greater number of employers and savers, rather than holistic value and the best interests of savers in retirement. Although some policies have been introduced to help shift the cost-focused culture, such as excluding some performance fees from the charge cap to decrease barriers to more diverse asset class investment, a strong focus on cost continues. Therefore, without VFM, the majority of the market will continue to compete on costs and the wide range in investment outcomes will continue.
50. Underperforming schemes not providing value will continue to operate in the DC pensions market, detrimentally affecting the retirement outcomes of millions of savers.
51. Smaller schemes (under £100m in AUM) will continue to be required to provide value for members assessments and underperforming schemes will be encouraged to wind up or consolidate, although Regulators will still not be able to enforce this.
52. Some schemes will continue to publish their own value assessments, although it will be on a voluntary basis, the schemes will select the level of transparency of the assessments, and the data provided will not be comparable across industry.
53. This policy option would result in no additional costs or burdens on schemes but also no benefits to members and potential significant harm to their retirement outcomes.

Policy Option 1: Primary legislation– Preferred option

54. The proposed VFM framework requires primary legislation, as existing powers are not wide enough to require the detailed levels of public disclosure of information envisaged by the VFM regime. This option would provide a holistic approach for delivering the VFM framework in full. It would set clear expectations and direction of travel for all schemes who would know what will be delivered through legislation.
55. The VFM framework provides standard and comparable metrics on investment performance, costs and charges and services to inform a holistic assessment of VFM.

This will allow for transparent comparisons to be made between pension schemes which will help drive more effective competition and identify underperforming schemes. Schemes will be required to take immediate action regarding underperforming arrangements to improve the value they provide to savers or wind up and consolidate where this is in savers best interests, to ensure pension savers can be protected from remaining in underperforming schemes for long periods of time.

56. To ensure the conclusion of the VFM assessment is clear, it is proposed schemes should fall into one of three RAG categories:
    - Delivering VFM (Green)
    - Not delivering VFM but has identified actions to improve performance and deliver VFM (Amber)
    - Not VFM - no credible actions to achieve VFM (Red)

    This represents the proposed VFM assessment process as detailed in the FCA's August 2024 consultation paper. Detail on the proposed RAG assessment and categorisation may subsequently change or update following consultation feedback.
57. VFM assessment outcomes will set clear expectations as to what actions must be undertaken by schemes in respect of their arrangements to improve their VFM offering and identify the underperforming arrangements within schemes that need to wind up and consolidate as they are unable to improve their VFM offering.
58. The VFM framework would supersede some existing regulatory requirements, such as the Value for Members assessment and requirements for relevant schemes to assess the extent to which their charges, transaction costs and specified performance-based fees represent good value for members.
59. This approach would ensure consistency across the entire DC market, ensuring all savers can benefit from the changes and employers can assess across all schemes, not just from a sub-section of the market. Therefore, **this is the preferred option.**

Policy option 2: Utilising existing powers/secondary legislation – to address the elements of data disclosure.

60. Utilising the Pensions Act (Northern Ireland) 2015, Schedule 18, paragraph 2 – the Department may, by regulations, impose requirements relating to administration and governance on pension schemes: in relation to improving governance only. This could allow the Department to make regulations requiring scheme trustees to assess their scheme against various metrics (investment returns, costs and charges, service metrics) and make an overall assessment of the value that the scheme provides. Although this power could require publication of some of the VFM information, this would not be for the

full suite of data required within the VFM regime and this would carry both legal and handling risks.

61. Similarly, within the Pension Schemes (Northern Ireland) Act 1993, section 109 – the Department must by regulations make provision requiring publication of some of the transaction costs of an occupational DC scheme and may require publication of "other relevant information" that would or may assist with comparing costs and charges between schemes. While this could be wide enough to regulate to require publication of some of the VFM material, where it relates to costs and charges, it would not meet the aims of the VFM framework which is to shift the focus to the value schemes offer and away from costs, therefore the risk of relying on this power is higher.

Policy option 3: Utilising existing powers/secondary legislation – to expand the existing VFMa

62. Amending the requirements of the existing "value for members" assessment (VFMa) in the Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 and impose new administration requirements on certain schemes which come under the Pensions Act (Northern Ireland) 2015. As detailed in Option 4, this option would fail to provide TPR with the sufficient monitoring and enforcement powers.

Policy option 4: Absence of legislation – utilising statutory guidance to introduce elements of the VFM framework

63. The Department could introduce some elements of the VFM framework, using existing powers and imposing new administration requirements on certain schemes which come under the Pensions Act (Northern Ireland) 2015.

64. This option would not achieve the desired outcomes as statutory guidance would be advisory and not mandatory, meaning schemes may not comply with VFM requirements. Moreover, elements of the regime requiring primary legislation would not be enforceable until there is legislative backing, e.g. TPR could not enforce wind up and consolidation, the Department could not mandate schemes to disclose their data into a centralised repository or publicly on their website. As a result, this would not solve the problem of trust-based schemes not meeting current requirements as there would be no incentive for schemes to comply with the regulations due to lack of enforcement.

65. This option would also not allow us to deliver the desired outcomes of standardisation, transparency and comparability across the DC pensions market as schemes would not be

required to disclose standard value metrics in full and would not be required to follow a consistent VFM assessment approach.

Summary and preferred option with description of implementation plan

66. The preferred policy option 1 will be implemented through primary and secondary legislation as a result of the Pension Schemes Bill. Primary legislation will set out broad powers to ensure the VFM Framework and regulator enforcement of it remains responsive to an evolving market. Further details on the policy will be set out in secondary legislation.

67. Primary legislation will allow for the implementation of the VFM framework in full, which means all DC schemes would be required to report on the same value metrics at the same level to enable consistent comparison of VFM across DC schemes. The legislation will ensure:

- **Publication of VFM metrics using a standard template** including on past performance, costs and charges, and a standardised member satisfaction survey.
- **Publication of the VFM assessment and outcome.** TPR will monitor adequate completion of the VFM assessment by trustees. If trustees fail to publish the VFM assessment outcome, TPR may issue them with a penalty notice/compliance notice. Regulations will create a simple three tier-rating system of Green, Amber and Red, for use in the VFM assessment. If TPR is not satisfied that trustees have accurately completed the VFM assessment, or that its outcome does not represent an accurate summary of the performance of an arrangement against the prescribed metrics, TPR may issue a compliance notice which will require trustees to fulfil their duties/penalty notices as appropriate.
- **New powers for TPR to regulate compliance** with requirements, including new powers to enforce wind-up and consolidation of pension schemes identified as consistently underperforming and unable to improve their VFM results (as long as in the best financial interests of savers).
- **New powers to enable contract-based providers to transfer savers** in underperforming arrangements to other arrangements or schemes providing VFM without having to obtain individual consent of all affected savers (where this is in the best interest of the saver).

68. This preferred option has many similarities with international VFM policies. The aim is to learn from the successes of the Australian model whereby the Australian Treasury announced an implementation of net returns benchmarking as a two-part performance test to impact all Supers by 2022. There is an assessment of 5-year investment performance

relative to a benchmark portfolio and an assessment of administration fees charged in the last financial year relative to the median fee charged for the category of the product. If the product underperforms the combined test by more than 0.5%, the product is deemed to have failed the test. This performance test analyses quarterly returns on investment performance and fees.

Expected level of business impact, policy scope and IA coverage

The scope of the VFM framework:

69. The VFM framework is initially aimed at the professional audience and will evolve over time. This will apply to all non-micro-DC schemes in the accumulation phase. Non-Micro schemes are defined as those schemes where there are at least 12 members in the pension scheme. This means around 950 schemes, that operate on a UK wide basis, are in scope: 920 trust-based schemes and around 30 contract-based providers.
70. Schemes will need to disclose their VFM assessments and data across their default arrangements. A default arrangement is a fund where contributions are invested without the employee having expressed an active choice. 94% of DC Trust pension savers use the default arrangement of the scheme chosen by their employer for the purposes of AE.
71. As some larger schemes may have multiple default arrangements, a scheme may need to undertake several VFM assessments. However, to minimise the business impact, where a scheme has multiple default arrangements, arrangements with under 1,000 members are out of scope of the framework unless this is the firm's largest arrangement. This means every scheme with a workplace pension will have at least 1 arrangement in-scope of VFM which was reached on proportionality grounds following engagement with industry (as some firms have multiple small defaults). This will be explicitly kept under review in light of the November 2024 Pensions Investment Review consultation[179] which proposed to increase scale provision in relation to default funds (which itself may reduce the number of default arrangements at scale).
72. Additionally, to reduce business costs, most of the 24,680 micro schemes, operation on a UK wide basis, (those with less than 12 members) are excluded from the VFM framework. The majority of these are classified as Executive Pension Plans (EPPs) or Relevant Small Schemes (RSSs) and are subject to different reporting requirements to non-micro schemes[180]. This is detailed further in the Small and Micro Business assessment.

[179] https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

[180] Of those not classified as EPPs or RSSs, a decision will be made at the Secondary Legislation stage as to whether these (around 3,000) 'Other' micro schemes remain in scope of VFM requirements (as they are currently captured by VFMa regulations) or not.

73. The VFM framework will initially only apply to savers in the accumulation phase (i.e. where individuals are saving and growing their pension pot). Future stages of VFM legislation are envisaged to extend to decumulation (where savers are withdrawing and accessing their pension pot) and also to non-workplace pension assets and self-select options. These are currently not in scope of the framework as the initial focus is on savers in the accumulation phase of default arrangements, capturing most savers. As the DC market is relatively young, the majority of savers are in the accumulation phase of saving and over 90% of savers remain in the default arrangement. It is estimated between £50-100bn worth of total workplace DC assets (currently worth around £600bn) are in decumulation[181].

74. The framework will therefore apply to all in-scope default arrangements across the 950 DC schemes. However, this number is expected to decline over time. The number of DC trust-based schemes has steadily declined since 2012 (over 2,700 schemes have exited the market since 2012), with an average of 12% per year for the last three years[182]. When modelling ongoing costs, it is projected that this rate of decline will continue throughout the appraisal period.

75. The VFM framework may itself increase consolidation rates. Alongside the framework, there may be other pension reforms (for example on Guided Retirement) which interact with the VFM framework. This could further reduce the number of DC schemes in the market. At this point, the interactions across the measures cannot be known and is highly dependent on pension scheme behaviour, sequencing and timings of implementation, and final policy details (in secondary legislation). Therefore, at this point, there are no estimates of the interactions within each individual IA or on the additional consolidation rates VFM may cause (this will be considered in the overarching Pension Schemes Bill). Importantly, the modelling of benefits (where underperformers either exit the market or improve to match the market average) is robust to different potential paces of consolidation.

[181] DWP estimates based on 2018-20 Wealth and Assets Survey and ABI Research.

[182] DWP analysis of TPR data: https://webarchive.nationalarchives.gov.uk/ukgwa/20250115145526/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023

Explanation of coverage of the analysis in the Impact Assessment

76. As outlined at the start, there are two-types of workplace pensions (trust-based and contract-based). The VFM framework requires primary legislation to be implemented in full:

- **For trust-based schemes**, primary legislation will enable full delivery of the VFM framework and provide TPR with new powers to enforce wind up and consolidation measures. The Department aims to use secondary legislation where necessary to ensure key disclosures are in place ahead of the phased implementation of the VFM framework.
- **For contract-based schemes**, FCA already have the necessary powers to implement the proposed rules in the current policy framework and do not need the Department to make legislation. However, wider legislation may assess the required vehicle(s) needed to transfer members out of poorly performing contract-based arrangements. It is currently not possible to 'bulk transfer' members out of contract-based arrangements into better performing arrangements without written consent from each member (which may be time-consuming and be met with a disengaged membership) even though doing so may be in the best interests of members. This will form part of this Pension Schemes Bill to provide the power to do this[183].

77. DWP, TPR and FCA have worked collectively on developing the framework. The overall aim is to have the framework working consistently across the entire DC workplace market to help deliver better outcomes for members. Although the vast majority of the legislation is focused on providing the appropriate powers for the DC trust-based market, the IA assesses the impacts across the entire DC market. This is because:

- This is consistent with the intended scope of the VFM framework – it will cover all non-micro DC schemes in the accumulation phase.
- This decision reflects the view that the VFM framework will be member-focussed when fully implemented. Members are mostly disengaged and often do not know whether they are in a trust-based or contract-based arrangement.
- Employers and members could move from one part of the market to another in response to the framework – this behavioural effect cannot be known in advance of the policy.
- Increases transparency by outlining the overall assessment of the intended framework.

[183] https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

Monetising the preferred policy option: Costs and Benefits

78. The Value for Money framework covers a large, growing market. Currently, the UK workplace DC market is worth ~£600bn[184]. When applied in full in 2027, the VFM framework will cover over £700bn in DC assets which will continue to grow through further returns and contributions. As a result, even small impacts could have large monetary implications. **The key costs and benefits, covered across the IA, are summarised in Table 2a. Table 2b details specifically the specific costs/benefits that impact the £43m EANDCB figure.**

79. Costs and benefits are modelled over the standard Green Book 10-year appraisal period – while pension schemes work to long-term horizons, policy uncertainty and the uncertainty over scheme behaviour supports the use of a 10-year appraisal as opposed to any longer periods; especially as investment return benefits could lead to significant compounding over time.

Table 2a: Summary of costs and benefits of VFM framework

Impact	**Summary**	**Direct or Indirect**	**Net Present Value (over 10-year appraisal)[185]**
Costs			
One-off costs (for pension schemes)	The costs for scheme trustees and IGCs to familiarise and implement the new regulations	**Direct** – impacts are immediate and unavoidable; schemes are accountable for compliance and the first step in the supply/logic chain.	£138m
Ongoing costs (for pension schemes)	The ongoing cost of VFM compliance e.g. writing and conducting annual assessments, storing/collecting data.		£333m (£64m in 2026 falling to £18m by 2034 as fewer schemes remain in market)
Costs to members	Most members should not face an increase in costs; but there is a risk some costs may be passed on or indirect impacts (such as wage impacts or contributions)	N/A	Non-monetised

[184] https://www.pensionspolicyinstitute.org.uk/media/xfybvxtq/20230926-the-dc-future-book-9-2023.pdf

[185] 2024 prices 2025 base year. Total cost presented across both trust and contract-based sides of the market.

Costs to employers	Employers should not face any immediate or direct costs from the VFM framework.	N/A	Not monetised
Cost to Pension Providers/Schemes	See 'one-off' and 'ongoing' costs.	**Direct** – as above.	See 'one-off' and 'ongoing' costs.
Costs to the Pensions Regulator (TPR)	TPR may experience added costs when they need to issue schemes to wind up if they are providing poor VFM over a sustained period.	N/A	Non-monetised
Benefits			
Benefits to savers	With better VFM, savers can potentially receive greater investment returns which will grow their pension pots, contributing to more income in retirement.	**Direct** – improved value/returns is the prime policy aim in the regulated market. Classed as a direct member benefit (not business, so does not enter EANDCB figure) as the member (principal/asset owner) sees the benefit pass through the scheme (agent, see footnote)[186] without having to take action.	£20bn gross benefits, £2bn per year of appraisal.

[186] See 'exceptions to the normal application of pass-through' section - https://assets.publishing.service.gov.uk/media/5c9b7ccde5274a52811778f2/RPC_case_histories_-_direct_and_indirect_impacts__March_2019__1_.pdf ; the 'agent' (scheme) invests on behalf of the 'principal' (the saver, asset owner) – therefore the benefit ultimately (and entirely, except for a small % of charge revenue which is separated out in Table 2a) passes through to the saver and is classified here as direct given this is the first step in the logic chain, a partial equilibrium effect on the regulated DC pensions market, and the primary aim of the policy.

Benefits to Pension Schemes	Pension schemes benefit from improved performance due to charging structures (monetised) and have more availability of information (non-monetised)	**Direct** – follows automatically and immediately from the above (schemes will keep a small % of the overall benefit from improved returns through charges) and involves no additional steps in the chain of events.	£99m benefits to schemes, £10m per year.
Benefits to Employers	Employers will find it easier to choose a pension scheme, will be able to see if their chosen scheme offers the best VFM and can switch to better arrangements.	N/A	Non-monetised

Table 2b: Drivers of the EANDCB figure

Direct Costs to Business	**Monetary Value (NPV)**	**Explanation – why this is direct to business**
One-off costs (familiarisation and implementation)	£138m	Direct business cost (to pension providers) as this is an immediate and unavoidable cost burden of the policy all schemes must do.
Ongoing costs (complying with VFM requirements annually)	£333m (cumulative NPV over 10-year appraisal)	Direct business cost (to pension schemes) as all schemes in the market will be required to comply with the VFM regulations each year so costs are unavoidable and immediately felt by businesses.
Direct Benefit to Business:		
Extra charge revenue received on improved investment returns	£99m (cumulative NPV over 10-year period)	Direct benefit to business (pension schemes) as improved fund performance is the main policy aim; improved performance directly and automatically translates into higher charge revenue for schemes.
This means businesses (pension providers) are directly impacted by the cost burdens of the policy. Businesses (pension providers) do also directly benefit from the additional charge revenue of improved investment returns as a direct benefit to partially offset this. **This means the EANDCB is a <u>£43m annual direct cost to business</u>. This is because the main direct benefit of the policy accrues to <u>members</u>, not to businesses, as members are the ultimate owners of the pension investments that now receive better value.**		

Costs to businesses – one-off and ongoing costs

80. Cost estimates to schemes are based on an FCA survey from December 2023 across 20 contract-based providers and 1 Master Trust specifically to identify the potential costs of the policy. This covers the vast majority of savers in the contract-based market (and many schemes operate in both the trust and contract-based market).

81. It is expected the large schemes across both the Contract and Trust based markets would have similar costs, and therefore the survey is considered robust in applying across the market. Although the survey did not cover single-employer trusts, costs have been adapted based on assets under management to reflect there may be cost differences by size of scheme. Estimates were wide-ranging given the range of scheme sizes within the market, however, estimates for schemes within similar size asset bands were more consistent with one another which gave greater confidence in the accuracy of the survey and in the weighted average approach.

82. To further improve robustness of the survey, further steps were taken:
    - Respondents estimated their one-off and ongoing costs of the proposed VFM framework as set out in the July 2023 Joint Response Paper.
    - Given policy developments made from the initial consultation, the survey was re-commissioned and more policy detail was provided to respondents, so estimates were more informed.
    - Survey results were cross-checked with initial consultation feedback received in January 2023, showing consistency in estimates.
    - Further industry engagement is planned to further improve the cost estimates.

83. Using the survey, average costs were determined by:
    - Splitting survey responses into AUM bands reflecting larger and smaller schemes will likely face different costs.
    - The average total one-off cost is taken for each of the four AUM bands.
    - These averages are then weighted based on how prevalent the AUM band size is in each of the contract-based and trust-based markets respectively[187].
    - The result of this weighting gives the total one-off cost of the VFM framework across both the contract-based and trust-based markets.

84. The contract-based weighted average (£470,000 per scheme) is higher than that of the trust-based (£90,000) because a much greater proportion of the contract-based market are large schemes managing more than £2.5bn in assets. Additionally, contract-based

[187] An alternative method that arrives at the same answer would be to simply multiply the average VFM cost by size column by the distribution of providers within each AUM band, rather than weight to a single estimate

schemes may be more likely to have multiple default arrangements (increasing costs) and have a wider range of defaults, funds, and charges to consider.

Table 3: Weighted average one-off costs of VFM for contract and trust-based schemes

Contract-Based

AUM band (£)	Average VFM cost (per provider/scheme)	Weight of scheme size in market[188]	Weighted Average	Adjusted Average (with 25% optimism bias)
£0-£100m	£68,000	20%	**£ 470,000**	**£588,000**
£100m - £1bn	£113,000	25%		
£1bn - £2.5bn	£166,000	10%		
>£2.5bn	£910,000	45%		

Trust-Based

AUM band (£)	Avg VFM cost (per provider/scheme)	Weight of scheme size in market[189]	Weighted Average	Adjusted Average (with 25% optimism bias)
£0-£100m	£68,000	86%	**£ 89,000**	**£111,000**
£100m - £1bn	£113,000	8%		
£1bn - £2.5bn	£166,000	3%		
>£2.5bn	£910,000	2%		

85. "Optimism Bias" has been applied in line with Green Book standards[190]; this is estimated at around 25%. This reflects the uncertainty on the final policy details, that schemes may underestimate some of the costs as VFM is a large policy initiative, and because survey estimates are based on a non-final policy position.
86. **In Annex D, sensitivity analysis on costs is presented**. For one-off costs, implementation costs are increased/decreased by 50%. This is so that the range and distribution in estimates received by survey respondents is mostly reflected. 'Implementation costs' varied across respondents as some schemes may already have their internal value for money metrics set up and already be monitoring the proposed

[188] Based on reported AUM to FCA survey

[189] https://webarchive.nationalarchives.gov.uk/ukgwa/20250115145526/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023

[190] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020

policy metrics, especially given the proposed Value for Money metrics have been publicised and consulted on numerous times over the last few years. Other schemes may not have this data monitoring to hand or already implemented and will therefore need to implement new systems to collect this data and implement it within their business. Putting sensitivity around this therefore captures the range of survey responses received and covers the pure 'additionality' the proposed Value for Money framework will impose on scheme costs (e.g. 'low' additionality where schemes already have this data/monitoring and 'high' additionality where schemes do not already have this).

87. The remaining sources of one-off costs (e.g. familiarisation costs) are not subject to sensitivity analysis given these displayed more consistency in responses and also aligned with past consultation response estimates from pension schemes. However, in the low scenario, 'Other' costs are also reduced by 50% due to the range in responses received (due to difficulty in being able to split out VFM requirements from wider regulatory requirements) and the potential for pessimism bias.
88. For ongoing costs, all line-items are increased/decreased by 25% in both low and high scenarios in order to ensure the broad range in survey estimates are covered. This also broadly reflects the potential for biases either side of the central scenario (e.g. final policy detail may push up ongoing costs or pessimism bias may mean ongoing costs are lower as schemes overestimate costs in surveys to minimise the burden on them). Ongoing costs are estimated to be lower than one-off costs, and had a tighter range, hence the smaller sensitivity ranges applied to ensure the broad range in survey estimates are captured.

One-off costs of the VFM framework

Familiarisation Costs

89. Familiarisation costs come directly from the FCA survey but are adjusted slightly. As the survey was done in two iterations to help improve the accuracy of the estimates from providers, information from both returns are used:
    - The first survey covered total costs and how this was made-up of familiarisation and one-off costs.
    - The second survey sought clarification on overall total costs based on new, emerging, policy details.
90. As a result, the proportion of total one-off costs that were familiarisation costs from the first survey have been applied to the new total one-off costs reported in the second survey. For example, if a provider estimated in the first survey their total one-off costs for the VFM

framework would be £100,000 and £20,000 would be via familiarisation costs, the 20% assumption is applied to the new estimate of total costs from the second survey. That means if costs were revised down to £50,000, it is assumed familiarisation costs for that provider would be £10,000 (i.e. 20%). This is repeated with all itemised one-off and ongoing cost breakdowns throughout the rest of this section.

91. This results in a total familiarisation cost of £21.4m. This is based on the FCA survey estimating a £138m total one-off costs of VFM and the initial survey suggesting 15% of these costs would relate to familiarisation. This reflects the costs involving all trustees and IGCs familiarising themselves with the new requirements.

Implementation Costs

92. Implementation costs were split out in the FCA survey into four sub-categories: Learning costs, developing metrics, implementing the data framework and other. These are presented and apportioned in Table 4 below.

Table 4: Estimated itemised one-off costs of the VFM framework across the trust-based and contract-based DC market

Total one-off VFM cost	**Whether familiarisation or implementation costs**	**Proportion attributable to each line-item**	**Itemised one-off costs**
£138m total one-off VFM cost	Familiarisation	… of which familiarisation: 16%	£21.4m
	Implementation	… of which implementing data template: 19%	£26.4m
		… of which developing metrics: 11%	£15.1m
		… of which learning costs: 5%	£6.3m
		… of which other: 50%	£68.6m
Total one-off costs			**£138m**

93. The key implementation costs identified by the department, regulators, and in consultation with industry were:

a) **Implementation of the data template:** Schemes may incur one-off costs in relation to the implementation of data reporting templates and may need to build VFM specific software and teams to deliver this. Based on FCA responses, this is estimated at around £26m in year one across the whole market (around 19% of total costs).

b) **Developing metrics:** Most schemes already calculate metrics to measure investment performance, assess costs and monitor quality of governance. However, the metrics required for the VFM framework may be slightly different to the metrics already produced by schemes. To comply with, or develop, the metrics required for the VFM framework, schemes may face additional costs. Based on FCA responses, this is estimated to be £15m in year one (around 11% of total costs).

c) **Learning costs:** It is expected there may be added learning costs, over and above familiarisation costs, for schemes/trustees/IGCs, as a result of the VFM framework and learning how to comply with the new regulations. Based on FCA responses, it is estimated to be £6m in year one (around 5% of total costs).

d) **Other:** Schemes and/or asset managers may incur added costs if they need to respond to data requests from trustees/IGCs. Schemes and trustees may incur additional costs to liaise with external stakeholders or upgrade current systems to collect and store more information. Some respondents also added high amounts in 'other' due to the policy detail not yet being finalised. Based on FCA responses, these miscellaneous other costs are estimated to be £69m (around 50% of total costs).

94. These cost estimates have been broadly consistent across surveys and consultation responses, giving some reassurance to the estimates. Though it is recognised this may vary scheme-to-scheme.

95. Underperforming arrangements may face the one-off cost of looking to consolidate their scheme with a value-providing arrangement. This has not been monetised at this stage. Consolidation and/or wind-up costs as a result of VFM are assumed to be a transfer of costs and benefits. The consolidating/winding up scheme may lose their assets (a cost) but this represents a benefit to the consolidating vehicle/wider market. Despite consolidation and winding up being clear and significant potential outcomes of our proposed VFM framework, it has not been modelled to schemes as the costs and benefits are expected to offset one another at the whole-market level.

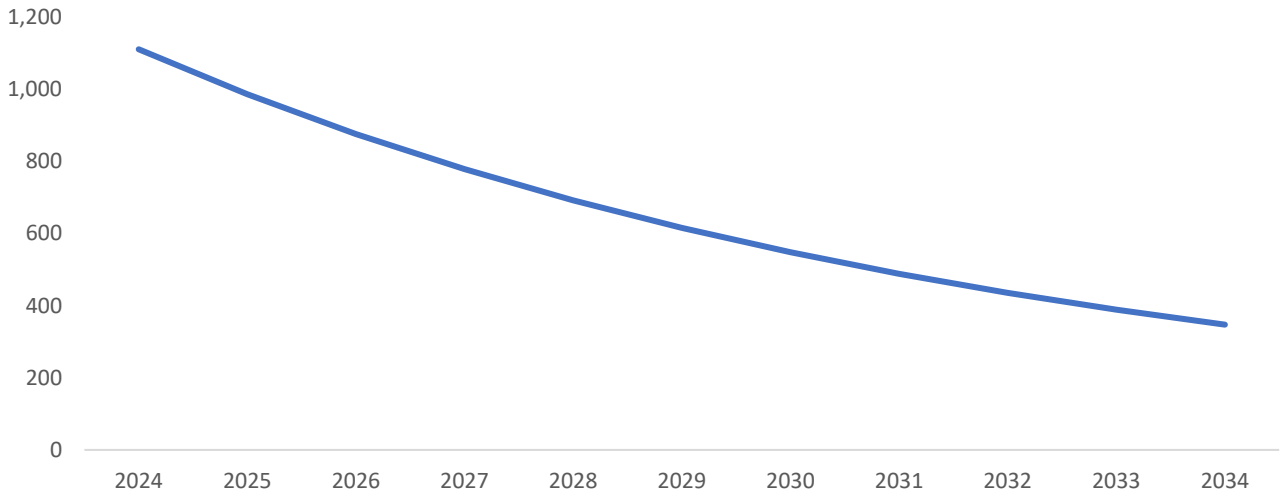
96. The costs will continue to be improved at the secondary legislation stage where firms will be able to more accurately estimate their expected costs of the framework based on more

detailed information. It is also important to note there may be some savings to schemes which offset some of the costs helping to reduce the additional regulatory burden. For example, the VFM assessment report will replace some existing regulatory duties placed on schemes (e.g. Chair's Statements, Value for Members assessments).

Ongoing costs of the VFM framework

97. Total ongoing costs of the VFM framework are taken from the same FCA survey described above and follow the same method of a weighted average approach.
    - The annual weighted average ongoing cost in the contract-based market is **£190,000 per scheme per year**. Multiplied by the 30 in-scope contract-based providers results in £6m of ongoing costs across contract-based providers.
    - The annual weighted average ongoing cost in the trust-based market is **£55,000 per scheme per year**. Multiplied by the 845 trust-based schemes projected to be in-scope by 2026 results in £47m of ongoing costs across all in-scope trust-based schemes.
98. Accounting for optimism bias, this gives a **total ongoing cost of £66m** (constant prices), in the first year in which ongoing costs will be felt. As expected, this is lower than that provided for one-off costs as systems will already be in place across firms and staff will be familiar with the requirements of the framework.
99. The DC market is expected to continue to consolidate (around 12% fall in the number of schemes per year). Using the past trend, it is estimated the DC market could have around 350 schemes by the end of the 10-year appraisal period (see Figure 7). Given the large number of smaller pension schemes in the trust-based market, this is expected to be the area in which consolidation occurs with the contract-based market staying at around 30 providers. This also reflects the lack of readily available information on contract-based schemes.
100. It is noted that VFM, or other Pension Schemes Bill measures, may speed up or interact with further consolidation but the scale of this is uncertain. It is therefore assumed to continue at a 12% annual consolidation rate. Although it is reasonable to expect VFM to consolidate the market further, and this could accelerate the current consolidation level, this effect cannot be known in advance and the VFM provides the opportunity for poorer performing schemes to improve (rather than just exit the market). On balance, continuing existing trends and the benefit modelling methodology shows the potential benefits of VFM both through the **consolidation** and/or **improvement** of poor-performing schemes into higher performing ones.

Figure 7: Projected number of DC schemes in scope over the 10-year appraisal period



101. Continued consolidation means ongoing costs, shown in Table 5, are projected to fall over the appraisal period from £66m to £25m by 2034 (constant prices). This is against the backdrop of average DC wealth being in the £10,000s, and rising. This reinforces the likelihood that members may not see increased costs or any increase would be negligible relative to the pot size.
102. Given the AUM bands used are fairly large and consolidation is happening across the entire market, average ongoing costs are not adjusted by AUM (for example, as schemes get larger) in this analysis.

Table 5: As the DC market continues to consolidate, ongoing costs are projected to decrease (constant prices)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total ongoing (£m)	£0	£66	£59	£52	£46	£41	£36	£32	£28	£25

Itemised ongoing costs

103. Within total ongoing costs, schemes will be subject to annual compliance costs (the proportions of which are assumed to remain constant over the appraisal period) in the form of:
    a) **Conducting the VFM assessment and writing the VFM report**: As IGCs/Trustees will need to produce an annual VFM report; including gathering the data, comparing against chosen comparators, and conducting the RAG rating. Based on FCA responses, this is estimated to account for around 27% of total ongoing costs.
    b) **Collecting and storing VFM data**: Schemes will have to collect and store the VFM data points on their systems on an ongoing basis. Based on FCA responses, this is estimated to account for around 21% of total ongoing costs.

c) **Data framework reporting**: Schemes will have to report on the VFM data points which will be costly to extract and may require liaising with asset managers in some cases. Based on FCA responses, this is estimated to account for around 12% of total ongoing costs.

d) **Additional meetings/time**: Schemes may have to hold additional meetings to comply with VFM regulations and ensure the VFM report and assessment is completed accurately. There may also be increased staff costs to monitor and complete VFM assessments. Based on FCA responses, the ongoing cost of additional meetings is estimated to account for around 10% of total ongoing costs.

e) **Providing data at request**: Schemes will have to provide and submit the framework data points to complete the VFM assessment and monitor metric performance. Based on FCA responses, this is estimated to account for around 8% of ongoing costs.

f) **Other**: Schemes may face wider additional costs such as further developing VFM metrics in line with the proposed framework. Based on FCA responses, it is estimated these miscellaneous other costs would account for around 22% of total ongoing costs. Schemes may also face ongoing costs of VFM outcome and compliance actions, such as communicating to regulators/employers, improving their VFM metrics and/or the costs of consolidating their scheme.

Table 6: Itemised ongoing VFM costs over the appraisal period (£m, constant prices)

Item (% of total)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Assessment reporting (27%)	£0	£18	£16	£14	£13	£11	£10	£9	£8	£7
Data collection and storage (21%)	£0	£14	£12	£11	£10	£9	£8	£7	£6	£5
Framework data reporting (12%)	£0	£8	£7	£6	£6	£5	£4	£4	£3	£3
Additional meetings/time (10%)	£0	£7	£6	£5	£5	£4	£4	£3	£3	£2
Providing data at request (8%)	£0	£5	£4	£4	£3	£3	£3	£2	£2	£2
Other (22%)	£0	£15	£13	£11	£10	£9	£8	£7	£6	£5
Total ongoing (100%)	£0	**£66**	**£59**	**£52**	**£46**	**£41**	**£36**	**£32**	**£28**	**£25**

104. The majority of ongoing costs are through schemes having to conduct and produce the VFM assessment report on an annual basis, as well as extracting and storing the required data. This has followed extensive industry engagement to ensure this process is balanced against the burden to schemes and schemes will have 7 months after the publication of VFM data to compile the report. Ongoing costs are modelled to decline over the appraisal period as fewer schemes remain in the market due to consolidation; the proportion of total ongoing costs attributable to each line item is assumed to remain constant over time as it cannot be estimated how or if these may change over time.

Cost to members

105. As schemes face additional costs from the VFM framework, they may look to pass this onto members. This is possible given the low profitability in the current Master Trust market (though this is expected to increase significantly as pot sizes continue to grow)[191].
106. However, costs being passed on to members should be mitigated by the charge cap (set at a limit of 0.75% of assets under management meaning firms cannot charge more than

[191] https://www.gov.uk/government/publications/evolving-the-regulatory-approach-to-master-trusts/evolving-the-regulatory-approach-to-master-trusts

this) which applies to the default arrangements in schemes offering money purchase benefits for the purposes of automatic enrolment – the majority of whom are in-scope of our proposed VFM framework.

107. Additionally, the market is competitive on cost, meaning schemes may not pass on these added costs. Evidence from employers also shows that cost remains the dominating factor when selecting (or considering switching) pension schemes under their automatic enrolment duties.[192] Even though the VFM framework is intended to shift focus away from purely centring on costs, it is still a vital component of a scheme's wider VFM offering and thus will remain a driver of competition.
108. To support the judgement, the 'Evidence from Australia' section showed that the rollout of the annual Performance Test coincided with a decrease in reported member-borne fees due to economies of scale which may arise as schemes become larger in size. This feels less likely to materialise in the UK market as this is starting from a much lower cost basis leaving less room to decrease further (many schemes are already well below the charge cap and the average charge is 0.5%).
109. Therefore, it is not assumed that members will see increased costs as a result of the framework.

Cost to The Pensions Regulator

110. Any related costs to the regulator from the developing, implementing, and undertaking ongoing regulatory activity under the VFM framework would be drawn from TPR's existing budget. Further detail will be provided once the compliance regime and policy position has been finalised.

Costs to the Financial Conduct Authority

111. It is not expected the proposed measures will lead to any significant direct costs to the FCA, as supervision and enforcement of the proposed rules will be undertaken using existing resources, though this may indirectly result in costs related to opportunity costs/prioritisation costs. Further detail will be provided once the compliance regime and policy position has been finalised.

[192] https://www.gov.uk/government/publications/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022/workplace-pensions-and-automatic-enrolment-employers-perspectives-2022

Benefits

Benefits to Savers

112. The main beneficiary of the VFM framework is expected to be pension savers as their long-term retirement outcomes will be improved through being in better-performing DC arrangements than they would have been without the VFM intervention. Given the size of the DC market (£600bn and growing), even just small differences in performance may have a material impact on the market and individuals.

Performance

113. The largest quantifiable benefit to savers of the VFM framework is the improved investment performance delivered on their pots and contributions. This has the potential to deliver large benefits over a saver journey due to compound interest (as previously mentioned, investment returns can account for around 60% of final DC pot value). The benefit can arise through two impacts:
    a) **Removal of underperforming schemes** as those schemes who are underperforming on investment returns and across services and costs/charges may be removed from the market.
    b) **Improvement of investment by schemes** through putting an improvement plan in place to avoid being wound up alongside learning from best practise across the industry to be able to replicate asset allocations of schemes that have delivered good VFM.
114. The wide inequality in returns that currently exists in the market means that there is a high amount of upside potential in average investment performance levels if underperforming schemes were to improve or exit the market. Especially given switch rates by individuals and employers, as previously mentioned, are incredibly low at just a few percent.
115. As set out in the FCA consultation document[193], assessing investment performance is the first step in the assessment process given it is "critical to long term outcomes"[194]. The gap between the highest and lowest performing scheme has been 55% over the last 5 years, closing even part of this gap would deliver large saver benefits. This means that a saver with a pot of £10,000 would have notionally lost around £5,000 over a 5-year period from being in the lowest performing scheme compared to if they were in the highest.

[193] https://www.fca.org.uk/publication/consultation/cp24-16.pdf

[194] https://www.gov.uk/government/speeches/putting-savers-at-the-forefront-and-supporting-the-uk-economy

116. Using industry data (Corporate Adviser) which captures the performance across the largest pension schemes in the contract and trust market (which is also where the majority of assets and savers are), an indication of the likely impact can be estimated. Data shows a wide, and persistent, variation in gross investment performance. Table 7 below demonstrates how wide ranges in performance outcomes between the highest and lowest performing schemes have persisted over the past 5 years.

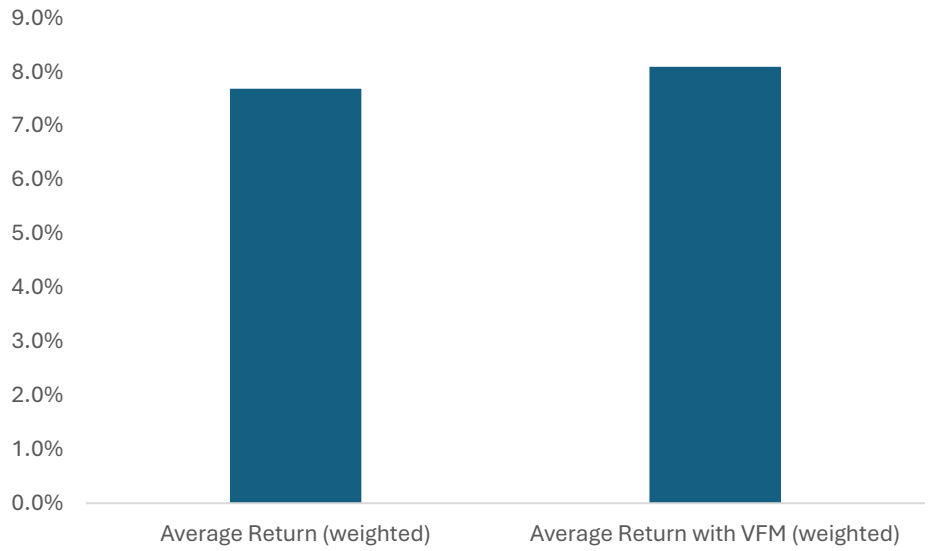
Table 7: The range in 5-year annualised investment returns for younger savers is large and persistent indicating pockets of significant underperformance in the DC market[195]

5-year annualised gross returns for younger savers	**Q3 2018**	**Q3 2019**	**Q3 2020**	**Q3 2021**	**Q3 2022**	**Q3 2023**
Highest Performing Scheme	12%	10%	12%	12%	10%	9%
Market Average	10%	10%	9%	9%	5%	5%
Lowest Performing Scheme	7%	5%	5%	6%	1%	0%

117. The table also shows persistent clusters of underperformance compared to the market average (for example, in most of the years above in Table 7, the average has been closer to the highest performer than the lowest performer indicating that a small proportion of schemes are significantly below the market average).
118. As a proxy for the policy intent of VFM, removing (or improving) those schemes identified as significantly underperforming (2 percentage points or more below average) would have pushed up market-wide average returns by 0.4 percentage points per year on average over the last 5 years (see Figure 8). This is a weighted market average by the number of savers with each scheme.

[195] https://capa-data.com/younger-saver-30-years-to-retirement-5-year-annualised-line/

Figure 8: Weighted average gross investment returns would increase from 7.7% to 8.1% if significantly underperforming schemes were removed from the market[196]



119. **<u>This 0.4 percentage point improvement becomes the key assumption in this Impact Assessment's monetisation of benefits</u>. For this reason, it has been strengthened through a variety of sources:**
    - As above, a 0.4ppt performance uplift would be achieved in the current DC market if schemes flagged as underperforming (defined as being 2ppts below the market average) were consolidated from the market or improved their performance to match the current average. While 2ppts is a somewhat arbitrary definition of 'underperforming', this is sufficiently below average performance levels to warrant attention, especially as UK and Australian schemes show persistence in their investment performance. This definition would lead to a similar proportion of schemes 'underperforming' as was observed in year one of Australia's performance test.
    - The scale of this performance uplift by removing/improving underperformers has changed over time but has persisted. As outlined in Annex B, the average uplift could have been as high as 0.6ppts in 2021 or as low as 0.1ppts in 2018. However, on average since 2018, this policy simulation has resulted in a 0.4ppt performance improvement at the market-wide level. Therefore, both the current and 5-year average exercise of removing/improving underperformers results in a 0.4ppt uplift to average market performance on average.
    - Removing those flagged as underperforming would also correspond to around 13% of schemes in the Corporate Adviser dataset of the largest UK Master Trust and

[196] https://capa-data.com/younger-saver-30-years-to-retirement-5-year-annualised-line / Q4 2023 CAPA data

Group Personal Pension schemes (or 15% of savers) failing the proxy 'test' applied here. This is similar to the proportion of Australian schemes that failed the Annual Performance Test in its first year (16%) giving us further confidence in potential size of the policy impact.

- As outlined in paragraph 35, key emerging findings from Australia finds an overall improvement in performance after the first few years of its policy. Average investment returns by 2023 were 0.4ppts higher than they were at the start of the policy initiative (defined as distance above benchmark, see Figure 5)[197]. This is likely as a result of the removal and/or merging of poor performing schemes (for example, in 2021 75 products were tested and this had fallen to 58 by 2023 as underperforming products had exited the industry; though other factors may be contributors too). No Australian schemes failed the performance test in its latest round, suggesting a new higher steady state has been established in the market that is around 0.4ppts higher than it was at the start of the policy initiative.
    - Australian members also benefitted from fees falling, with members of products that failed the test paying fees 20% lower than before. Whilst there may be less scope for charges to fall in the UK, due to them already being low because of competition and the charge cap, it is further evidence of the potential for net investment returns to increase due to the policy.
- **Therefore, numerous sources (such as proxying VFM policy intent using the latest industry data, average industry data over the last 5 years, and evidence from a similar policy in Australia whose pensions market is most similar to the UK) suggest that an incremental improvement of 0.4ppts to current average market performance is an appropriate central assumption upon which to monetise benefits. That is to say, 0.4ppts is a reasonable, evidenced expectation of how much higher the new 'steady state' levels of returns could be through promoting better value for money on pension savings.**
- Given the importance of this assumption, sensitivity analysis is applied in Annex B. Market impacts will depend on scheme behaviour, wider market performance, final policy details and potentially interactions with other Bill measures. This could mean the final impact is lower than 0.4ppts. Importantly, even in the 'low' scenario (where perhaps not all underperforming schemes 'fail' their VFM assessment initially, the policy creates herding which might counteract performance improvements, or there is

[197] https://www.apra.gov.au/insights-paper-2023-performance-test

a market-wide downturn), VFM policy is projected to deliver significant net benefits (£6.5bn, 2024 prices).

Setting up the calculation

120. DWP stock-flow forecasts of the DC market suggest the market being worth around £715bn in 2027. This is consistent with forecasts from external sources such as the Pensions Policy Institute (PPI) 2023 DC Future Book[198].
    - **Decumulation assets are subtracted -** £75bn is estimated to be in decumulation (outside the scope of the framework) by 2027. This is based on ABI estimates of £94bn worth of assets crystalised (but this also covers personal pensions which are out of scope)[199]. The Wealth and Assets Survey shows £50bn of workplace DC assets in decumulation as of 2018-20[200]. Therefore, an approximate midpoint of £75bn is taken giving a starting market size of £640bn by 2027.
    - **No VFM benefits arise from 2025-2026** as the policy is not yet live and would be still undergoing the legislative process.
    - **No VFM benefits arise in 2027** as this will be the first year of the policy so schemes will not have had chance to improve their VFM.
    - **Only those in growth phase of saving benefit -** Using ASHE data, the proportion of DC savers are modelled who are in the growth phase of saving. The 0.4ppts improved returns assumption applies only to growth phase assets. In 2022, 82% of active DC savers were in the growth phase (defined as savers being aged 22-54). DC schemes commonly apply "lifestyling" whereby assets for older savers are moved into safer assets, such as government bonds, at the expense of riskier assets, such as equities. Although VFM could support and increase investment returns for older savers too, as investment differences appear for this cohort too, a conversative approach is taken by focusing on younger savers where investment returns are of greater focus for schemes and where investment performance varies much more substantially.
    - **Decline in growth phase savers** is projected as the DC market matures and the average age of a DC saver increases. The share of savers in the growth phase of DC is projected to decrease in line with the average rate of decline over the past 4 years (0.5% per year).

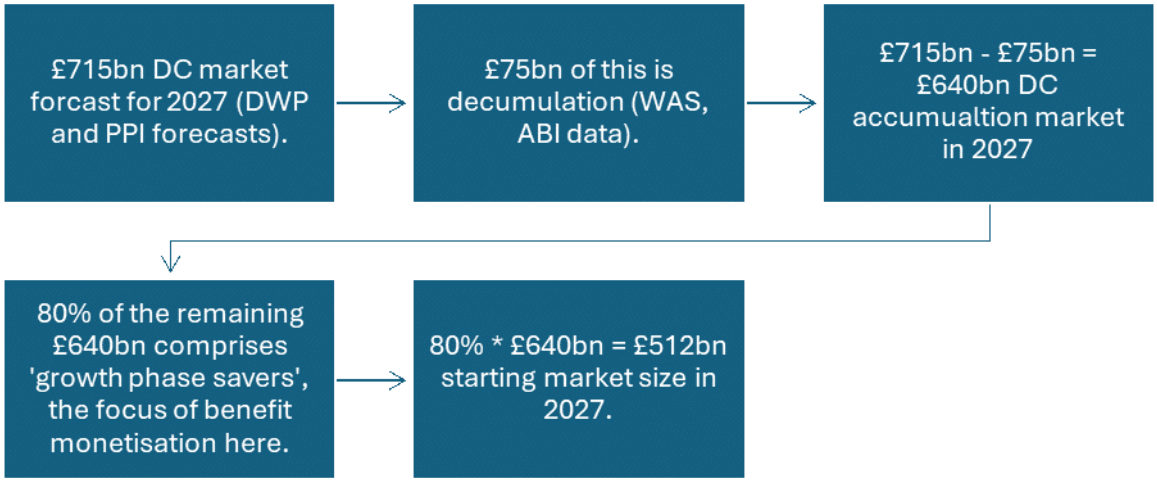
198 https://www.pensionspolicyinstitute.org.uk/media/xfybvxtq/20230926-the-dc-future-book-9-2023.pdf

199 ABI Retirement Income Data H1 January 2024 (https://www.abi.org.uk/data/data-packages/)

200 DWP estimates based on 2018-20 Wealth and Assets Survey

- These restrictions (80% of savers) are then multiplied by the assumed DC market size (£640bn) to have a starting in-scope market size of around £510bn, as outlined in the flow diagram below.

Figure 9: Flow diagram showing the derivation of the VFM framework starting 'in scope' market size



121. To account for improved investment performance as a result of VFM, from 2028-2031, average investment performance is estimated to increase equally over a 3-year period by around 0.13ppts per year (summing to 0.4ppts after 3 years). This means average investment returns increase incrementally from 7.7% in 2027 (the current market weighted average) to 8.1% by 2031. In line with DWP's Pension Charges Survey[201], charges are estimated at 0.5% and subtracted from the gross returns calculated above. This ensures benefits for members are calculated on a net basis.
122. With an assumed market size of £512bn by 2027, the DC market is modelled as growing under two scenarios, each presented in Table 8 below:
    a) **Counterfactual:** This is defined as current market performance continuing; there is no VFM framework and nominal, net investment returns remain constant over the appraisal period, at 7.2%[202]. This is then converted to 'real' growth by subtracting off OBR's forecast of average earnings. The DC market asset base is then uprated on this basis; averaging a 3.7% real return per year.
    b) **VFM Scenario:** With VFM, performance is projected to improve. This assumes net returns rise incrementally from their current 7.7% levels by 0.4ppts over a 3-year period to a new higher baseline over the remainder of the appraisal period. The

[201] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes
[202] This is based on the 5-year annualised investment return for younger savers being 7.7% in Q3 2023 from Corporate Adviser data. Adjusting for charges (0.5% based on DWP Pension Charges Survey), this means net returns have averaged 7.2% across the DC market over the last 5 years. https://capa-data.com/younger-saver-30-years-to-retirement-5-year-annualised-line/

incremental rise is supported by evidence from Australia; where performance gradually improved to a new steady state as opposed to a one-off step change. The same OBR average earnings forecast is netted off, and the DC market uprated on this basis; averaging a 4.1% real return per year, 0.4ppts higher than in the counterfactual scenario.

Table 8: Calculating the benefits of VFM through net investment return improvements

(all £ in bns)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Net Nominal Return (with VFM)	*No VFM benefits over this period (see paragraph 119)*			7.2%	7.3%	7.5%	7.6%	7.6%	7.6%	7.6%
Net Nominal Return (Counterfactual)				7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Real VFM Returns				4.9%	4.7%	3.9%	4.0%	4.0%	3.9%	3.9%
Real Counterfactual Returns				4.9%	4.6%	3.7%	3.6%	3.6%	3.5%	3.5%
DC Growth market with VFM				£535	£562	£588	£611	£636	£661	£687
Counterfactual DC Market				£535	£562	£587	£609	£631	£653	£676
Difference (VFM impact)				-	-	£1	£2	£5	£8	£10
Cumulative Total				Total of £26bn greater investment returns via VFM						
… of which additional charges revenue to schemes							£0.01	£0.02	£0.04	£0.05
				… of which £130m is additional charge revenue to schemes (0.5%)						

123. Comparing the size of the DC market under the VFM proposals against the counterfactual shows the extent of potential benefits available through improved investment performance: Benefits compound over time and sum to £26bn (£20bn NPV) over the 10-year appraisal period. That is, the DC market could be £26bn (£20bn NPV) greater under the framework

compared to the counterfactual where performance is constant and does not improve. **As explained in Table 2a, this is categorised as a direct benefit to members.** While a very large figure, this is against a backdrop of a £700bn projected DC growth phase market by 2034. The assumed investment return improvements of just 0.4ppts over 3 years results in a growth phase market that is £11bn larger by 2034 (cash terms) – this is under 2% of the entire assumed market size. This simple stock-flow analysis also does not account for additional contributions or within-market acquisitions, which may further affect future market growth, therefore overall benefits may be underestimated. The above approach is similar to that taken by FCA analysts in their published cost-benefit analysis of their August 2024 consultation document[203].

124. In Annex A, an alternative 'bottom-up' methodology is estimated to validate the central estimates, which arrives at a similar cumulative benefit figure.
125. In Annex B, sensitivity analysis is presented around this key investment return assumptions, presenting a VFM upside and downside depending upon the ultimate impact on returns (which cannot be known in advance). In particular, even a 'downside' scenario where returns are not improved by 0.4ppts (for example if the policy leads to herding, there is a market downturn or not all underperforming schemes are captured by VFM assessments), large net policy benefits remain as standards should still be driven up to some extent which outweighs the cost burdens of the policy.
126. In Annex C, a case study using the DWP's IPEN model is presented. This models how a median earner's DC pot would result in just under £1,300 more to spend in retirement each year as a result of a saving into a better performing DC market over their working life (by improving the 'baseline' return assumption by 0.4ppts, as per this Impact Assessment's central assumption).
127. Each of these robustness checks confirm the potential for VFM to deliver large net benefits to members.

Benefits to Pension Schemes

128. Pension schemes will also benefit from this improvement due to the way fees are structured in the market.
    - Members are charged an 'annual management charge (AMC)' on their investments that covers the cost of the pension scheme investing member contributions.

[203] https://www.fca.org.uk/publication/consultation/cp24-16.pdf

- AMCs are set at a % of pot value. As pot sizes increase through improved investment returns, this would mean that pension schemes extract a higher amount of revenue from member contributions as a result of improved performance compared to if schemes did not improve performance (the counterfactual).
- The benefit to pension schemes is classified as a direct benefit to schemes, since increased charge revenue would be early in the logic chain of policy impact and a first-order effect of improved performance across the DC market (as higher charge revenue would automatically and immediately stem from improved performance).
- Using Table 8 above, despite being on a net returns basis, calculating 0.5% (the average charge in the DC market) of the difference in annual market size between the VFM and counterfactual scenarios would result in £130 million (£100m NPV) higher charge revenue in the VFM scenario. This is a rough proxy of additional charges revenue schemes may see in a VFM world. It also shows the benefits of aligning interests and overcoming potential principal-agent problems – focussing on improved value and improved returns brings benefits both to savers and to schemes offering good value.
- This means the majority of VFM improvements will benefit members directly – through larger pots earning greater returns. However, schemes will also benefit through a larger market meaning more member-borne charge revenue. These benefits will continue to increase over time as pensions are a long-term saving vehicle and the compounding effect will mean revenues could increase significantly beyond the 10-year period assessed.
- **The crossover/breakeven point - where the direct annual ongoing costs to pension schemes are superseded by the additional charge revenue benefit pension schemes are estimated to receive - comes in Year 9 of the appraisal period** (i.e. 2033 is where the framework is estimated to become a direct net benefit to pension schemes, see Table 9). This is due to ongoing costs falling (as fewer schemes remain in the market and the framework becomes embedded) and charge revenue increasing (due to the compounding of improved performance). This shows the importance of aligning incentives between principal and agent and that it is in pension schemes' long-term interests to improve performance, allowing both schemes and members to reap net benefits from the VFM framework.

Table 9: The annual direct benefits to schemes (of higher charge revenue as performance improves) are estimated to supersede annual direct ongoing costs to schemes by the penultimate year of the appraisal period

(£m, constant prices)	2026	2027	2028	2029	2030	2031	2032	**2033**	2034
Direct ongoing **costs** to schemes (£m)	£66	£59	£52	£46	£41	£36	£38	**£28**	£25
Direct charge revenue **benefits** to schemes (£m)	£0	£0	£0	£0	£4	£12	£24	**£38**	£53

Reduced Costs to members

129. As in the 'costs to members' point, any direct impact on costs due to potentially offsetting factors of fee-reducing (such as consolidation, market developing scale) versus fee-increasing (such as pursuing more diverse investments) impacts are not monetised. In addition, as previously outlined, the UK currently has very low pension fees that already operate significantly below the 0.75% charge cap. It is therefore reasonable to expect there may be no further reductions in charges and the main policy benefit for members will come through higher returns as the market focus is shifted away from low cost and onto value.

Benefits to Employers

130. Benefits may accrue to employers through the VFM framework's impact on the switching of pension schemes and by facilitating comparisons.

- Current evidence finds very low instances of employers actively considering their DC pension scheme and switching to a better performing one – only 5% of employers offering a DC pension had done so[204].
- The transparency and availability of information regarding pension schemes as a result of the VFM framework will increase competition across DC and may increase the rate (or threat) of employer switching as they become notified that they are enrolling their employees into a poor-performing, low value scheme. This could further deliver improvements on investment (and wider services) to members.
- Currently, the cost and convenience of scheme dominate employer decision-making. The transparent and potentially high-profile nature of the VFM framework may help decision-making as employers place a greater weight towards VFM assessments, further increasing switching rates.
- Switching, or threatening to switch, could mean employers find a better deal on charges and/or are able to give greater benefits to employees as a result of doing so, such as higher contributions.
- The increase in transparency of information should make finding comparisons across schemes much easier, saving search times/costs for employers.

131. However, given the absence of available evidence to assess this and it being highly dependent on behaviour change, this is not monetised.

Services

132. The VFM framework aims to improve services offered by pension schemes, especially in the longer term, by encouraging greater engagement with savers. If the VFM framework increases the rate of consolidation then schemes may increase their service provision to provide better VFM for their members.
133. For the VFM framework, service outcomes will be measured by a series of metrics aiming to measure how schemes offer value against five outcomes:
    - Savers can be confident that transactions are secure, prompt, and accurate.
    - Savers are satisfied with the service they receive.
    - Savers are supported to make plans and decisions as they near retirement[205].
    - Savers can amend their pension with ease.
    - Savers are supported to engage with their pension.

[204] https://assets.publishing.service.gov.uk/media/6501971439d9f1000d3d3a37/dwp-employer-survey-2022-report.pdf

[205] As outlined in, https://www.fca.org.uk/publication/consultation/cp24-16.pdf , "we may in the future extend the Framework, for example to decumulation. The proposed inclusion of a decumulation-related metric here does not imply we consider it appropriate for a Framework extended to decumulation. A different set of metrics would need to be considered and consulted on."

134. These metrics were developed working with industry, through consultation and working groups, using the valuable feedback provided on how these metrics matter to saver outcomes. Each of the five outcomes are important to savers, through ensuring that their pension can be transferred securely and promptly when needed, that savers are satisfied when dealing with their scheme, that savers are supported to make informed decisions when planning for their retirement, that information about their pension is easy to access, engage with, and make changes to where appropriate.
135. VFM assessments and reports should ensure schemes pay greater attention to their service quality as each of services, investments, and costs will receive equal weighting in the assessment process with data on each of these metrics behind centrally available and accessible via a URL hosting.

Engagement

136. Greater transparency and improved governance may help increase engagement and consumer value understanding of both already and newly engaged savers. This may, in turn, help reduce the risk of being invested in poor VFM or underperforming schemes. The policy goal of fewer, larger, and better-performing schemes (where in the members best interest) will also mean an improvement in scheme governance and scheme service quality which should help improve service design and delivery for scheme members, in addition to the experience of engaged savers through the availability of better-quality pension information.
137. In the longer term, it is envisaged the VFM framework being increasingly member-focussed such that VFM results will feature on pensions dashboards. The policy intent to become more member-focussed over time could further increase engagement by being easily accessible at one point of contact together with all other private and state pension information.

Risks and assumptions

138. Key risks and assumptions have been covered throughout the IA. The main areas of risk are listed and RAG-rated below (Red = significant analytical/policy risk or significant driver of IA modelling; Green = low impact risk or assumption and/or unlikely to significantly impact IA modelling):

Analytical risks/assumptions:

- **Investment Returns (Red):** A 0.4ppt improvement in performance is the key driver of benefit monetisation. Multiple sources verify this estimate (current and past UK industry performance ranges, impacts from the equivalent policy impact in Australia) and show clear evidence of underperformance in the DC market. While investment returns are uncertain and market-dependent, Australia's performance test framework suggests this should help remove or improve low-returning schemes, suggesting a performance uplift around this magnitude is a reasonable assumption. Sensitivity analysis confirms significant net benefits remain robust to different levels of investment returns impact, for example if the market-wide performance uplift were lower.
- **Data and data assumptions (Amber):** Industry costs in this Impact Assessment are extrapolated from a representative FCA-led survey of contract-based providers. Due to evidence gaps, it is assumed these costs are similar to those faced by Trust-based schemes. Many schemes operate in both markets with similar structures and business models, making this a reasonable assumption. This data, directly from schemes, gives added confidence in the cost estimates, which will be further refined at the secondary legislation stage as the policy is finalised.
- **Pessimism Bias (Amber):** There is a risk that schemes have overestimated their costs due to uncertainty about final policy details or a desire to reduce regulatory burdens. Consequently, cost estimations may be higher than what schemes will actually face. Each of these two ‘Amber’ risks are tackled using cost sensitivity analysis in Annex D.

Policy risks/assumptions:

- **Herding (Red):** In Australia's DC market, a similar Value for Money (Performance Test) framework led to 'herding,' where schemes invest in similar, safer assets to guarantee being assessed as "performing." This reduces innovation and dynamism, potentially dragging high-performing schemes closer to average levels and creating systemic risks as investments gather in similar assets. Herding would cluster performance around average levels; while this may uplift low performers, if it stifles otherwise high performing schemes, then this would reduce the net benefits on offer from VFM.
  To mitigate this, VFM policy development has learned from engagement with Australian counterparts. VFM currently includes no benchmark index against which schemes are assessed and a 'forward-looking metric' is also in development so schemes can demonstrate expected future performance from recent strategy changes and innovations,

rather than the VFM assessment being purely backwards looking. Schemes can also contextualise their investment strategy and present risk-based metrics, further promoting and protecting innovation and risk-taking. Each of these should mitigate a material risk of market herding but this remains a red risk given its potential impact.

- **Self-assessment does not work (Amber/Green):** Asking schemes to assess their own performance may lead to self-interest and underperformance not always being captured. However, strong regulatory powers and close monitoring of data/assessments should minimise this risk. As VFM data becomes live and accessible, defined benchmark performance criteria are expected to be introduced to reduce the subjectivity in assessments, mitigating this as a long-term policy risk. Any introduction of benchmarking would be applied to avoid herding as much as possible, having spoken to and learned from Australian policymakers (as above).
- **Final policy details (Green):** The full impacts of VFM are uncertain as policy details are yet to be finalised. The FCA's August 2024 Consultation Paper gathered feedback to refine the policy framework and its metrics. Any changes are unlikely to alter the overarching agreed policy objectives or the potential benefits for a better-performing DC market. Full policy details will be specified at the secondary legislation stage to maintain flexibility.

Small and Micro Business Assessment

139. This assessment is laid out as follows: context, exemptions, proportionality and mitigations. This helps to best understand the impact on small and micro businesses in relation to the VFM policy proposals.

Context

140. The VFM framework is focused on pension schemes (rather than on wider businesses and employers). The costs of the framework accrue to pension schemes, while benefits largely go to individual savers within these schemes. Pension schemes differ from many businesses as they may hold significant assets but not necessarily employ many people. Policy development has considered the impact on small and micro pension schemes throughout.
141. To be consistent with the Pensions Dashboard Impact Assessment[206], as well as with other Pensions Scheme Bill Measures, **Small and Micro businesses are defined as DC**

[206] Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

schemes with fewer than 1,000 members, though this definition isn't perfect as scheme size and employer size don't always correlate. Importantly, trust-based schemes can be set up by both smaller and larger employers, with a trend of smaller employers using Master Trusts for workplace pensions to minimise costs and improve governance.

Exemptions

142. Micro schemes, those with fewer than 12 members, are proposed to be exempt from the VFM framework due to their operational differences and existing requirements (which already differ to non-micro schemes). This exemption aims to reduce burden on these schemes and is based on proportionality grounds.
143. Further exemptions, on proportionality grounds, have been applied within schemes. For example, VFM assessments will be required to be completed for all default arrangements that a pension scheme has (a scheme can have more than one arrangement, and it is important each of these provide value). However, policy design has exempted smaller default arrangements with fewer than 1,000 members in them where this is not the schemes' main arrangement. This exemption is on proportionality grounds given the cost evidence of VFM compliance and is consistent with the definition (fewer than 1,000 members) adopted in this and other Pension Schemes Bill impact assessments. This ensures the vast majority (over 80%) of members in pension schemes' main default arrangements are captured by the policy objectives of the VFM framework.

Proportionality

144. **Small schemes, defined as having between 12 and 999 members, are in-scope of the VFM requirements**. This is because:
    - **Around 71% of non-micro pension schemes are 'small schemes'** with fewer than 1,000 members. Given their significant presence in the market, it is proportionate to include these small schemes in the VFM requirements to ensure they are providing value to the members within these schemes and deliver consistency across the market.
    - As detailed below, **small schemes were found to have lower one-off and ongoing costs** of complying with the policy framework compared to larger schemes. This is because they are often less complicated products with fewer default arrangements than larger schemes. Therefore, it is unlikely that small schemes should face disproportionate cost compliance burdens from the policy.

- It is **important that members within these smaller schemes receive value for money on their pensions savings**. The VFM framework aims to identify underperforming schemes and drive-up performance levels across all scheme sizes. As detailed in Table 11 below, **large benefits exist for members in these smaller schemes**. More widely, **small schemes themselves can benefit from inclusion in the VFM framework** by learning from best practice, competition and improved performance levels generating higher charge revenue for them. Indirect benefits available to small schemes and businesses from the VFM requirement (reduced search costs, improved transparency, better functioning market) further justifies their inclusion within the legislation.

Understanding the cost and benefit impacts to small schemes

145. The same monetisation method as in the summary Impact Assessment has been applied to understand the impact on small schemes.
146. **Small schemes have an estimated £80,000 one-off costs, leading to an estimated £60m in** small and micro business **one-off costs** (£80,000 multiplied by the 700 estimated number of small schemes by 2025). This is a lower per scheme cost than was found for larger schemes in the main body (Table 3).
147. Small schemes accounting for 71% of the total number of schemes in the market is maintained over the modelled appraisal period as market consolidation is occurring at all scheme sizes. While VFM/other Bill measures may lead to different consolidation rates by scheme size, the extent of this cannot be known in advance, so the 71% is maintained.
148. Small schemes that provide value will remain in-scope of the VFM framework over time and therefore face ongoing costs of complying with VFM policy proposals. **These ongoing costs are estimated to be around £65,000 per scheme per year**.
149. As the DC market is projected to consolidate over the 10-year appraisal period, total ongoing costs for small schemes are projected to decline as fewer remain in the market (rounded to the nearest 10). Ongoing small and micro business costs are projected to fall from £40m to under £20m over the appraisal period (constant prices).

Table 10: Small and Micro Business assessment – ongoing costs:

Year	Total schemes estimated to be in scope	…of which small	Estimated costs to small schemes (£m, constant prices)
2026	880	620	40
2027	780	550	40
2028	690	490	30
2029	620	440	30
2030	550	390	30
2031	490	350	20
2032	440	310	20
2033	390	280	20
2034	350	250	20

150. **The inclusion of smaller schemes in the policy can be expected to benefit them as best practice is shared across the market and overall performance is driven up at all scheme sizes, benefiting members**.

151. Smaller schemes (defined as those with fewer than 999 members) accounted for 1.2% of DC trust market assets in 2024[207]. This had fallen from 8% of assets in 2018 as trust-based assets have become more concentrated in larger, Master Trust schemes.

- Assuming that the proportion of DC assets held by smaller schemes falls to 1% (as future paces of consolidation at different scheme sizes are not known and there may be some diminishing of consolidation at the smallest scheme sizes), the same benefit monetisation can be carried out as in the main body.
- This is presented in Table 11 below where the 'Assets in small schemes' market grows by 0.4ppts per year faster than it does in the counterfactual scenario where these smaller schemes do not improve their performance (the same performance uplift as explored in the main body as improvement should occur across all scheme sizes).
- **Over the 10-year appraisal, this means there is £320m (£240m NPV) additional money in these schemes compared to the counterfactual where performance does not improve (sum of 'VFM Benefit to members' line).**

[207] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023#4eeb8459a6f04b9e9aa502cd925009e7

- **The vast majority of these benefits are direct benefits for members** (not to small schemes directly, but members in these schemes) as they are the ultimate asset owner. However, smaller schemes will also see increased charge revenue on these improved returns, estimated at around £1m over the appraisal period (sum of VFM benefit to small schemes' line).
- This assessment has used the Regulatory Policy Committee/Department for Business and Trade's Impact Assessment calculators to assess a small and micro business-specific EANDCB in Table 12. This shows a £31m equivalent annual net direct cost to small businesses. Importantly, as with the wider impact assessment, it is the members within these small schemes who benefit most from the VFM framework, justifying the inclusion of small schemes within the framework.

Table 11: Small and Micro Business - Benefits of improved returns to smaller schemes sees assets grow faster with VFM compared to the counterfactual where returns do not improve from current levels

(£mn, constant prices)	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**Total Benefit**
VFM: Assets in small schemes	£6,500	£6,800	£7,200	£7,500	£7,800	£8,200	£8,500	
Counterfactual: Assets in small schemes	£6,500	£6,800	£7,100	£7,400	£7,800	£8,100	£8,400	
VFM Direct benefit to members in small schemes (£mn)	£-	£-	£-	£-	£100	£100	£100	**£320m benefit to members in small schemes**
VFM Direct Benefit to small schemes (£mn)	£-	£-	£-	£-	£-	£-	£1	**£1m benefit to small schemes**

Table 12: Small and Micro Business Assessment EANDCB – direct costs and benefits to small businesses

Impact	Overview	Cost/Benefit to small businesses (2024 prices summed over appraisal period)
One-off costs	Small schemes familiarise with legislation and implement systems	£70m
Ongoing costs	Small schemes comply with the annual VFM requirements	£240m
Total direct costs to small business are £310m (£31m per year)		
Higher charge revenue	Small schemes see higher charge revenue from improved returns on member pots.	£1m
Total direct benefits to small businesses are £1m (£0.1m per year)		
EANDCB to small schemes = £30m cost per year (2024 prices)		

152. The measures can also be expected to support small and micro businesses indirectly through the availability of information, helping to reduce search costs. For example, the measure represents a £31m annual cost (in EANDCB terms) for small/micro pension schemes. However, this delivers a benefit to all members of small schemes as well as to small and micro businesses across the economy through providing more consistent and timely information on the pension market. This creates benefits for employers when selecting or switching pension schemes. These benefits are not captured but could be significant; therefore, making the measures proportionate.

Mitigations

153. Given the policy detail and cost estimates received from schemes, it is not believed that smaller schemes should face disproportionate costs as a result of the VFM framework and they (and their members) should still stand to benefit from the policy. Nevertheless, several mitigations have been put in place to ensure that both small and micro pension schemes are considered appropriately in the policy development process:

154. Through working closely with industry, it has been possible to balance the framework's requirements with the additional burdens it may generate. Industry feedback indicates that pension schemes, including small schemes, will be able to comply with the VFM data metric requirements without undue burden. Smaller schemes are also often less complex than larger ones (for example, with fewer default arrangements and/or less complicated products), making it easier and more cost-effective for them to comply with the regulations.
155. To further minimise the burden on smaller schemes, the VFM framework will in time replace elements of other existing regulations, such as the Value for Members assessment and Disclose and Explain. This means that although the framework may generate additional costs, these should be partially offset by reductions in costs and regulatory requirements elsewhere.
156. The VFM framework aims to help smaller schemes understand their value more transparently. This transparency allows them to assess whether consolidating into a GPP/Master Trust would be more cost-effective than running their own scheme in the medium term. Currently, this information is either unavailable or not in a standardised format for employers to make accurate assessments.
157. The policy has also been adapted to exempt micro pension schemes from the requirements on proportionality grounds and in line with standard policy practice, given their operational differences and existing requirements. However, it is also appropriate for members to benefit from the inclusion of smaller pension schemes. Where smaller schemes may be underperforming (and there is a strong link between size of pension scheme and costs/charges and governance), it is appropriate for VFM to capture any underperforming smaller schemes to drive improved performance.
158. Smaller schemes could choose to consolidate their pension scheme into a Master Trust, avoiding the cost, if they deemed this to be of greater value. This would reduce the cost on smaller schemes.
159. Overall, given their significance in the market, the evidence on cost burdens and the importance to deliver consistency across the DC pensions market, it is proportionate that small schemes be included in the VFM framework requirements. This ensures that members at all scheme sizes benefit from receiving better value on their pension savings and that small schemes benefit from the promotion of transparency, knowledge sharing and competition that the VFM framework seeks to engender.

Wider impacts

160. The VFM framework is expected to have a material difference on the DC workplace pension market and is expected to support the wider aims to support economic growth and investment in the UK. These impacts are discussed in more detail below.

Better investments, higher growth and deeper markets.

161. By promoting a greater focus on investment classes and investment performance, savers may benefit through improved returns. A greater focus on investment returns may lead to a wider set of asset classes being sought after by pension funds, including infrastructure and other private market investments. As a result, capital markets and private companies may benefit through larger pools of capital becoming available. Although these investments could be global, schemes will also need to disclose their asset allocations by geography. This may nudge schemes to increase scheme allocations to UK markets. This could further help UK capital markets see greater liquidity, help UK start-up companies receive UK-based risk financing and see pension funds becoming key owners of critical infrastructures and assets.

Consolidation

162. The DC Trust market has been consolidating over time with the number of schemes falling by around 10% each year since 2012[208]. This has resulted in a fall from around 3,660 schemes in 2012 to 920 in 2025. Over the same period, the assets held, driven by the rollout of Automatic Enrolment, has been rapidly rising (a nominal increase of more than 825% since 2012 to £205bn). VFM will help contribute to consolidation in the DC pensions market as it will give the Pensions Regulator new powers to wind up schemes which are not taking adequate steps to achieve value for money – a measure which should accelerate consolidation. This has been notable in Australia which has continued to see consolidation into a small number of pension schemes.
163. There are a number of ways in which consolidation in the pension market could have wider impacts and benefits. Evidence shows:
    - **Governance:** There is a positive relationship between size and governance, such as research by TPR showing larger pension schemes are more likely to meet key

[208] https://webarchive.nationalarchives.gov.uk/ukgwa/20250115145526/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023

governance requirements[209]. Analysis by DWP has shown that an average earner could have £3,000 more in their pension pot as a result of moving into a large master trust scheme due to lower costs[210].

- **Charges:** Research by DWP has shown the larger the pension scheme the lower the charges, on average[211]. This is further supported by PPI analysis showing lower expense ratios in Master Trusts (compared with single employer trusts) due to economies of scale[212].
- **Investment opportunities:** There is some evidence better value, larger schemes may increase their investment in productive assets given they will have more expertise and can afford the higher fees compared to smaller schemes or negotiate better terms. This can lead to more investment in productive finance[213].

Cultural shifts

164. Cultural shifts in the workplace DC pension market may arise as a result of publishing and highlighting a more holistic approach around pension saving. This is aimed to encourage employers and industry to move away from a pure cost-driven approach and instead place a greater focus on investment returns (which make a greater difference to member outcomes) and overall value for money being delivered. As a result, there may be greater competition amongst DC schemes when looking to secure new employer business to increasingly revolve around VFM scores over and above just the costs.
165. Additionally, the extra transparency may lead to greater numbers of employers switching pension scheme recognising the wider VFM benefits they may be able to achieve from moving. This may also be encouraged by engaged employees who will have more information to understand how their pension scheme compares.
166. This may also lead to greater diversification of investments made by pension funds. Currently, a large majority of the DC market invests passively in pooled global listed equity tracking indexes. A wider effect of the comparative nature of the VFM framework is that it may promote more innovative, direct and productive investment strategies that could improve member outcomes (through greater performance and diversification), result in

[209] https://webarchive.nationalarchives.gov.uk/ukgwa/20200102111009mp_/https:/www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-research-summary-report-2019.ashx; and https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-trust-based-pension-schemes-research-report-2022.ashx

[210] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market

[211] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

[212] https://www.pensionspolicyinstitute.org.uk/media/xfybvxtq/20230926-the-dc-future-book-9-2023.pdf

[213] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2023/PLSA-policy-position-on-pensions-and-growth-October-2023.pdf

greater scheme revenues (by how fees are structured) and benefit the UK economy (through UK companies receiving more domestically sourced risk capital).

Innovation

167. The VFM framework will increase transparency and competition across the market. As a result of this, best practice can be shared among schemes (for example on asset allocation) and greater innovation in the market should follow. By driving a focus away from purely cost and onto overall value, this should allow innovation to be more freely pursued as this may be costly in the short-run but ultimately improve overall value. The VFM framework has also been carefully designed to not stifle the pursuit of new, innovative strategies by DC schemes. For example, investment performance and 'J-curve' effects can be contextualised in VFM reports where innovative strategies may take time to show through in performance figures.

Economic Growth

168. A DC market competing on value and investing more productively in certain asset classes (such as infrastructure and other private market investments) may help wider UK economic growth[214]. Improved risk-adjusted returns compound over time which could mean leaving members with larger pots at retirement to spend in the economy (estimated at just under £1,300 extra per year in retirement, see Annex C). Better, more diversified investment strategies can target high-potential growth companies to access domestic risk capital to scale-up and become key players, employers and contributors to the UK economy and financial markets. Deeper capital markets, improved returns and a changed focus from cost to value may help grow the overall size of the economy and can help establish a virtuous circle that increases the UK's national investment levels.

Monitoring and Evaluation

169. Given the significant changes the regulations may result in for some schemes, it is recognised the importance of a strong monitoring and evaluation plan. The VFM framework will be evaluated once it has come into legislation. The first review would be undertaken within 5 years of implementation, with implementation in this case being defined as publication of scheme assessments. Given that pension policy and administration operate within a wider UK framework, the Department will be informed by

[214] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy

monitoring and evaluation undertaken by DWP, supported by consideration of NI specific impacts and outcomes.

170. TPR will continue to monitor the performance and regulatory compliance of trust-based DC pension schemes and the FCA will continue to monitor the performance and regulatory compliance of contract-based DC pensions schemes. This will be done in a number of ways, including:
    - **Analysing the VFM returns** which schemes must provide to understand historical data and help assess the performance of the market. Government, FCA and TPR are working together to ensure that these data disclosures can be easily accessed and monitored. As part of regulators' supervision of schemes, this will be crucial to understand compliance, whether self-assessments are working, and the level of detail is sufficient and transparent enough to support comparisons. This will also be critical in monitoring and evaluating policy detail (e.g. whether thresholds are set at appropriate levels) and policy objectives (are members getting better value for money). Returns can also help monitor whether policy specific thresholds remain appropriate or if they require review.
    - **Monitoring interactions with other Pension Schemes Bill measures** – VFM is a large policy initiative that will be legislated for as part of the 2026 Pension Schemes Bill. The Bill has a wide scope of measures with several DC policies that may interact when in operation and impact the market or on other policy areas (for example on DC megafunds, guided retirement and small pots). The analysis for these impact assessments has assumed no cross-policy interactions due to uncertainty however continual data monitoring and industry engagement will help make clear whether and how policies are interacting and impacting, and whether specific policy details need to be amended on the back of that.
    - **Use existing surveys** such as TPR DC Scheme Survey to check understanding and compliance levels across the DC market.
    - **Monitoring investment performance** across the industry through using key existing sources, such as Corporate Adviser.
    - **Potential quantitative surveys and qualitative research** with schemes and employers to understand the impact on their business and members, whether it has encouraged switching in the market, whether it has changed behaviour and how members have been impacted.
    - **Qualitative research with members** to understand their awareness of VFM and any experiences of being switched pension fund as a result of their scheme failing a VFM

test. This will be important to ensure schemes are appropriately transferring members, and they are being communicated with and receiving greater performance and services as a result of the change.

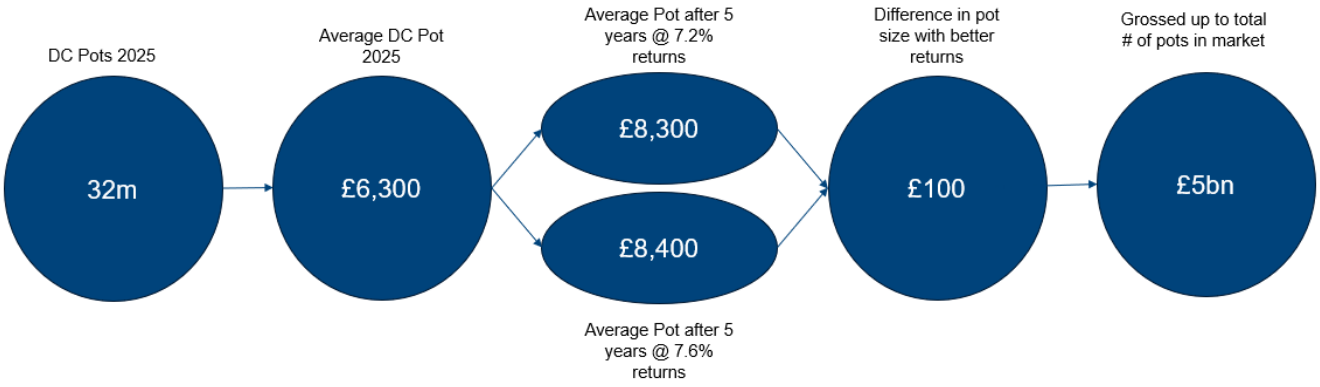
- **Stakeholder roundtables and engagement** to hear feedback from industry and help adapt the policy as the details are developed.

171. This will all be supplemented by continuing to engage with industry, particularly through a second consultation once further policy detail is finalised. This will aim to minimise the burden for schemes in scope. The Department does not want to create unnecessary administrative burdens on schemes which will take resource away from their ability to provide good VFM for their members. Therefore, the Department is committed to keeping industry communication open and learn from experience through different phases.
172. Once the regulatory regime has been implemented, any work conducted will form part of the regulators' 'business as usual'. It is expected that the regulators will seek to take a risk-based and sectoral approach, in addition to scheme level oversight, setting appropriate internal thresholds to target non-compliance of schemes under the framework. This will ensure that TPR and FCA are able to maintain an appropriate level of regulation across their other ongoing duties as well as upon the newly established VFM framework.
173. Discussions across TPR, FCA and Government continue on the involvement in the processing of data metrics and VFM assessment publications, as well as ensuring automated penalty fines are issued for non-compliance. This is not an exhaustive list however initial considerations which would include: Customer Services, Front Line Support, Regulatory Transactions, Relationship Supervision (Master Trusts) and Frontline MI and Analysis.
174. Where VFM assessments are submitted and meet internal risk criteria, it is expected a form of internal escalation will begin to investigate and, if necessary, escalated onto an enforcement journey. Due to the nature of the various forms of investigative and enforcement action that TPR takes, an additional layer of risk appetite will likely be required to assess the identified concerns and determine if there is justification to utilise internal resource to address those concerns at this time. Assessing cases in this manner ensures that the more serious breaches are prioritised.

Annex A: Alternative ways of modelling VFM return benefits

The proposed modelling approach set out in the 'benefits' section made use of clear, data-backed assumptions to model what a DC market could look like in the future through the benefits of higher average investment returns. This took the latest, and best available, evidence from the largest UK DC schemes and from the Australian DC market to decide what a plausible scale of return improvement might look like through the removal or improvement of poor performing schemes. To validate the IA findings of £26bn cumulative benefits over the 10-year appraisal period, an alternative "bottom-up" approach is used to confirm the magnitude of the potential benefits. This approach takes the average DC pot size in 2024 and the current total number of DC pots in the market. These are £5,800 and 28.8m respectively:

i. Multiplying these two numbers together gives an indicative DC trust-based market size of £168bn across the UK.
ii. Assuming the average DC pot (£5,800) grows by current weighted average net investment return levels calculated in the benefits section (7.2%) for 5 years and comparing this to an average pot of the same size that grew by 7.6% as a result of VFM.
iii. This results in an average pot over £100 larger after 5 years in the VFM scenario.
iv. Multiplying this improvement by the projected number of DC pots in 2025 (based on past growth rates of 11% per year) would result in £5bn worth of VFM benefits over the modelled period.



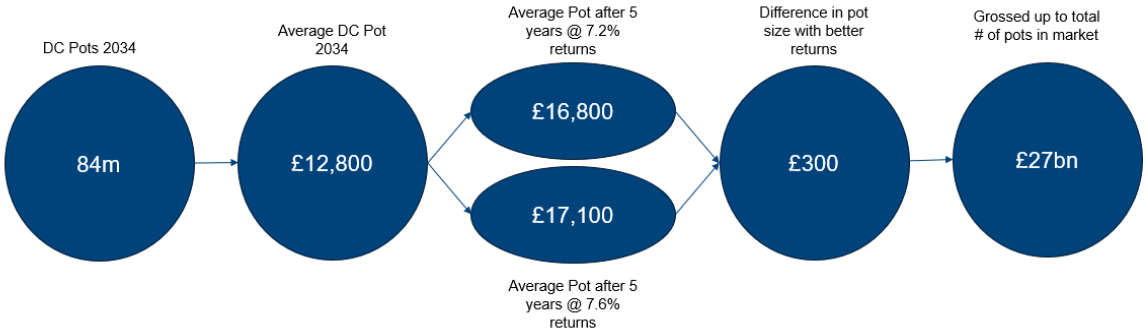
To compare the methodologies like-with-like, the current pot number and value is uprated using historical growth levels (increasing average pot size by 8% and total memberships by 11% based on their 5-year growth rates[215]). This results in an average DC pot of £12,800 in 2034 and 85m pots.

[215] https://webarchive.nationalarchives.gov.uk/ukgwa/20250115145526/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023

v. Assuming the £12,800 earns 7.2% investment returns for 5 years, this would result in £16,800 worth of investment returns compounded over 5 years. With 7.6% returns, investment returns would be £17,100, over £300 higher.

vi. The impact of this extra £300 return spread across the projected number of pots would be £26.8bn. This is close to the main estimate of £26bn in the main body of the Impact Assessment (this estimate is slightly higher by not making allowances for assets in decumulation or in the de-risking stage).

This highlights a bottom-up approach and top-down approach both estimate similar level of overall benefits.



Annex B: Sensitivity analysis around the extent of improved investment performance

The investment returns assumptions are highly uncertain and make a significant impact to the result. Although based on a wide range of evidence, further work has been undertaken to explore the sensitivity around this. For example, using the last 5 years' worth of CAPA data on 5-year annualised investment returns for younger savers allows comparison across the largest pension schemes. The biggest underperformers (defined as being 2 percentage points below average) are then removed from the calculation to model improved DC market performance as a result of poor performing schemes exiting the market (or improving their offer to match the wider market). This is the 'post VFM' average presented in Figure 10 below.

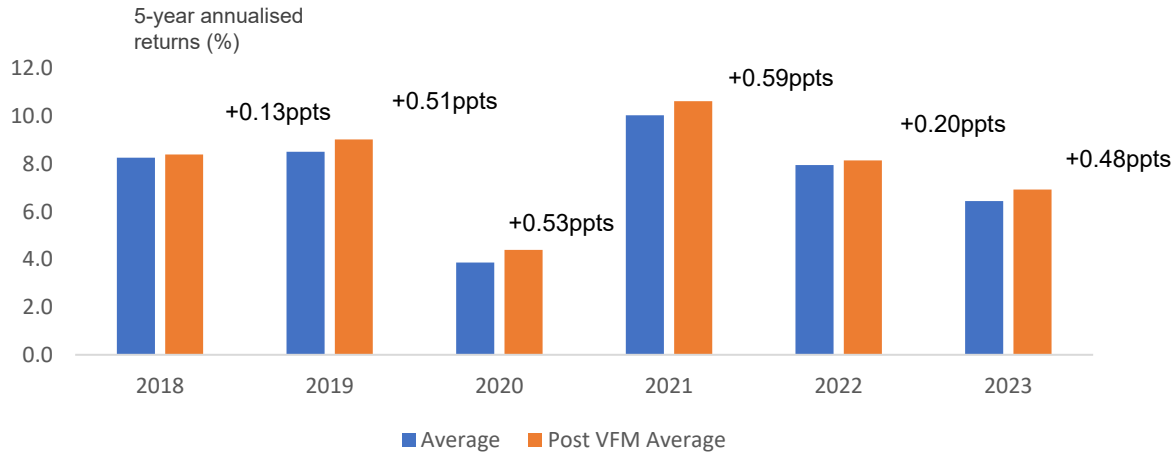
This approach yields an average uplift to investment returns of 0.4 percentage points. This is an effect size consistent with evidence from Australia, and it therefore appears a reasonable estimate upon which to model potential VFM benefits across the UK DC market.

However, variation remains and the final impacts of the policy cannot be known in advance:

- **In a low VFM impact scenario**, average returns improve only by 0.13ppts (as occurred in 2018)
- **In a high VFM scenario,** average returns improve by 0.59ppts (as occurred in 2021).

Both low and high scenarios may be equally likely. If the market was to "herd" to avoid downside risks, this may stifle high performers and lower overall market returns. Equally, there may be innovation with schemes learning from improved transparency and greater competition for employers based on investment returns, leading to greater market performance.

Figure 10: The increase in 5-year annualised investment returns for younger savers before and after the removal of underperforming schemes



Source: CAPAdata, 5-year annualised younger saver returns

In a low VFM impact scenario – where returns improve by just 0.13ppts over a 4-year period – **total cash benefits sum to £8bn over the appraisal period (2025-2034).** This is roughly one-

third of the central estimate and still represents a large benefit against the estimated policy costs. A low VFM impact might arise due to performance herding, gaming or wider factors such as poor overall market returns. Importantly, schemes would still gain additional charge revenue on these higher returns.

This extra charge revenue to schemes would amount to £40m over the appraisal period (assuming 0.5% charges are paid on these £8bn additional returns).

Figure 11: Sensitivity Analysis – a low VFM impact scenario presents £8bn worth of potential benefits (constant prices)

	2028	2029	2030	2031	2032	2033	2034
Nominal Return (with VFM)	7.2%	7.2%	7.3%	7.3%	7.3%	7.3%	7.3%
Nominal Return (Counterfactual)	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Real VFM Returns	4.9%	4.6%	3.7%	3.7%	3.7%	3.6%	3.6%
Real Counterfactual Returns	4.9%	4.6%	3.7%	3.6%	3.6%	3.5%	3.5%
DC Market (with VFM)	£535	£562	£588	£610	£632	£656	£680
DC Market (Counterfactual)	£535	£562	£587	£609	£631	£653	£676
VFM impact (£bn)	-	-	£0	£1	£2	£2	£3
	Total of £8bn greater investment returns via VFM						
Charge Revenue to Schemes	… … of which £40m is additional charge revenue to schemes (0.5%)						

In a high VFM impact scenario – where returns improve by 0.59 ppts over a 4-year period – **total cash benefits sum to £39bn over the appraisal period (2025-2034)**. This is roughly 50% larger than the central estimate due to higher modelled returns. Such a high impact might arise if the policy generates broad-based improvements in market performance, further incentivising innovation and improvements even among schemes already found to be delivering value. Importantly, schemes would still gain additional charge revenue on these higher returns.

This extra charge revenue to schemes would amount to £193m over the appraisal period (assuming 0.5% charges are paid on these £39bn additional returns).

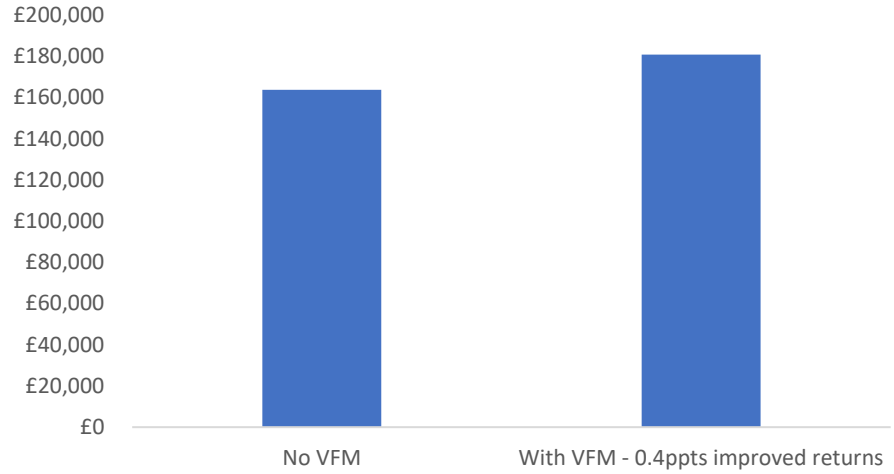
Figure 12: Sensitivity Analysis – a high VFM impact scenario presents £39bn worth of potential benefits (constant prices)

	2028	2029	2030	2031	2032	2033	2034
Return (with VFM)	7.2%	7.4%	7.6%	7.8%	7.8%	7.8%	7.8%
Return (Counterfactual)	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Real VFM Returns	4.9%	4.8%	4.1%	4.2%	4.1%	4.1%	4.1%
Real Counterfactual Returns	4.9%	4.6%	3.7%	3.6%	3.6%	3.5%	3.5%
DC Market (with VFM)	£535	£562	£588	£612	£638	£664	£692
DC Market (Counterfactual)	£535	£562	£587	£609	£631	£653	£676
VFM impact	-	-	£1	£3	£7	£11	£16
	Total of £39bn greater investment returns via VFM						
Charge Revenue to Schemes	… of which £194m is additional charge revenue to schemes (0.5%)						

In Net Present Value terms (2024 prices; 2025 present value, summed over the appraisal period) this indicates a sensitivity range of between £7bn - £30bn of VFM benefits delivered through improved returns, with a central estimate of £20bn. Between £33m-£159m of these additional returns could be expected to accrue to pension schemes through higher charges. This shows the potential scale of benefits on offer to both members and pension schemes through the Value for Money framework; with benefits mostly accruing directly to members as the ultimate asset owners. These estimates are significantly higher than the estimated policy costs, even where sensitivity is presented around these (Annex D).

Annex C: IPEN case studies

A median male earner saving at the AE minimum levels of their working life would see their DC pot increase by over £17,000 as a result of higher investment performance (2024 prices).



Using DWP's IPEN case study model, a median male earner saving at the AE minimum levels over the course of their working life would amass a DC pension pot worth £164,000 using the model's default values in current earnings terms. Adjusting the returns assumption in the model by +0.4ppts (consistent with the benefit for member calculations above) would result in a DC pot worth £181,000 at retirement. This is equivalent to an increase of just under £1,300 to spend each year in retirement when the difference is converted to March 2025 annuity rates[216].

For a low earning female, a career of saving with improved returns as a result of VFM leads to a pension pot that is 11% greater at retirement compared to the model's default values where returns do not improve. This equates to around an additional £700 in annual retirement income when annuitized[216].

The following key assumptions have been made when calculating these case studies. The modelling is known to be sensitive to assumptions made about future economic determinants and the methodology used. The baseline assumptions are:

a) Each individual saves into a defined contribution scheme with an annual management charge of 0.3% and a contribution charge of 1.8%.
b) Each individual contributes 5% and their employer contributes 3%.
c) Each individual's fund is invested in 88% equities and 12% bonds with real fund growth of 4.07% and 2.39% respectively.
d) Each individual retires at State Pension age of 68.

[216] https://www.hl.co.uk/retirement/annuities/best-buy-rates

e) The automatic enrolment earnings trigger, lower earnings limit and upper earnings limit are frozen until 2028 and then increase in line with earnings over the long-term.
f) Each individual does not opt-out of pension saving.
g) For National Minimum Wage (NMW)/National Living Wage (NLW) earners the individual continues to make pension contributions whilst working part time, even though their earnings drop below the £10,000 earnings trigger. This is in line with the AE framework, assuming they continue to work for the same employer.
h) Full time employees work 37 hours per week whilst part-time employees work 18.5 hours per week
i) Each individuals' earnings increase in-line with average earnings growth. The final pension pot size is reported in 2024/25 earnings using the Average Weekly Earnings growth deflator.
j) Where earnings have been reported, these are the 2024/25 values. For the NLW/NMW earner aged 40 years, earnings in previous years were decreased in-line with average earnings. This means that income in previous years may not match the NLW/NMW figure for that year.
k) Earnings in the first-year of employment are increased in line with average earnings growth.
l) The median annual salary for a female working full-time is £31,672 (Source: ASHE 2024)
m) The median annual salary for a male working full-time is £37,382 (Source: ASHE 2024)
n) Salaries for individuals on NMW/NLW are calculated by hourly rate x weekly hours worked x 52. The individual is born in 2002; they start contributing at age 22, as per AE defaults.

Annex D: Cost Sensitivities

Data on costs is sourced from the FCA's survey outlined in paragraphs 42 and 79-81. In this Annex, sensitivity analysis is applied around these estimates given the uncertain/non-final policy detail at the time of survey, the time lag between cost estimation and policy implementation, and the potential for survey respondents (pension schemes) to provide inaccurate cost estimates in order to reduce their policy burden.

For one-off costs, sensitivity analysis is applied by increasing/decreasing 'implementation' costs by 50%. This is so that the range and distribution in estimates received by survey respondents is mostly reflected. 'Implementation costs' varied across respondents as some schemes may already have their internal value for money metrics set up and already be monitoring the proposed policy metrics, especially given the proposed Value for Money metrics have been publicised and consulted on numerous times over the last few years. Other schemes may not have this data monitoring to hand or already implemented and will therefore need to implement new systems to collect this data and implement it within their business. Putting sensitivity around this therefore captures the range of survey responses received and covers the pure 'additionality' the proposed Value for Money framework will impose on scheme costs (e.g. 'low' additionality where schemes already have this data/monitoring and 'high' additionality where schemes do not already have this).

The other sources of one-off costs (e.g. familiarisation costs) are not subject to sensitivity analysis given these displayed more consistency in responses and also aligned with past consultation response estimates from pension schemes.

In the low scenario, 'Other' costs are also reduced by 50% due to the range in responses received and the potential for pessimism bias in estimates as a) it is expected that many schemes are already internally reporting on the proposed VFM metrics, potentially reducing the 'additionality' of the regulation and b) respondents include wider regulatory requirements in this VFM cost estimate.

This means the one-off costs of the VFM framework could reasonably be expected to fall between £90 million and £151 million depending on the final policy detail and the degree of new implementation measures required by firms.

(£m)	Familiarisation	Learning	Developing metrics	Implementation	Other	Total
Low	£21	£6	£15	**£13**	**£34**	**£90**
High	£21	£6	£15	**£40**	£69	**£151**
Central	£21	£6	£15	**£26**	£69	**£138**

For ongoing costs, all line-items are increased/decreased by 25% in both low and high scenarios in order to ensure the broad range in survey estimates are covered. This also broadly reflects the potential for biases either side of the central scenario (e.g. final policy detail may push up ongoing costs or pessimism bias may mean ongoing costs are lower as schemes overestimate costs in surveys to minimise the burden on them).

Ongoing costs are estimated to be lower than one-off costs, and had a tighter range, hence the smaller sensitivity ranges applied to ensure the broad range in survey estimates are captured. This would mean ongoing costs begin in a range of £50 million and £83 million, before falling over time to between £19 million and £31 million as fewer schemes remain in the market and the framework becomes embedded.

(£m)	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Low	£50	£44	£39	£34	£30	£27	£24	£21	£19
High	£83	£73	£65	£57	£51	£45	£40	£35	£31
Central	£66	£59	£52	£46	£41	£36	£32	£28	£25

Using the above sensitivity analysis around costs and benefits, a low, best estimate and high scenario can be modelled in Net Present Social Value terms. This shows that, even in a low scenario (where investment returns do not improve as much as is centrally expected and cost burdens are higher), the policy can still be expected to deliver large net social benefits to pension savers (£6bn).

£mn	**Low NPSV**	**Best Estimate NPSV**	**High NPSV**
Value for Money	£6,014	£19,364	£29,669

Pension Schemes Bill (Northern Ireland) 2027

Small Pots Regulatory Impact Assessment

Title:	Regulatory Impact Assessment (RIA)
Small Pension Pots	**Date: May 2026**
	Type of measure: Primary Legislation
Lead department or agency:	**Stage:** Initial
Department for Communities	**Source of intervention:** Domestic NI
Other departments or agencies:	**Contact details:**
Department for Work and Pensions	

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)
The introduction of Automatic Enrolment (AE) transformed the landscape of private pensions savings across the UK by bringing millions more individuals into private pensions saving. As an employee moves between spells of employment, employers will enrol them into a pension scheme (if AE eligible) which can often result in a new pension pot with a different pension provider being created. This can result in a member accumulating several pension pots including pension pots of small value. These pots are inefficient for the market, bad for both savers (as charges may erode the value and increase the risks of pots getting lost and/or reduce consumer buying power at retirement) and the pensions industry (as they are often loss-making).

What are the policy objectives and the intended effects? (7 lines maximum)
To significantly reduce the number of small pension pots (initially those under £1,000) across the industry, with the objectives of: Improving member outcomes through reducing the likelihood of small pots being lost and potentially seeing lower charges for members; Reducing the administrative burden on schemes, with small pots currently resulting in large monetary losses across the pensions industry; Helping to improve retirement outcomes and support member engagement with pension savings and decision-making at retirement through having a lower number of pension pots to manage in decumulation.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)
Option 0 – Do Nothing – The number of small pots would continue to rise, exacerbating inefficiencies across the pensions industry and resulting in poorer outcomes for members.
Option 1 – Default Consolidator(s) Model (the preferred option) – Government will legislate for the creation of an automated consolidation solution to match deferred pots to a member's chosen or allocated consolidator pot. This would be underpinned by a central mechanism to facilitate the automatic consolidation of small pots.
Option 2 – Pot follows Member – Government would legislate to enable members' deferred small pots to be transferred into their new and active workplace pension pot.
Option 3 –Alternative to legislation - Member Exchange – The Government could support an industry initiative to exchange pension pots between schemes on a rolling basis.

Will the policy be reviewed? It will be reviewed	**If applicable, set review date: May 2030**

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
407	-64	N/A

Does Implementation go beyond minimum EU requirements?			**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?			**YES** ☐	**NO** ☒
Are any of these organisations in scope?	**Micro** Yes ☐ No ☒	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Date:

Summary: Analysis and Evidence — Policy Option 1

Description: Default Consolidator(s) Model (the preferred option)

ECONOMIC ASSESSMENT (Option 1)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	108.1	**~2**	17.8	268.1
High	324.3		25.5	549.3
Best Estimate	216.2		21.5	407.2

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

The main affected group would be pension schemes who would experience both transition and ongoing costs. The majority of the transition costs estimated to schemes are the implementation costs of a Small Pots Data Platform (infrastructure implemented as part of wider legislation). In total the transition costs to schemes are estimated at £216m over the 2-year transition period (2028-2030). Ongoing costs would be higher in the early years after implementation.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

There could be a potential administrative burden placed upon schemes in relation to the increased transfers and extra checks required, the impact could be somewhat mitigated through the use of a central mechanism. Some members may face a slight reduction in value for money after consolidation, depending on the charges and investment returns of their consolidator scheme in relation to their previous scheme/schemes. The planned Value for Money (VfM) framework should help to mitigate against this and any implications otherwise are expected to be minor.

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	0.0	**~2**	141.9	1,149.1
High	0.0		274.7	2,204.6
Best Estimate	0.0		205.5	1,652.5

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

The reduction in small pots will reduce the number of loss-making pots that pension schemes are having to administer. This is estimated to bring benefits over the 10-year appraisal period of just under £1.2bn to schemes through a reduction in administration costs. Schemes are expected to pass on some of these costs savings, representing a £806m benefit to members. Another key benefit to members would be the consumer surplus they experience through the consolidation of their small pots (an estimated £81m over the 10-year appraisal period).

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

Improved outcomes for members at retirement as a result of fewer, larger pension pots should help with decumulation decisions and potentially improve member engagement with pensions.

Pension schemes should benefit from the removal of loss-making pots, helping to stabilise the pensions industry and consolidator schemes may experience a growth in scale helping to drive economies of scale and improved VfM for members.

Key Assumptions, Sensitivities, Risks Maximum 5 lines

The projected number of small pots is based on evidence since the introduction of Automatic Enrolment and provider supplied data – future growth is highly uncertain and depends on economic conditions, market changes, and consumer behaviour. The costs of administration and transfers are subjective and have been estimated based on provider evidence and projected implications of an automated consolidation solution.

BUSINESS ASSESSMENT (Option 1)

Direct Impact on business (Equivalent Annual) £m				
Costs: 47	**Benefits: 111**	**Net: -64**		

Cross Border Issues (Option 1)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

The proposals in this Impact Assessment correspond to proposals in the Impact Assessment for the Westminster Pension Schemes Bill. Under the policy of parity, this option would only be introduced in Northern Ireland if it was introduced in the rest of the UK. The options only apply to members of UK-based pension schemes.

Evidence Base

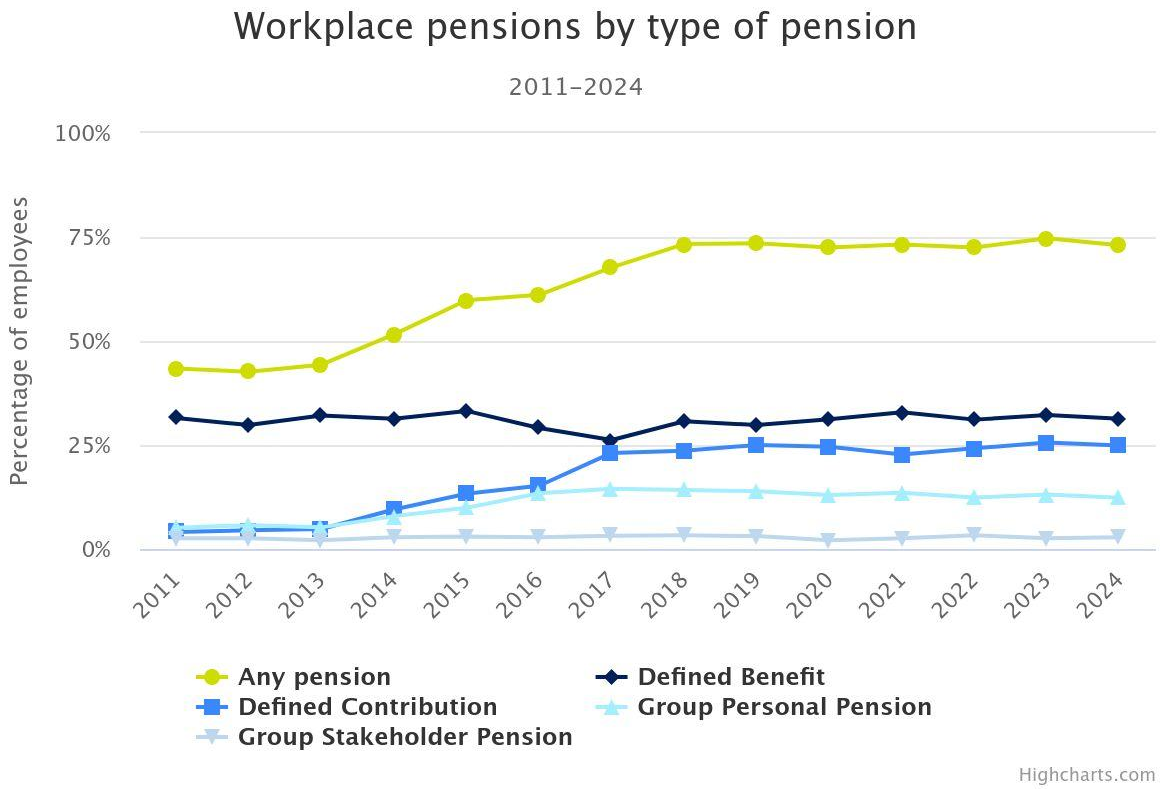
The costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis

Problem under consideration and rationale for intervention

Problem under consideration

1. Automatic Enrolment (AE) was first introduced in 2012, where employers are required to default eligible workers into a workplace pension. This has led to a huge increase in the number of workplace pension savers with 73% of eligible employees (over 0.8m) in Northern Ireland participating in a pension[217] (compared to 89% of employees in Great Britain[218]). Figure 1 shows the growth in workplace pension membership within Northern Ireland.

Figure 1 – Workplace pensions by type of pension (2011–2024)



Source: ONS ASHE Pensions Results (Northern Ireland)[219]

2. The workplace pensions market is split into three markets:

[217] https://www.nisra.gov.uk/statistics/work-pay-and-benefits/ashe-pensions-results

[218] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2024

[219] https://www.nisra.gov.uk/statistics/work-pay-and-benefits/ashe-pensions-results

- **Defined Benefit (DB) –** This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pensions. Of which, the market is further split into:
  - **Public sector DB**
  - **Private sector DB,** where there were around 5,000 pension schemes in 2024[220]
- **Defined Contribution (DC) –** This is a type of pension whereby pension contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:
  - **Trust-based market –** A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2024, there were 920 pension schemes with 12 or more members[221].
  - **Contract-based market –** A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2024, there were estimated to be around 30 firms with an authorised DC workplace pension business[222].
- **Collective Defined Contribution (CDC) –** These schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under Defined Contribution schemes) and away from the employer (as is the case under Defined Benefit schemes). The only CDC arrangement in the UK so far is a scheme by the Royal Mail.

3. The vast majority of AE-eligible employees are saving into a Defined Contribution (DC) workplace pension[223] and this market is the focus of this IA given this is where the policy applies.
4. It is estimated there is around £300bn invested across 5m active savers in the contract-based market[224], and £200bn invested across 11m active savers in the trust-based

[220] https://www.ppf.co.uk/Purple-Book
[221] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
[222] https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework
[223] https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf (Chart 2.4)
[224] https://www.fca.org.uk/publication/consultation/cp24-16.pdf

market[225]. Data is more readily available on trust side, which has a much greater number of schemes[226].

5. The DC-trust landscape is growing in scale and maturing quickly with 30.6 million members in 2025, an increase of 6% since 2024. DC trust workplace pension assets have grown to £205bn, increasing from only £22 billion in 2012[227].
6. There are three main types of pension schemes in the DC market, detail of memberships and assets is given in Figure 2:
    - **Master Trusts** – an occupational pension scheme that provides DC pensions for two or more unconnected employers (though often a lot more).
    - **Single Employer Trusts** (SETs) – pension schemes which are managed for and on behalf of a single employer or two or more legally connected employers.
    - **Group Personal Pensions** (GPPs) – DC contract-based schemes which are regulated by the FCA.

Figure 2 – UK's DC Pensions Landscape

Type	Number	Assets	Active Members
Master Trust[228]	30	£166bn	10m
Single Employer Trust[229]	890	£39bn	1m
GPP[230]	30	£300bn	5m

7. The DC market has been consolidating, with the number of pension schemes reducing from around 3,700 in 2012 to around 950 schemes now. The majority, close to 900, of these schemes are single-employer trusts, traditionally set-up by employers to support their workforce. However, as AE resulted in all employers needing to enrol their employees (where eligible) into a workplace pension, there has been a rise in Master Trusts (multi-employer pension schemes). Across around 30 schemes, these now account for 91% of total and 90% of active memberships and 81% of assets in the DC trust-based market. In addition, there are around 30 GPPs, which operate in the DC contract-based market. Across the trust and contract-based markets, there are now 7 DC providers managing

225 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex
226 https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market
227 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex
228 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
229 Calculated from TPR Occupational DC 2024 data: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
230 https://www.fca.org.uk/publication/consultation/cp24-16.pdf

over £25bn worth of bundled assets, where economies of scale are most apparent enabling schemes to access a wider range of asset classes, negotiate lower fees and improve their governance[231].

8. AE has led to more people saving into a pension. However, inertia is strong and engagement is low. For example, 47% of adults contributing to a DC Pension have not reviewed how much their pension is worth in the last 12 months (2022)[232] and over 94% of pension savers are invested in a pension scheme's default investment strategy[233].

Regulation and types of DC pensions

9. DC pension schemes are either personal or stakeholder pensions. They can be workplace pensions arranged by an employer or private pensions arranged by an individual; this legislation focuses on workplace pension schemes. Regulation of the pensions industry in the UK is split between the FCA and TPR:
    - **FCA** regulates personal pensions, including workplace personal pensions (contract-based pension schemes).
10. **TPR** regulates occupational pensions (trust-based pension schemes).

The Small Pension Pots policy will cover all non-micro-DC pension schemes (schemes with 12 or more members) when fully enforced.

- On the grounds of proportionality, the Department proposes to exclude Small Self-Administered Schemes (SSAS) and Executive Pension Plans (EPP), with these schemes already exempt from a number of duties with their members typically more engaged and advised around investment decisions. These exemptions will mirror those already used by productive finance/charge cap legislation, and the upcoming Value for Money (VfM) legislation.
- At this stage, the Department does not consider it proportionate to apply the Default Consolidator framework to micro schemes given the cost they would incur.
- CDC, DB or Hybrid Schemes are all outside the scope of this solution.

[231] https://corporate-adviser.com/research/ (Master Trust and GPP Defaults Report, 2024)

[232] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf

[233] Calculated from TPR Occupational DC 2024 data: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

Why small pension pots exist?

11. As employers choose the pension scheme their employees are enrolled into (not the individual), every new employment may result in a new pension scheme and a new pension pot being created. Although there is not one single cause for the creation of a small pot, key reasons include:
    - **Short term employment** spells where a person remains with an employer (and therefore saving into that pension pot) for a short duration
    - **Members working multiple jobs** meaning for each employer, they are likely to be saving into a different pension scheme
    - **Schemes not operating a one pot per member approach –** Most schemes create a new pension pot for each employment even if the member has already accrued a pension pot with the scheme previously. Even within those schemes that do operate a one pot per member approach, there is likely to be members with multiple pots within the same schemes as a result of pots not being linked to members due to data matching. This means people can have multiple pots within the same scheme.
    - **Stopping saving or opting out –** Individuals may choose to opt-out after 1 month and therefore are unable to receive a refund on their contributions[234] or stop saving after a short period of time.
12. According to HMRC data[235] just under half (48%) of the 4.3m instances of people who stopped contributing to their pension in 2021/22 were after a contribution spell of less than a year. Of this, 68% were after contribution spells of less than six months. The most common reason for stopping contributions (74% of cases) in 2021/22 was ending employment[236].
13. Assessing current contribution and earning levels can help to explain how small pots can be created. Given the current National Living Wage (NLW)[237],it is estimated an employee working full time would take less than 10 months (41 weeks) to create a pension pot of £1,000. Based on the median weekly pay for full-time employees as of 2024[238], it is estimated it would take just under 5 months (21 weeks) to exceed £1,000 of contributions.

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234 https://www.gov.uk/workplace-pensions/if-you-want-to-leave-your-workplace-pension-scheme

235 https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fassets.publishing.service.gov.uk%2Fmedia%2F64a82b88a32f130013f068dc%2Fstopping-saving-and-pensions-in-payment-statistics.ods%23%3A~%3Atext%3DAs%2520published%2520previously%2520in%2520the%2Cthe%2520financial%2520year%25202021%2520to&wdOrigin=BROWSELINK

236 Other reasons include stopping saving and becoming ineligible.

237 https://www.gov.uk/national-minimum-wage-rates

238 https://commonslibrary.parliament.uk/research-briefings/cbp-8456/#:~:text=Median%20weekly%20pay%20for%20full,1997%2C%20adjusting%20for%20CPI%20inflation.

14. Estimating the average number of jobs over an individual's lifetime is challenging. However, across a number of sources, it can be shown that the average number of jobs per individual will be significant and it can be estimated on average that over their working life there is the potential for every individual to create a small pot (pension pots below £1,000).

15. It has previously been estimated[239] the average individual may hold around 10-12 jobs over a lifetime. A current estimate of around 11 jobs per individual over their working life remains in line with this previously estimated average.

    - These estimates consider a distribution of jobs across individuals on an aggregate level. There will be certain sectors or lower paid jobs where job changes are more frequent and therefore some individuals will hold a larger number of jobs than the averages estimated. These individuals could therefore be more likely to create small pots.

16. To estimate the average job count per individual, 3 independent methods have been used to estimate and validate this (further details are in **Annex A).**

    - **HMRC's Real Time Information (RTI)** – RTI data over the last 10 years (from 2014 onwards), shows across different age cohorts the number of jobs individuals have had using NINos (National Insurance Numbers) and employment spells. Assuming past data would hold in the future, this data implies a median job count figure of around 13 jobs per individual.
    - **PENSIM** – DWP's microsimulation model estimates the number of "jobs" over an individual's working life based on historical data and the probabilities of individuals changing roles. It should be noted that the model assesses a job change as either a change in industry, a change in occupation, or change in employment status (where they begin a new spell of either employment or self-employment). This, therefore, may lead to an undercount of the average job count per individual as a change of job within the same industry, where the individual's occupation stays the same, is not classified as a change in job. Using outputs from PENSIM 2[240] and PENSIM 3, this estimates a mean job count figure of between 9 – 10 jobs per individual.
    - **External Research -** An estimate of around 11 jobs per individual calculated using the above two data sources is consistent with international evidence. For example,

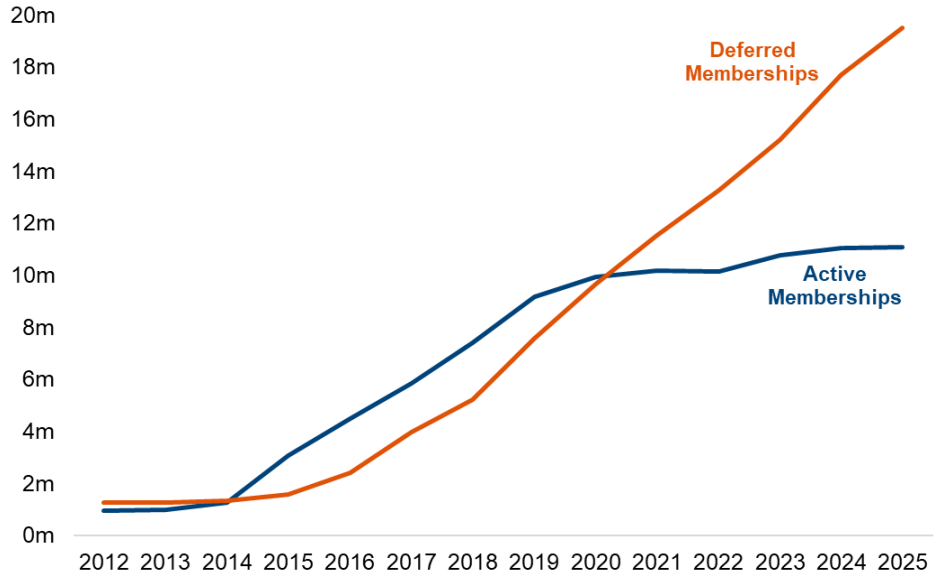
[239] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf
[240] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

the US (where there are some similarities in the structure of the labour market) shows evidence of an average of 12 jobs[241] per individual.

Number of small pension pots

17. As of 2025, the total number of pension pots across the DC trust-based market was around 30.6m, of which 28m (the majority) are within the 33 authorised Master Trust schemes (including hybrid schemes)[242]. Around 19.5m of these are deferred pots (pots without any active contributions being made into them), with Figure 3 showing how the rapid growth in deferred pots in the last 10 years has seen the number of active memberships overtaken by the number of deferred pots within trust-based schemes.

Figure 3 – The number of active and deferred memberships within DC trust-based schemes



Source: TPR's Occupational defined contribution landscape 2024[243]

18. Across the wider occupational DC market, through DWP's 2024 data gather[244], there are estimated to be around 23m deferred pots below £10,000, with around 13m of these estimated to be small pots (below £1,000). For some Master Trusts the number of small pots represents a significant proportion of their overall number of deferred pots. For example, as of 31 March 2022, 40% of Nest's 11m members had pots worth £500 or

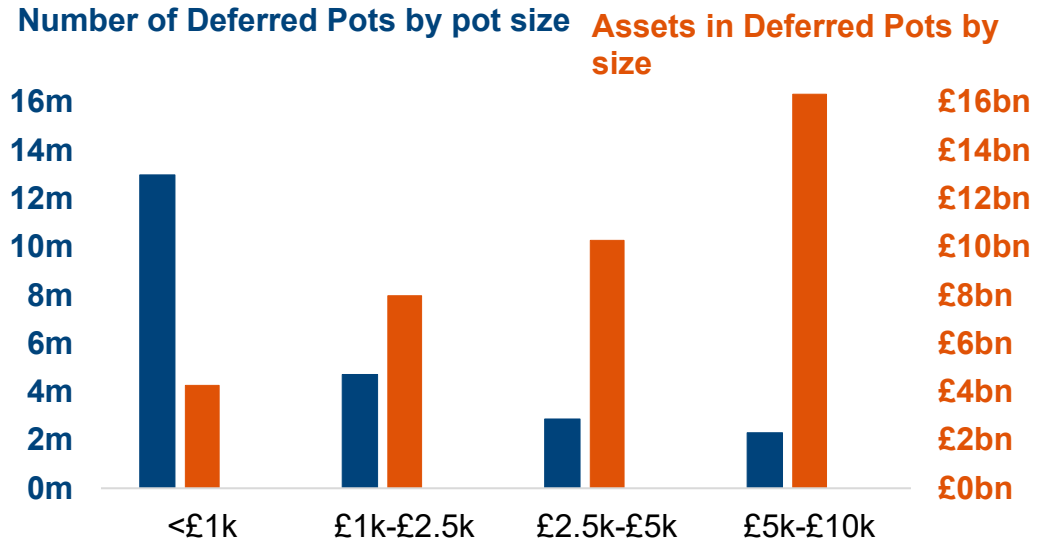
241 https://www.thebalancemoney.com/how-often-do-people-change-jobs-2060467
242 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
243 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex
244 https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

less[245] – the median pot value for all Nest members (active and deferred) was £800, with a wide gap between active and inactive members.

19. Evidence shows the number of small pots continues to grow. Research published by the PPI suggested in 2020 there were an estimated 8 million deferred pension pots (of all sizes) held in authorised master trusts and without intervention the number of deferred pots would likely to rise to 27 million by 2035[246]. Data from the ABI suggests that there were over 2.2 million deferred pots under £1,000 held within contract-based schemes in 2021[247].

20. To improve understanding, a number of data gather exercises have been undertaken with industry. The data responses to the 2024 data gather suggested that the proliferation of deferred pots is likely to be larger than PPI's estimate and that there are already roughly 23 million deferred pots with a value of less than £10,000 across the whole DC market; representing an estimated £39bn in assets. Figure 4 shows the distribution of the number and assets of deferred pots below £10,000 by value.

Figure 4 - Number of deferred pots and estimated assets under management in deferred pots by pot size



Source: Provider data from DWP's 2024 Data Gather[248]

[245] https://www.nestinsight.org.uk/wp-content/uploads/2022/10/Retirement-saving-in-the-UK-2022.pdf

[246] https://www.pensionspolicyinstitute.org.uk/media/pqynaq5p/20200723-deferred-members-final-report-for-the-website.pdf

[247] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf (ABI data collection, 2021 – covering all DC pension pots)

[248] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

21. DWP's 2024 data gather was conducted as part of the Small Pots Delivery Group to support wider policy development and this IA as part of the Pension Schemes Bill. The data gather built on DWP's 2023 Call for Evidence[249] and was conducted between 20th September 2024 and 18th October 2024, receiving responses from 11 providers. Further detail of the data-gather and its initial findings are included within the Small Pots Delivery Group Report[250].
22. The current definition of a small pot referred to is a **deferred pension pot** (with no active contributions for at least 12 months) with a **value below £1,000**, a definition reached following consultation with industry[251] and will be used for this legislation.
23. DWP consulted with industry as part of its "Proliferation of deferred small pots" consultation about the appropriate pot size for pots to be eligible for consolidation. Views across industry where mixed and there was no consensus across all responses. Half of the respondents agreed that a £1,000 limit was the appropriate level, whilst the other half of respondents were mixed in their views between £1,000 being either too high or too low of a limit[252].
    - Responses in support for the £1,000 limit considered £1,000 as a good starting point to achieve a significant level of consolidation without having an overly destabilising effect on the market.
    - Some of the responses that argued a £1,000 limit was too small, suggested its impact in terms on retirement incomes would be minimal and that a higher value would allow members' consolidator pots to increase in value at a greater rate due to the increased eligibility which would be more favourable for investment. These responses also suggested a higher limit would increasingly support consolidator schemes to increase scale.
24. A pot limit of £1,000 has been chosen as a central point that balances the risk of member detriment if the limit is set too high and the potentially distortive impact of increasing the number of eligible pots being transferred at the point of implementation, with setting the limit too low that not enough unprofitable pots would be eligible and therefore there would be limited net benefits to members. An initial limit of £1,000 whilst addressing a significant number of deferred pots (57% of deferred pots below £10,000), would only account for

[249] https://www.gov.uk/government/consultations/addressing-the-challenge-of-deferred-small-pots/addressing-the-challenge-of-deferred-small-pots-a-call-for-evidence
[250] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report
[251] https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/ending-the-proliferation-of-deferred-small-pots
[252] https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/outcome/government-response-to-ending-the-proliferation-of-deferred-small-pots

around 11% of assets within deferred pots below £10,000. This should ensure benefits to a large range of members with deferred pots whilst avoiding distortive impacts on the pensions market through the movement of a significant value of assets between providers.

- Across the consultation responses there was a strong proportion of responses who acknowledged a £1,000 limit strikes the right balance for both schemes and members.

25. The Department is seeking the necessary powers to enable it (if deemed appropriate) to increase the £1,000 limit over time, any changes would remain at the discretion of the Department and would be subject to consultation prior to any changes. Therefore, there is the potential for the limit to increase in due course to expand the eligibility to a wider number of deferred pots, if the Department deems this as an appropriate adjustment.
    - The potential to increase the pot limit in due course, should allow a greater proportion of members with small pots to benefit and better support the growth in scale of consolidator schemes if the Department deems an increase in the eligibility limit to be in the best interest of members whilst supporting pension schemes.
26. The majority, 13m, of the current deferred pots are worth less than £1,000 (the average value is around £330), however, due to their low value they only account for about £4.3bn in assets. This represents around 2% of the assets in the occupational trust-based DC market, which has reported asset values of £205bn; of which £166bn is in Master Trusts (excluding hybrids)[253]. Figure 5 splits the number of deferred pots and deferred assets per each value band as a proportion of total deferred pots below £10,000.
27. IFS estimates suggest that 7% of the accumulated pension pots over a 9-year period between 2010 – 2022 had a value below £1,000[254].

[253] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
[254] https://ifs.org.uk/sites/default/files/2025-02/IFS-Report-Small-pension-pots-problems-and-potential-policy-responses%20%281%29.pdf

Figure 5 – Cumulative number of deferred pots and assets below proposed limits

Pot Size	**Below £1,000**	**Below £2,500**	**Below £5,000**	**Below £10,000**
Number of Pots	13.0m	17.7m	20.6m	22.9m
as a % of Deferred Pots less than £10,000	57%	77%	90%	100%
Value of Assets	£4.3bn	£12.2bn	£22.5bn	£38.9bn
as a % of Assets in Deferred Pots less than £10,000	11%	32%	58%	100%

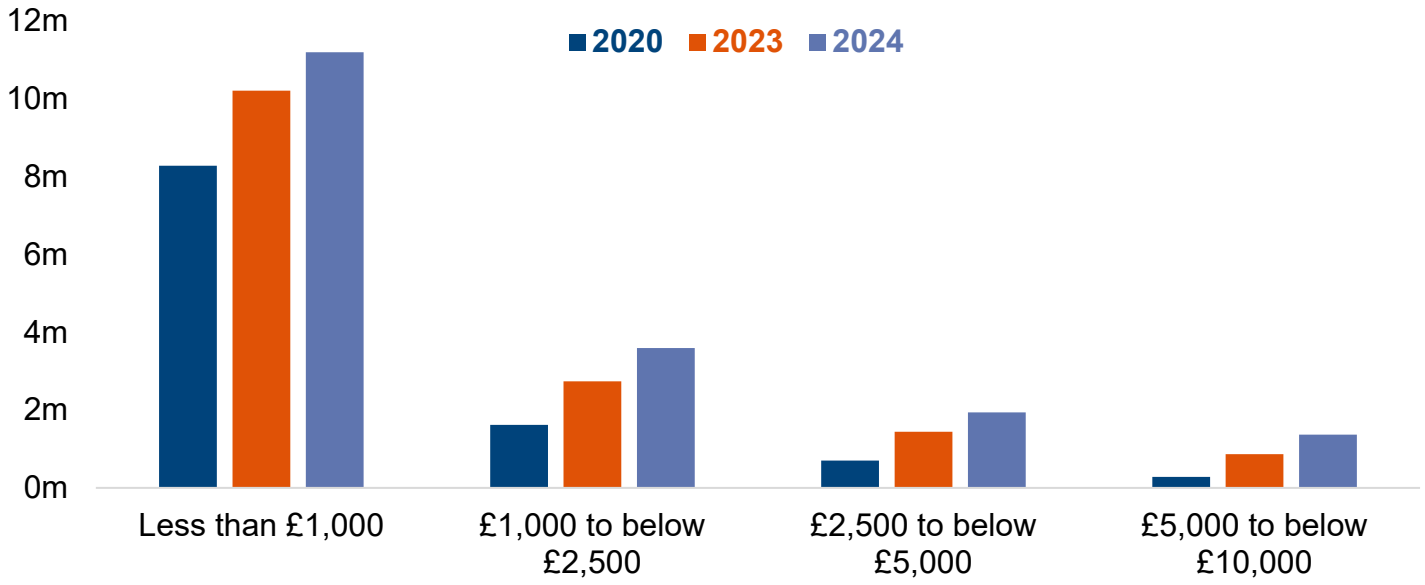
Source: Provider data from DWP's 2024 Data Gather[255]

28. Many of the small pots are concentrated in a small number of pension schemes. Since 2020, the number of deferred pots worth less than £10,000 across the same 5 large schemes has grown by roughly 7.2m, from 10.9m in 2020 to 18.1m in 2024[256]. Of this growth, nearly 3m was in pots worth less than £1,000, from 8.3m to 11.2m. This growth is highlighted in Figure 6 below.

[255] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

[256] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report#chapter-12-analysis

Figure 6 - Comparison of the number and size of deferred pots in the same five large schemes between 2020 and 2024



Source: Provider data from DWP's Data Gathers and Call for Evidence

29. Since AE was introduced, on average more than 1m pots smaller than £1,000 have been created per year, worth more than £300m on average annually. The significant growth since 2020 highlights the continuous nature of the small pots challenge, meaning that whilst a small pots consolidation solution will need to have the potential to address the existing stock of deferred pots, there will also need to be a focus on addressing the continued flow of new small pots being continually created.
30. The contextual and background information within the IA reflects the latest information available. However, it is important to note the calculations are using 2024 data.

Policy background

31. A wide range of work has taken place since 2020 to address the small pots problem with a focus on working with industry. This has included:
    - In September 2020, the **Small Pots Working Group** was set up– chaired by DWP – to examine the scale, nature, and impact of deferred small pots and to try to build a consensus on the priority options to address their growth. The group reported in December 2020[257]. The report found that whilst opportunities for member-initiated consolidation should continue to be maximised they would be unlikely alone to

[257] https://assets.publishing.service.gov.uk/media/5fdb16428fa8f54d5d6556d4/small-pots-working-group-report.pdf

change the trend in the growth of deferred small pots. The group concluded the pensions industry, working alongside Government and regulators, should prioritise work on enabling automatic and automated large-scale low-cost transfers and consolidation for the AE mass-market. The group considered that two large scale solutions should be prioritised – Default Consolidator and Pot follows Member – but that final decisions should be informed and developed following examination by the pensions industry of the underlying administrative challenges that may prevent the implementation of a large-scale automated solution.

- In March 2021, at the invitation of the then Minister for Pensions and Financial Inclusion, the ABI and the Pensions and Lifetime Savings Association (PLSA) jointly convened the **Small Pots Cross-Industry Co-ordination Group** to take forward analysis of the administrative challenges identified by the December 2020 report.
- In September 2021, the **Co-ordination Group's first report** set out the progress they had made.[258] This included agreeing a set of working assumptions that covered the nature and value of small pots assumed to be within scope of any future consolidation model, whilst also setting out further evidential needs to build the case for a large-scale consolidation solution. The group made substantial progress on identifying the potential risks and benefits of consolidating deferred small pots for members and developed understanding around the key barriers in relation to data matching for automated consolidation solutions. The group also set out actual and perceived barriers within the current transfer system, identifying where costs occur and potential efficiencies.
- The **group's second report** in June 2022 recommended that three solutions should be explored: multiple default consolidators; pot follows member; and member exchange with development of a cost/benefit analysis and assessment of market impacts[259].
- In January 2023, DWP launched a **call for evidence[260]** to deepen the evidence base around the scale and characteristics of the growth in the number of deferred small pots. It focussed on the two large-scale automated consolidation solutions – a default consolidator model and pot follows member – whilst recognising the potential impact of other actions, including member exchange, and enabling more member engagement, that could help to mitigate the growth in the number of small pots.

[258] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2021/Small-pots-cross-industry-co-ordination-group-update-report.pdf
[259] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf
[260] https://www.gov.uk/government/consultations/addressing-the-challenge-of-deferred-small-pots

- Feedback from the call for evidence demonstrated that across industry there was no clear consensus on the optimal way forward in terms of an automated consolidation solution. However, respondents did agree that without government intervention, the challenge of deferred small pots would continue to grow. Respondents agreed that whilst member-initiated consolidation should continue to be explored and supported, relying on that alone would not be sufficient in addressing the growing challenge of deferred small pots.
- DWP published its response to the call for evidence in July 2023, in which a public consultation on DWP's response to the call for evidence and a set of policy consultation questions was launched, with an included proposal to move forward with a multiple default consolidator approach[261]. The consultation sought views across a range of stakeholders and ran from 11th July 2023 – 5th September 2023, with DWP publishing the outcomes and its response in November 2023[262].
- As part of the response to the consultation, DWP committed to launching a delivery group to consider the views of industry further and identified key areas from the consultation for the delivery group to consider.
- The work of DWP with industry continued with the **Small Pots Delivery Group** established in February 2024, chaired by DWP which included a wide range of stakeholders covering multiple sectors, interested parties and representative bodies, to support with the development and design of a multiple default consolidator policy after the publication of the consultation response in November 2023. It was agreed by the group that any solution developed would need to reduce wasted administration costs, be fit for the future and have a tolerance of risk. The Delivery Group focused on the potential interactions with the Pensions Dashboard, the role and functions of the Small Pots Data Platform, data matching approaches, member communications, the process of member pot allocations, the role of the regulators in the authorisation and supervision process, pension transfers, liability and implementation approaches. The group reported in April 2025[263]. The group provided recommendations and insights on how best to implement the proposed automated multiple default consolidator solution which was set out in the 2023 consultation response.

[261] https://assets.publishing.service.gov.uk/media/64abd877a32f130013f0692b/ending-the-proliferation-of-deferred-small-pots.pdf
[262] https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/outcome/government-response-to-ending-the-proliferation-of-deferred-small-pots
[263] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

- As part of the delivery group the **DWP's 2024 data gather** was conducted to support the policy development and to build upon the 2023 call for evidence. With a particular focus on the transfer and administration of deferred pots as well as further expanding the evidence base around the scale and growth of the small pots challenge. The data gather closed in October 2024 and concluded[264] that across the pensions industry the scale of the proliferation of deferred small pots continues to increase.

32. DWP has worked with other industry stakeholders including working alongside the PPI to explore internationally how small pots are being dealt with across other countries.
    - Other countries have attempted to address the issue of small pots in different ways and DWP has and continues to look into the different solutions used internationally, including through the report published by PPI[265].
    - DWP has leveraged data and information from international examples, specifically Australia to help estimate the costs of a small pots solution.

Rationale for intervention

33. Maximising the evidence from the industry working groups, industry engagement, and the call for evidence, it has become clear that legislation is required to make progress on tackling this problem. This is particularly the case as there are a number of benefits to small pot consolidation for both members and schemes.

Pension Schemes

34. A **clear market failure exists for schemes in the form of asymmetric information**. Schemes accept the members an employer signs up, without the knowledge of which members may leave or stop saving shortly after - creating a loss-making deferred small pot. Some schemes may only choose to accept certain employers to potentially mitigate against this. However, Nest (one of the largest schemes) is required to accept all employers as part of its public service obligation. Additionally, other schemes have sought to take on large numbers of employers or targeted specific employers to build economies of scale. This results in a situation where all members are charged higher administration charges to account for the risk of them creating a loss-making deferred small pot (as discussed more below).

[264] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report
[265] https://www.pensionspolicyinstitute.org.uk/media/iipmtkwa/20210112-small-pots-international-report-final.pdf

35. PPI previously estimated pots below £2,300 can be unsustainable for schemes to manage if they charge through an Annual Management Charge (AMC) only[266] (this is currently capped at 0.75%[267]). Given the average industry charge is around 0.5%, this would mean the required average pot size to breakeven was just under £4,000. More recent evidence from industry consultation found the breakeven point varied but was consistent that a pot below £1,000 would be loss-making if only charged through an AMC.
36. The growth of deferred small pots adds increased costs and inefficiency into the UK workplace pensions market. It is estimated there are industry costs close to £240m per year across the existing small pots below £1,000. This is broadly consistent with the Small Pots Cross-Industry Co-ordination Group estimate that the continued growth in the number of small pots by 2030 – "will likely result in wasted administration costs of around a third of a billion pounds per annum."[268] They also state that small pots can impact negatively on value for money outcomes for members, has implications for the financial sustainability of pension schemes and it makes it harder for members to engage with their pension savings[269].
37. For some pension schemes, the inherent inefficiency in the current system may threaten their longer-term financial sustainability with the administration costs involved in managing millions of deferred small pots outweighing the amount they receive through charges.
38. Schemes have already faced wider financial challenges within the market, with PPI in 2020 suggesting that the Master Trust industry was unlikely to break even until around 2025, with significant costs involved in the setting up of pension schemes. The cumulative investment costs of setting up and running the largest four master trust schemes were estimated to be £1bn by 2019[270].
39. The expected rise in costs to schemes and the resulting inefficiency of small pots, could therefore increase the unwelcome consequences levied on members in terms of the cross-subsidy effect that operates within schemes (where members with larger pots are effectively charged more to cover the losses made by smaller pots) and through the undermining of confidence in a competitive and otherwise healthy market.
40. The consolidation of schemes within the DC pensions market could help to support small pots consolidation through a smaller number of schemes for members to be enrolled

266 https://www.pensionspolicyinstitute.org.uk/media/pqynaq5p/20200723-deferred-members-final-report-for-the-website.pdf
267 https://assets.publishing.service.gov.uk/media/61d823e3d3bf7f053fd8254e/charge-cap-guidance.pdf
268 https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf
269 https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2021/Small-pots-cross-industry-co-ordination-group-update-report.pdf
270 https://www.pensionspolicyinstitute.org.uk/media/cz4j1a0x/20200827-financial-sustainability-of-master-trust-schemes-final.pdf

within. The expectation would also be for any merger and acquisition activity between schemes to consolidate a proportion of the deferred small pots.

- DWP's "Pensions Investment Review" consultation[271] proposed measures that would support and accelerate scale and consolidation within the DC market, with it being "clear that the future of the workplace DC market lies in fewer, bigger, better run schemes."[272]

Pension Savers

41. There are also **market failures for individuals. Imperfect information exists around the ability to consolidate pots** and, even where this may be known, the process can be challenging or confusing. Voluntary consolidation is highly unlikely to address this issue. The Financial Lives Survey 2022[273] found only 10% of eligible UK adults had consolidated their pension pots in the last 3 years (most likely from engaged and financially literate savers); and without compulsion it is unlikely schemes themselves would be able to find a market-wide solution.
42. Additionally, research exploring member engagement with workplace pensions showed that whilst some members understood the benefits of consolidation there were **barriers preventing them from taking action**, including concerns around scams, a perception of difficulty and lack of understanding about whether they could consolidate their pension pots[274]. This research found support for both a pot follows member and a default consolidation solution, with the perception of simplicity for members with the transfer and consolidation process being managed on their behalf.
    - Lack of engagement and disinterest in pensions from savers is thought to be a large part of the lack of member-led consolidation, with the upcoming implementation of the Pensions Dashboard which aims to increase member engagement with pensions there is potential for an increase in member-led consolidation as a result. However, as discussed further (paragraphs 121-122) any impact whilst currently unknown is not considered material, considering the role of the Pensions Dashboards and the current engagement of members with small pots.

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271 https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

272 https://assets.publishing.service.gov.uk/media/6736181254652d03d5161199/Pensions_Investment_Review_interim_report.pdf

273 https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.fca.org.uk%2Fpublication%2Ffinancial-lives%2Ffinancial-lives-survey-2022-tables-volume-12-pension-accumulation.xlsx&wdOrigin=BROWSELINK (Table 116)

274 https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions#consolidating-deferred-pension-pots

43. **Engagement with pensions remains low across the majority of members, with inertia a significant barrier to member benefits**. The inertia around pensions means many members either make uninformed choices or instead take no action regarding their pension savings which results in the member suffering detriment in the future. The proliferation of small pots is a clear example of the inertia regarding pensions. The automatic nature of automatic enrolment means that many members are unaware they are contributing into a pension and therefore as they more jobs after short-term saving they are unaware that they may have created a pension pot of small value. Many members with small pots are often unaware that they have a small, deferred pension[275]. If members were more engaged with their pension savings, the rate of member-led consolidation would be expected to increase as the consolidation of small pots is in the interest of the individual members. Instead, the existence of small pots hampers retirement outcomes for members and blocks members from experiencing the true extent of the benefits of long-term pension saving. The consolidation of small pots may even work towards improving member engagement and reducing the inertia around pensions savings whilst helping to drive improved outcomes at retirement for members.
    - The widespread nature of the inertia in pension savings is a significant market failure that hampers the achievable benefits of pension savings for members whilst also negatively impacting pension schemes. The resultant creation of small pots due to the inertia around pensions means members are often unaware of the extent to which they can benefit from long-term pensions saving.
44. As discussed previously (paragraph 14-16) and within further detail (**Annex A)**, the average individual has numerous jobs over their lifetime meaning there is the potential for an individual to create numerous small pots over their working life. This risks members losing track of multiple pots over time or becoming disincentivised or disengaged by multiple small pots. These barriers and the time involved in navigating them may serve to erode trust and confidence in pensions saving.
45. Having pension savings split across numerous pots such as small pots is thought to make decision making during accumulation difficult according to the IFS[276] (Institute for Fiscal Studies).
46. PPI has recently published research on the total value of lost pension pots, those pension pots where schemes are unable to contact the member to which the pension pot belongs

[275] https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions
[276] https://ifs.org.uk/sites/default/files/2025-02/IFS-Report-Small-pension-pots-problems-and-potential-policy-responses%20%281%29.pdf

to[277]. This illustrated the value of lost pension pots has grown from £19.4 billion in 2018 to £31.1 billion in 2024. The research suggested there could be a link between the increasing number of small pots and the growth in lost pots between 2018 and 2024. Though it should be noted that the average size of a lost pot from the research is £9,470; well above the Department's current definition of a small pot.

47. Addressing the small pots challenge may allow pension charges to operate in a more efficient and beneficial way for members:

- **Flat fees -** Some pension schemes charge members a flat fee on each of their pension pots. As a result, having multiple small pension pots risks individuals facing significantly greater costs and eroding the value of pension savings over time.
- **Cross subsidisation –** As schemes may expect to have some loss-making pots, this can drive up the average charge level across the industry with more profitable pots subsidising loss-making pots. Although charges are low (average of 0.48% AMC[278]); the removal of small pots may further reduce fees and thus improve pension outcomes for members.
    - The cross subsidisation of charges across all members is a negative externality that stems from the proliferation of deferred small pots. Not only do small pots hamper the retirement outcomes of the members with small pots, those members without small pots also face detriment as the increase in charges across the pensions industry through cross-subsidisation reduces members' retirement incomes[279].

Why government legislation is best placed to address the market failures

48. Government regulation and legislation is considered to be best placed to address the wide-scale nature of the small pots problem.

49. Significant engagement with industry has been undertaken with the aim of the pensions industry addressing the issue of small pots itself. However, as seen through the member exchange pilot which is discussed further (paragraph 97), industry has been unable to move forward with a solution without the need for supporting government legislation.

50. There is a divide across the pensions industry on the best solution to address small pots, with a roughly equal division between schemes that favour a pot follows member approach and schemes that prefer a multiple default consolidator model. Both policy options would require government legislation to be implemented and therefore whilst there

[277] https://www.pensionspolicyinstitute.org.uk/media/vh4aaq2j/20241024-ppi-bn138-lost-pensions-2024-final.pdf

[278] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

[279] https://www.pensionspolicyinstitute.org.uk/media/pqynaq5p/20200723-deferred-members-final-report-for-the-website.pdf

remains no consensus across the pensions industry on the best solution to implement, there is a clear consensus that government legislation is required to implement a market-wide small pots solution.

51. ABI and PLSA's Small Pots Cross-Industry Co-ordination Group[280] in its conclusion recommended that Government should explore a number of solutions to address the proliferation of small pots. Since then, engagement with industry through a call for evidence and the small pots delivery group has focused on how industry and government can co-operate on a government legislated solution.

- Industry has extensively been engaged in the development of a solution which further suggests broad industry support for the requirement of government legislation.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

52. This IA builds on a wide range of evidence and data. In particular, recent information from DWP's Data Gather[281] engages data from pension providers and provides a timely and accurate assessment of small pension pots giving confidence to the assessment of the challenge. The IA draws on evidence collected across:

    - **The pensions industry** – As outlined above, several working/delivery groups have been conducted to engage on options. This follows an extensive Call for Evidence and consultations where responses and evidence were sought to help shape the final policy details. Further engagement with industry on the details of secondary legislation will continue.
    - **HMRC** – HMRC's RTI data has been sought to better understand the trends of short-term pension saving and to help understand the churn in the labour market.
    - **Members –** Across several surveys input has been sought from members to understand their views and preferences around small pot solutions. This included specifically testing the views of members around potential solutions and understanding the willingness of members to pay for a small pots solution.
        - ONS's Wealth and Assets Survey (WAS)[282] has been used throughout this IA. It is a survey that measures the well-being of households and individuals and contains useful data and information around an individual's pension pots that

[280] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf

[281] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

[282] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/debt/methodologies/wealthandassetssurveyqmi#quality-characteristics-of-the-wealth-and-assets-survey-data

helps to build a more individual view of the accumulation of small pots for this IA. Data across numerous waves and rounds of the WAS are used throughout the IA, with the most recent figures included from the publication of Round 8. Round 8 covers a sample of 15,100 households between April 2020 to March 2022[283].

- **Regulators –** DWP has worked closely with TPR and FCA to help understand the DC pensions landscape, scheme information, and potential forecasts.

53. However, there are some limitations within the data which impact the assessment. For example:

- **Commercial sensitivity –** Information from pension schemes may be commercially sensitive, particularly around key financial indicators such as profitability. This impacts the ability to draw robust conclusions at a scheme-level.
- **Individual level data –** Data received from schemes is on an aggregated level and although some data sources allow for individual analysis (e.g. the Wealth and Assets Survey), this has some limitations (e.g. recall of information can be lower). This impacts an individual-level assessment of pension pots per person.
- **Smaller pension schemes –** Data collection exercises have tended to receive responses from larger schemes. Although the vast majority (90%[284]) of active savers within trust-based schemes are within the 33 Master Trusts which emerged from the roll-out of Automatic Enrolment, there may be a small number of small pots within the smaller pension schemes (particularly single-employer schemes) which are not represented within the data collected from industry. However, this is not considered material.
- **Changing shape of the pensions market –** It is anticipated that consolidation of the pensions market will continue following the consultation on measures to accelerate consolidation[285] and the growth in scale of schemes and the introduction of the VfM framework[286] will help support the consolidation of single employer trust schemes. The merger of schemes may help to address some of the existing small pots issue; however, it cannot be known how many schemes will merge nor the potential impact

283 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2020tomarch2022

284 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

285 https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

286 https://assets.publishing.service.gov.uk/media/64c25790331a650014934cc5/value-for-money-a-framework-on-metrics-standards-and-disclosures.pdf

or operating model that this could entail (not all schemes operate a lifetime pot per member model).

- **Policy and delivery details –** Details of the policy are still being considered and worked through with industry and any further details may change the impact or implementation costs. Especially as further secondary legislation will be needed ahead of the policy being introduced.
- **Future transfer costs –** Although estimates have been sought from schemes on the future cost of transfers under an automated solution, any averages are inherently uncertain. In particular, there are evidence gaps around the marginal cost of each extra transfer and the exact effects of bulk transfers on costs, with the cost per pot of bulk transfers being highly subjective and sensitive to the number of deferred pots being transferred.

54. On balance, the level of evidence and data is considered proportionate to the planned legislation.

Policy objective

55. The policy aim is to:

    a. **Improve value for members,** by ensuring the system works better for members, reduces inefficiencies and overall costs whilst supporting greater member engagement.

    b. **Help remove inefficiencies for pension schemes**, by reducing the number of small, deferred pension pots that they have to administer.

- In doing so, any policy intervention needs to be affordable for government and the pensions industry and remain consistent with wider government pensions policy.

56. DWP's call for evidence considered solutions against five key criteria:

- Delivery of **overall net benefits for members** through improved value for money outcomes, achieving a meaningful impact on the number of existing and the flow of new small, deferred pots.
- **Complements member engagement** on their savings journey/retirement planning.
- **Supports a competitive, sustainable and more efficient workplace pensions market**.
- **Minimises complexity** and administrative burden for employers.
- **Commands confidence** in the system for savers and taxpayers.

57. The objective of this policy is to reduce the number of unprofitable deferred small pots which pension schemes currently administer, thus enabling schemes to provide greater

value for money for their members. It is anticipated that the preferred option would result in a material reduction of the number of deferred small pots within the system.

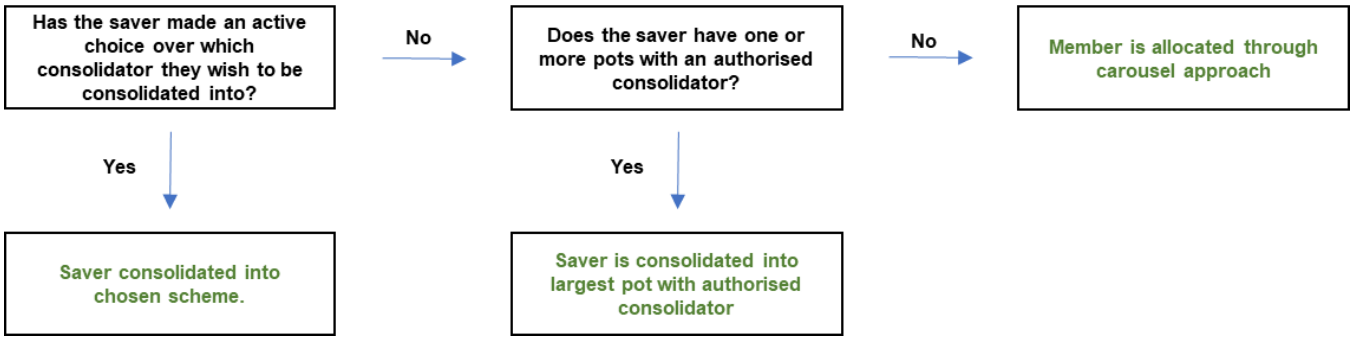
Summary of preferred option with description of implementation plan

58. The preferred option is for a small number of authorised default consolidators, under this approach:
    - When a member's pot meets the chosen eligibility criteria it would be automatically transferred to the member's default consolidator scheme. The current eligibility criteria outlined is:
        - A pot with a value below £1,000
        - A pot that has been deferred for at least 12 months (no member or employer contributions)
    - The consolidator schemes would be authorised schemes in which each member's eligible small pots would be consolidated into one consolidator pot.
        - In some instances, a pot would not be consolidated due to a data match required for consolidation not being achieved. This could be the result of a lack of or poor data quality but would mean that there would not be 100% consolidation of small pots in all cases.
    - The consolidation process would be automatic and would require no active engagement from members; however, the option would remain for member engagement within the process. Either through the option for members to opt-out of consolidation and/or the option for members to choose their own consolidator scheme from the selection of authorised schemes.
    - Where no active member decision is made in relation to their consolidator scheme, one of the following would occur:
        - For members that already have a pot within one of the consolidator schemes this would become their default consolidator reducing the need for transfers.
        - Remaining members would be distributed proportionally across the authorised consolidator schemes via a carousel system.
59. In the instance of a member having both an active and deferred pot within their consolidator scheme, the consolidated small pots should be allocated to the member's largest pot. This approach is thought to benefit members in the long term whilst reducing the complexity of the process. It should also support the overall aim of the Department to see members having fewer, larger pension pots. With it being anticipated that this

approach will reduce the number of pots to just two for a large number of members; one active and one deferred pot.

60. Figure 7 summarises the process in which members would be allocated to a consolidator scheme.

Figure 7 – The process of member allocation to a consolidator scheme



61. To achieve this, primary legislation and underpinning secondary legislation to set out the specifics of the consolidation framework will be required. As part of this, powers will be taken to ensure that the regulator(s) can monitor and enforce compliance where required. As a result, there are significant delivery steps still needed to be decided and iterated which means any specific policy details are subject to change. However, the best estimates of the policy, costs, and benefits are presented within this Impact Assessment to support transparency.

62. **Scope:** Engagement with industry has set the focus of consolidation solutions as deferred small pots that are within the AE workplace pensions market within charge-capped default funds (including sharia compliant funds). However, it will exclude those pots with guarantees. It is expected that the vast majority of small pension pots are in scope, across trust and contract-based schemes.

63. **Threshold:** The eligibility criteria as referred to above (paragraph 58) and discussed further previously (paragraph 22) was chosen to ensure the right balance was struck between achieving significant levels of consolidation but also limiting the impact on schemes. The eligibility criteria will remain under review. It is estimated there are roughly 13m deferred small pots eligible for consolidation – worth approximately £4.3bn.

64. **Default Consolidators:** Schemes are expected to apply for authorisation to become a consolidator scheme, with the Department intending to define the requirements consolidators must meet. It is expected to be only a relatively small number of schemes that would apply for authorisation, with the likelihood that only schemes with existing levels of scale that is sufficient to counter an initial influx of potentially loss-making pots would

apply for authorisation. The Department proposes the following to be encompassed within the authorisation criteria:

- Already an AE qualifying scheme
- Specific value of Assets Under Management (AUM)
- Provide the highest level of VfM outlined within the VfM policy
- Protection from flat fees above the current level of the de minimis[287] (a threshold that restricts the charging of flat fees on pots below the level set by the de minimis)
- Same scheme consolidation and financial sustainability
- Ability to accept incoming Protected Pension Ages

65. Schemes would be able to seek authorisation to become a consolidator scheme at any point, but it is anticipated that the majority of the authorisation will occur at the beginning of the policy.
66. The Department plans to proceed with a whole-of-market approach for consolidator schemes, allowing schemes from both the trust-based and contract-based side of the market to apply to become consolidator schemes under a multiple default consolidator solution.
67. The Department believes that this approach should drive significant interest from larger providers, resulting in a competitive market that supports greater member outcomes.
68. The current intention is to build the authorisation of consolidators out of the pre-existing Master Trust authorisation process, with The Pensions Regulator (TPR) being responsible for the authorisation of Master Trust schemes. Noting that it would not be possible to build out of the Master Trust framework for GPPs, the Department will work with The Financial Conduct Authority (FCA) to ensure that an appropriate regulatory framework can be established, subject to appetite, such that GPPs are held to an equal standard as Master Trusts if used as default consolidators. There would be ongoing supervision of the consolidator schemes which would likely be risk based by the regulators with the majority of the authorisation criteria unlikely to fluctuate.
69. The Department is considering the potential for a phased implementation of a default consolidator solution, with a range of phased approaches being considered. The Department understands the importance of a staged and phased approach to implementation recognising the importance of the number of pension transfers that will be undertaken. Consultations with industry will further develop the implementation approach

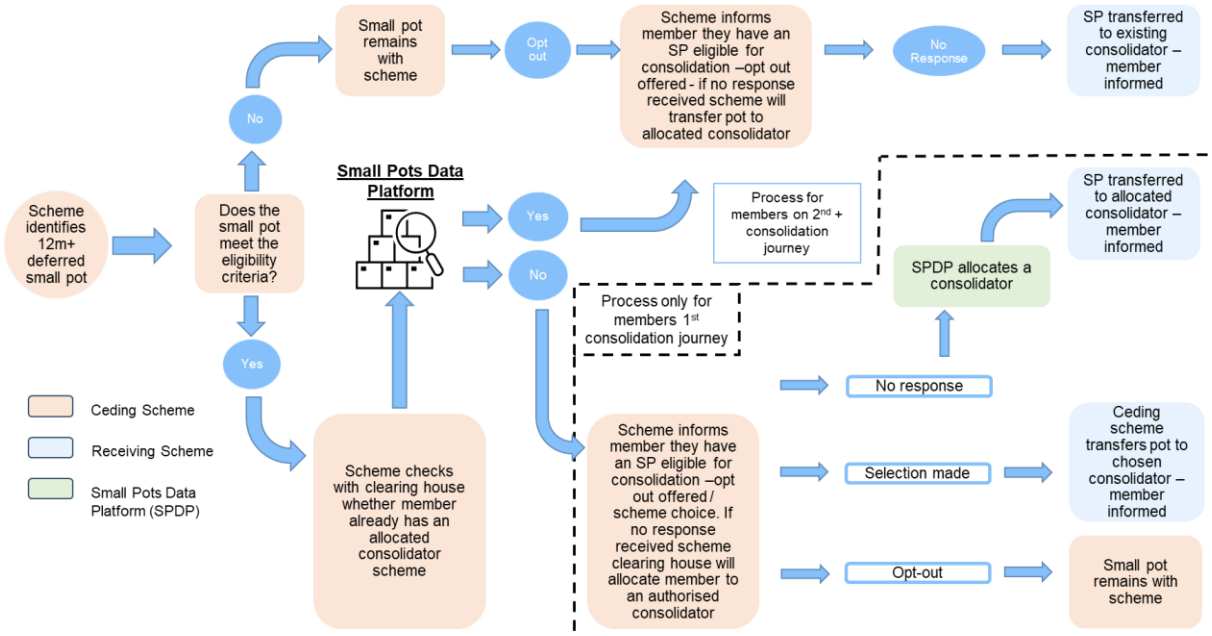
[287] https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/cost-and-charge-restrictions#:~:text=On%206%20April%202022%2C%20a,scope%20of%20the%20charge%20cap.

taking account of wider pension reforms, to ensure that the policy can be delivered successfully and to help distribute costs over time.

70. It is considered that a central mechanism will be necessary for a default consolidator solution in order to facilitate the transfer of pension pots between schemes. A feasibility review is being undertaken to advise on the specification needed for the Small Pots Data Platform, the terms of reference for the review were published within the Annex A of the Small Pots Delivery Group Report[288]. With the aim of identifying the most efficient and effective way of building the Small Pots Data Platform to provide value for money to members, schemes and the taxpayer.
    - A Small Pots Data Platform is currently the most developed concept for a central mechanism and therefore is used as the basis for a central mechanism throughout this IA.
71. Due to the commercially and personally sensitive nature of the data that a Small Pots Data Platform would require access to; an assessment of the delivery capabilities will be undertaken.
72. Provisionally, the following are considered as the key core functions of a Small Pots Data Platform, with further detail to be set out following recommendations and conclusions of the Feasibility Review:
    - Facilitation of the consolidation process (including the allocation of members to consolidators)
    - Data Matching
    - Data Verification
    - Payment of compensation, in cases where the liable scheme is no longer active
73. Figure 8 summarises the proposed process of a Multiple Default Consolidator solution, highlighting the interactions of schemes and the Small Pots Data Platform.

[288] https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

Figure 8 – The proposed process of a Multiple Default Consolidator solution



Description of options considered

74. Alongside the preferred option of a Multiple Default Consolidator solution, a number of other viable policy options as solutions to the challenge of deferred small pots have been considered, based on DWP's initial 2020 working group[289] which examined potential solutions. Figure 9 summarises all the policy options that have been considered.

Figure 9 – Summary of Options Considered

Solutions	Potential Benefits	Potential Limitations
<u>Option 0 - Do Nothing</u> Under this option the government would not intervene to address the problem of small pots. The introduction of the Pensions Dashboard and FCA's consultation on targeted support may indirectly help address the issue of small pots to a certain extent but would not be expected to solve the small pots challenge.	There are no perceived benefits accruing as a result of a "do nothing" approach.	The number of small pots would be expected to continue to grow, increasing the cost burden on schemes and continuing the detrimental impact on long-term member outcomes at retirement.

289 https://www.gov.uk/government/publications/small-pension-pots-working-group/small-pots-working-group-report#chapter-4--scheme-led-solutions--analysis-and-recommendations

Any direct intervention to address the issue of small pots would be the result of entirely industry-led solutions, with the expectation being that no industry wide solution would be introduced due to the complexities and difficulties that would occur.		
Option 1 - Default Consolidator (preferred option) Deferred small pots which meet the chosen eligibility criteria for automatic consolidation would be transferred automatically to a consolidator, with members being given an opportunity to opt-out if they wish. If members already have a pot within an authorised consolidator scheme this is where they would be allocated, otherwise they would be allocated to a consolidator from a carousel system unless an active choice is made by the member.	This could remove a significant number of deferred small pots, which could ease financial strains on pension schemes. It is anticipated that this approach will, over time, enable consolidator schemes to generate scale to drive greater value for money and efficiencies for their members. A member's deferred pots would be consolidated into a single pot within one scheme, making it easier for members to engage with their overall pension savings. It would not require active involvement from the member, although the member could choose their own consolidator if desired. No burden on employers.	It may have a distortive impact on competition in the workplace pensions market as schemes who become a consolidator may have a competitive advantage. There may be an increased burden in the process of identifying whether or not a member already has a consolidator pot or is already a member of a consolidator scheme. The cost of increased communications with members around their consolidator scheme and potential to opt-out, both a monetary and time cost.
Option 2 - Pot Follows Member (would also require legislation) When an employee moves jobs their deferred pension pot in their former employer's scheme would	This approach could remove a significant amount of deferred small pots, which could ease financial strains on pension schemes.	There will be some situations where this may cause complications and increase admin burdens, for example, multiple job holders.

automatically move with them to their new employer's scheme, if it meets the chosen eligibility criteria for automatic consolidation. Individuals would have the opportunity to opt-out and leave any/all deferred pots where they are.	It would not require active involvement from the member, although the member could choose to opt out of any automatic transfer if desired. The simplicity of deferred pots transferring to a member's active pot with their current employer may result in easier engagement with pensions. There is likely to be minimal cost to taxpayers as a result of this approach. The Department previously took primary powers, through the Pensions Act (Northern Ireland) 2015[290], to implement pot follows member.	Whilst there are primary powers to implement pot follows member, this work was paused due to barriers which needed to be overcome. Depending on the final design of a pot follows member approach, it may be the case that the current powers are no longer suitable. It is likely that further legislation would be required. As pot follows member makes a link to the active employer there may be situations where there is an increased burden on that employer. There is a risk, dependent on pot eligibility criteria, that some members' pots may reach the eligibility pot limit relatively quickly and the pots therefore become stuck in the system, resulting in the member still accumulating deferred pots – albeit at a greater value. A member's pot could be moved from a high performing scheme to a low performing scheme which could impact member outcomes.
Option 3 - Member Exchange (alternative to legislation) Under this option, pension schemes would use a trusted third-party data service to	As an industry led solution there would be no burden on employers. The small pots where matches between schemes are established	Would likely require government legislation in order to be an implemented solution, therefore not a viable non-legislative alternative.

[290] https://www.legislation.gov.uk/nia/2015/5/contents

conduct a regular exercise and identify 'matches', where they hold a deferred small pot for a member who is making active contributions into a pension with another of the participating schemes.	would be consolidated into a member's active pot.	The small pots in scope would be limited to just those held by the schemes involved. The number of small pots that members have could continue to increase if these small pots are created outside of the included schemes. Could become a significant burden on schemes to identify matches with other schemes.

75. Based on extensive engagement with industry, listening to member research, consideration on deliverability, and assessing the implications on competition, the Department has considered a default consolidator solution as the best way forward to address the issue of small pots.

Option 0 - Do Nothing

76. The implementation of a solution to address the proliferation of deferred small pots would not be expected under a do-nothing approach. There is no market-wide consensus amongst schemes on the best solution to move forward and the issues highlighted below (paragraph 97) around the member exchange pilot also highlight the difficulty in moving forward solutions to address the small pots problem without supporting government legislation.
77. Without intervention, individuals would still be able to request their small, deferred pots be transferred and consolidated. However, the onus is placed upon the member to pursue this, and schemes maintain discretion over whether to accept the transfer of any pots. Evidence suggests member-led consolidation remains low. In 2021, a DWP data gather of providers found less than 2% of members with multiple pots were requesting that they be consolidated[291].
78. Similarly low levels of consolidation were reported by FCA's Financial Lives Survey[292] which reported 5% of DC pension holders consolidated their pension pot in the 12 months to May 2022, equating to around 1.1 million members. This was a slight increase in the

[291] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf
[292] https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf

3% reported in 2020, however, at 5%, overall consolidation levels remain low and the figure for small pots specifically could be even lower due to the low pension engagement of many members with existing small pots.

79. Findings from Wave 2 of the PPLL survey[293] also suggest a relatively low rate of member-led consolidation. 25% of respondents aged 40-75 with a private pension indicated that they had consolidated some/all of their pension pots. The focus on adults aged 40-75 could potentially explain the comparably high percentage of respondents that indicated they had in some way consolidated a pension pot as those closer to retirement age may be more likely to consolidate pots as they begin to consider their decumulation options. Further details of the PPLL survey are discussed in the sections below (paragraph 147).
80. The introduction of the Pensions Dashboard[294], with schemes expected to be connected by October 2026, may help. This will provide a central location for members to access all their pension information. However, this will still be reliant upon individuals acting on a complex financial decision.
81. FCA consulted[295] on how its proposals under the Advice Guidance Boundary Review[296] could be applied to the Pensions landscape and the potential use of targeted support. Whilst this would not be expected to resolve the small pots issue, it would however be expected to complement a small pots solution for engaged or engageable savers.
82. Member research suggests members do want their deferred pots to be consolidated but face numerous barriers in doing so, including being unaware if they could consolidate, the process is perceived to be difficult and/or would involve high levels of effort and being unaware on how to consolidate their pension pots. Research suggests broad support for a solution that supports members with the consolidation of their deferred pots[297]. Attempts have been made to push industry to take on the consolidation of deferred pots but schemes found this to be challenging and signalled for government legislation to push this forward. As a result, this is not a viable option, and the number of small pension pots would continue to rise.

[293] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/planning-and-preparing-for-later-life-2024
[294] https://www.legislation.gov.uk/nisr/2022/296/pdfs/nisrem_20220296_en.pdf
[295] https://www.fca.org.uk/publications/consultation-papers/cp24-27-advice-guidance-boundary-review-targeted-support-reforms-pensions
[296] https://www.fca.org.uk/publication/discussion/dp23-5.pdf
[297] https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions#consolidating-deferred-pension-pots

Option 1 – Default Consolidator

83. A multiple default consolidator solution, explained previously (paragraph 58), is the Department's preferred option but two other design scenarios for a default consolidator solution were considered. These two design options were:
    - Single consolidator model (existing scheme) – Under this design, there would be only one authorised consolidator in which all eligible small pots would be consolidated into. The consolidator would be an existing scheme, either the chosen consolidator from those schemes who applied or a "consolidator of last resort" which would be chosen by the Department.
    - Single consolidator model (new scheme) – Under this design, there would also be only one authorised consolidator in which all eligible small pots would be consolidated into, however, the consolidator scheme would be a new scheme set up for the sole purpose of being a default consolidator. This scheme would therefore have no active members and would only be authorised to administer members' consolidator pots.
84. Having considered the potential for a single consolidator solution, neither design options are considered as viable solutions; the conclusion is that a single consolidator solution has the potential to impose significant implications on the pensions industry.
85. The transfer of the entire stock of small pots at the point of implementation as well as the entirety of the yearly flow of small pots created each year thereafter would represent a significant number of small pots to be consolidated within one scheme. The current stock of small pots is estimated at 13m with an estimated AUM of around £4.3bn, meaning a single consolidator at implementation would gain an assets value greater than that of many of the smaller Master Trust schemes. This could potentially undermine the level of competition within the DC pensions industry, with a specific impact on the trust-based market (where the majority of the small pots are). The higher level of transfers that would also be required could unnecessarily complicate the process and introduce higher ongoing costs.
86. The financial stability of the consolidator scheme could also be impacted due to the loss-making nature of small pots, with pots below £1,000 largely seen as been uneconomical for schemes. Absorbing a large number of loss-making pots, such as 13m small pots could be financially detrimental to any scheme with the need for a large number of profit-making pots to balance out the large number of loss-making pots, profit making pots that a new single consolidator scheme would not have.

87. The potential for financial instability and wider impacts on the pension industry as the result of a single consolidator solution could also impact members, with potential impacts on member outcomes at retirement if a single consolidator was forced to increase charges to address the unbalance between loss-making and profit-making pots. A single consolidator solution would also remove the choice for members to choose their consolidator schemes, with members instead having to consolidate into the only consolidator scheme unless they actively pursued consolidation themselves, which is unlikely due to the high level of inertia around pensions.
88. Therefore, going forward a multiple default consolidator solution is the only option design that is under consideration by the Department. The distribution of small pots amongst several consolidators should mitigate the distortive impacts of a single consolidator solution and drive competition within a pensions consolidator market and help keep schemes focused on improving outcomes for members.
89. Through the Small Pots Delivery Group, industry was consulted on the potential for a two-tier approach, which would have seen some schemes apply to be a consolidator only for members in which they already have a pre-existing relationship with. However, the Department has decided not to proceed with this approach, with larger schemes indicating during Delivery Group meetings that a two-tier approach would make authorisation as a consolidator scheme considerably less viable and increased the risk of schemes not seeking authorisation to act as a consolidator for the whole of the market. Instead, the focus is on a single-tier authorisation approach which the Department believes will result in a more competitive consolidator market that helps to support improved member outcomes.

Option 2 - Pot Follows Member

90. An alternative proposal was for the Department to legislate to support a “Pot Follows Member” (PfM) model which has been explored in depth. Under a PfM model, the Department could expand on current primary powers (if required) to allow members’ small pots to be automatically transferred into their active workplace pension scheme as members move between employments. Under PfM when an individual is automatically enrolled into a new DC workplace pension scheme, their new scheme would check whether they have an existing deferred pension pot with another scheme. If they do, any existing pots would be automatically transferred into the member’s new scheme (providing it meets the chosen eligibility criteria for automatic consolidation).

91. If an individual left a pension scheme but didn't commence pension contributions into a new scheme (for example, due to a period of unemployment or opting out of their new employer's scheme), the pension pot would remain deferred until the individual recommenced employment and/or pension contributions. Individuals would have the right to opt-out of any transfer under PfM.
92. It is also envisaged that a Small Pots Data Platform (see paragraph 70) would be required for PfM with the need for data standardisation and a central system to facilitate the transfer of pots between schemes.
    - As mentioned previously there is uncertainty around the infrastructure required and the exact role that a Small Pots Data Platform would facilitate under a multiple default consolidator solution, the same is the case for the involvement of a Small Pots Data Platform under a PfM model. Therefore, for the purposes of this IA the same assumptions around a Small Pots Data Platform have been made across both a multiple default consolidator and PfM solution. However, there would likely be some deviation between the two solutions, but any differences are unknown with the role and infrastructure of a Small Pots Data Platform under a consolidator solution continuing to be explored through the feasibility review (paragraph 70).
93. There are a number of challenges, however, including:
    - **Moving to a poor performing scheme –** As members would be moving between schemes, depending on who their employer enrols them with, there is a risk that members' pots could be moved from a high-performing scheme into a poor-performing scheme. This should be mitigated, somewhat, over time with the proposed introduction of the Value for Money framework[298] which will ensure all members are receiving value for money.
        - In a consolidated DC market with the implementation of the VFM framework, the risk of pots being moved from high to low-performing schemes would be expected to reduce and therefore the extent of the risk altered. The extent to which, however, would depend on the future changes within the DC market and the VFM offered by schemes.
    - **Pot Eligibility –** Depending on the pot value threshold set for PfM eligibility, there is the risk with the continued consolidation of small pots into members' current active pots that overtime, if these active pots were to become deferred, they could have a

[298] https://www.gov.uk/government/consultations/value-for-money-a-framework-on-metrics-standards-and-disclosures/value-for-money-a-framework-on-metrics-standards-and-disclosures

value greater than the set threshold and therefore the pots would not be eligible for consolidation under a PfM model and would remain deferred.

    - In some instances, the same could occur under a default consolidator solution but the risk is thought to be reduced in comparison as multiple deferred pots would not be combined into an active pot that could subsequently become deferred.

- **Liquidity –** There could be the requirement for schemes to regularly transfer pots to other schemes with the potential fast-paced nature of the labour market and the potential for significant job churn especially for younger and lower-paid individuals (which are considered more likely to create a small pot). Therefore, schemes may be required to hold a higher proportion of liquid assets than they otherwise would to facilitate the transfer of a large number of pots up to £1,000 on a regular basis. This has a number of impacts:

    - Schemes may need to hold greater liquidity to manage uncertain cash flows leaving the scheme, which could potentially impact on investment returns (due to the 'illiquidity premium' – an incremental return that compensates an investor for owning an asset that is not highly liquid[299]). Therefore, as a result, members within these schemes could experience lower investment returns – this can be shown through investment returns for younger savers being much greater than those nearing retirement reflecting a mix of safer and liquid assets. CAPA data estimated the average 5-year annualised return for a young saver was 8.5% compared to 5.5% for someone 5 years from retirement[300].
    - The impact would depend on the number and speed of transfers required, an initial limit similar to the £1,000 limit proposed for a default consolidator solution would help to mitigate the extent to which schemes experience impacts under a liquidity risk due to the low value of pots being transferred. If the pot limit was to be uplifted in due course, the impacts of a liquidity risk could become more pronounced as the value of the pots being transferred increases.
    - The IFS[301] considered there was at least some potential for long-term investments to be hindered as a result of members' pension pots being moved every time they move jobs under PfM.

[299] For example see empirical estimation of the 'illiquidity premium' by Amihud et al. (2015): https://www.sciencedirect.com/science/article/abs/pii/S0304405X15000483

[300] https://corporate-adviser.com/ca-master-trust-gpp-defaults-report-key-findings/ (CAPA Master Trust and GPP Defaults Report 2024)

[301] https://ifs.org.uk/sites/default/files/2025-02/IFS-Report-Small-pension-pots-problems-and-potential-policy-responses%20%281%29.pdf

94. Compared with a default consolidator solution, the current stock of small pots has been modelled by DWP to be dealt with at a slower rate under a PfM solution over the 10-year appraisal period. The respective cumulative reductions in small pots modelled are shown in Figure 13 (multiple default consolidator) and Figure 16 (PfM).

Option 3 –Member Exchange

95. Under this option, government would support pension schemes in exploring whether bulk transfers without consent legislation could be used to enable schemes to consolidate deferred pots into a scheme in which the member is actively saving into. Under this approach, pension schemes would use a trusted third party pseudonymised data service to conduct a regular exercise to identify matches where they hold a deferred small pot for a member who is making active contributions into another pot within a different scheme. Where a match is identified between schemes, these pots could then be transferred. This would be an industry-led solution and have minimal to no burden on employers.

96. However, there are significant risks. These includes:

- **Burden** with constant requirements on schemes to check for "matches" across their book of members. This would add costs and may increase errors.
- **Scope –** Not all schemes would take part and therefore the impact on reducing small pots would be lower compared to a legislated option.
- **Consistency –** There would be a need to agree a consistent approach across the industry, which could be hard to reach without government intervening.

97. Several pension schemes have attempted to set up a voluntary pilot Member Exchange trial to explore the possibility and identify any challenges that may need to be overcome. A few areas were identified which trustees would need to consider for the trial to move forward. The main areas of concern were summarised within an update in PLSA's Small Pots Cross Industry Co-Ordination Group[302]:

- **Bulk Transfers without consent –** Trustees' fiduciary duty to their members means a large range of characteristics and scenarios must be considered in order to assess whether any bulk transfer would be within the interest of all members.
- **Cost and Charges –** Potential concerns were raised over the impact of flat fees if two pension pots that were previously below £100 when combined had a value above £100 and therefore could potentially face a flat fee charge. Whilst there was consensus that broadly the combination of two pension pots should see lower overall

[302] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf

charges for members, there would be the risk of detriment to some members through higher charges if a flat fee were to be charged.

- **Environment, Social and Governance Investment –** Wider concerns that pots could be transferred to schemes that don't place the same importance on ESG considerations and the wider issue of the overall quality of service and value for money that would be offered to members.
- **Normal Minimum Pension Age –** The Government's decision to raise the Normal Minimum Pension Age to 57 in 2028[303] could impact members in schemes that offer an "unqualified right" to take their retirement benefits at a younger age. The movement of members' pots between schemes could see these members lose their entitlement to an "unqualified right".

98. Due to the issues and concerns that arose during the pilot trial it became clear that if trustees were to move forward with introducing a member exchange solution it would likely require government legislation to enable trustees to take the required actions.
99. The potentially limited scope could also leave a significant proportion of small pots unaddressed, and the need for government legislation for an option that was considered as a non-regulatory industry-led alternative has resulted in the Department concluding that member exchange would not be a viable solution to the industry-wide proliferation of small pots.

Costs & Benefits

100. The Department has estimated the potential costs and benefits to industry and individuals associated with a Multiple Default Consolidator Model and a Pot follows Member solution.
101. There are no expected monetary benefits of a do-nothing approach with costs to members and industry expected to be a continuation of the ongoing impacts of small pots and which have therefore not been monetised, with years of discussion resulting in no agreed way forward without government intervention.
102. Due to the uncertainty around the scope of a member exchange solution and the view that this would not be a viable alternative to a regulatory approach (though could be complementary), the potential costs and benefits have not been monetised. Any estimate of the costs and benefits under a member exchange solution would be dependent on the participating schemes, the scope they decide to apply, and the method they agree to coordinate matches. This means no estimate of the costs or benefits is possible.

[303] https://www.gov.uk/government/publications/increasing-normal-minimum-pension-age/increasing-normal-minimum-pension-age

103. Figure 10 summarises the central estimates of the costs and benefits over a 10-year appraisal period for each of the policy options considered by the Department to address the challenge of deferred small pots.

Figure 10 – Summary of the Costs and Benefits (in Present Value[304]) estimated for the considered Policy options

Do Nothing	
Neither the costs or benefits to industry or individuals have been monetised	
Multiple Default Consolidator (Present Value)	
Industry	**Individual**
Familiarisation Costs: £0.2m	Consumer Surplus (benefit): £72.7m
Small Pots Data Platform (cost): £212.3m	Lower Charges (benefit): £622.1m
Transfer Costs: £194.7m	
Pot Administration Savings: £957.7m	
Net Benefit: £550.5m	**Net Benefit: £694.8m**
Pot follows Member (Present Value)	
Industry	**Individual**
Familiarisation Costs: £0.2m	Consumer Surplus (benefit): £49.9m
Small Pots Data Platform (cost): £212.3m	Lower Charges (benefit): £311.0m
Transfer Costs: £143.6m	
Pot Administration Savings: £785.8m	
Net Benefit: £429.7m	**Net Benefit: £360.9m**
Member Exchange	
Industry	**Individual**
Neither the costs or benefits to industry or individuals have been monetised	

(Costs are highlighted in red)

[304] The costs and benefits are presented here in Present Value form, in 2024 prices, using 2028 as the base year for the present value calculation for the 10-year appraisal period as in the Regulatory Policy Committee/Department for Business and Trade Impact Assessment Calculator (https://www.gov.uk/government/publications/impact-assessment-calculator--3). Unless stated as Present Value form, costs and benefits listed elsewhere within this IA have been presented in nominal form.

Key Assumptions

104. Due to the uncertainty that surrounds the data available around small pots, with much of the data used being based on estimates, a number of key assumptions have been left constant across the analysis of the viable policy options (Multiple Default Consolidator and Pot follows Member).

105. **Year of Implementation and ongoing Costs and Benefits –** For the purposes of this IA the Department has considered 2030 as the earliest feasible implementation date for a solution to the small pots problem, taking into account further work needed to finalise any policy specifics and the requirement of a Small Pots Data Platform which would take time to develop and implement. The exact implementation date would be dependent on the timetable for supporting primary and secondary legalisation alongside the above-mentioned factors and others, therefore, the assumption of implementation in 2030 has been used as a realistic possibility to demonstrate the cost/benefits of the policy proposals.

- **Transition Costs –** The Department considers that the first two years prior to full implementation (2028-2029/30) will involve the transition costs to industry of the policy introduction.
- **Ongoing Costs & Benefits –** Ongoing costs and benefits such as the cost of transfers and the savings to members have been assumed to commence on an ongoing yearly basis after implementation in 2030.
- Therefore, this IA assesses the impact across a 10-year appraisal period, in which 2 years of transition costs are estimated (2028-2029) and then the ongoing costs and benefits are estimated over the subsequent 8 years after the policy implementation (2030-2037).
- **Policy Delivery –** The implementation of the policy is assumed to address the **stock** of existing small pots in the year of implementation (assumed to be 2030).
- Subsequent years are assumed to address the expected yearly **flow** of small pots created during each respective year.
- The consolidation of small pots has been assumed to take place at any point in time during each yearly period, but before implementation delivery details would need to be considered.
- Instead of the transfers occurring throughout the year, it could be decided that there will be chosen point within each year in which all eligible pots would be consolidated.

106. The Department considers a 10-year appraisal period to be appropriate for this IA due to:

- Pensions having very long-time horizons, for example, a person who enters the labour market aged 22 will not be able to access this money for another 35 years. As a result, consideration was given to whether the appraisal period should have been assessed over a longer timeframe, however:
    - **Increasing uncertainty –** This IA already includes a significant number of assumptions and uncertainties and by going further into the future would present even greater uncertainty.
    - **Establishing the counterfactual becomes harder –** The pensions landscape is constantly changing, therefore the longer the considered timeframe, the greater the likelihood things will naturally change. These effects, however, cannot be known.
- A 10-year appraisal period is also consistent with the other IAs included as part of the Pension Schemes Bill which all also use a 10-year appraisal period.

107. **Authorisation Costs –** To partake in an automated small pots solution, schemes would likely face authorisation costs levied by the regulators. Any authorisation costs have not been monetised, partly due to the ongoing uncertainty around what form any authorisation costs would take with discussions ongoing with the regulators around the authorisation of consolidator schemes under a default consolidator solution. To apply for authorisation would be a choice of individual schemes and the Department considers that only those schemes that project they would see a benefit from seeking authorisation would do so and therefore for these schemes the benefits presented after authorisation would be expected to be greater than the costs imposed upon them in the authorisation stages. Under a multiple default consolidator solution, there is the potential that if the pot limit were to be uplifted over time, with the Department committed to continually review the eligibility criteria, that some of the pots consolidated into consolidator schemes could be profitable and therefore represent a significant benefit to the consolidator schemes. Therefore, authorisation costs have not been considered as a true direct cost to schemes for this IA.

108. **Small Pots Data Platform –** The build and implementation costs of a Small Pots Data Platform are expected to be a significant cost of an automated solution. The fundamental role of a Small Pots Data Platform would be expected to be similar under both a default consolidator or PfM solution, therefore the same build and implementation costs of a Small Pots Data Platform have been assumed across both policy options.
    - Whilst it is believed that the costs of establishing an automated solution should be relatively small in comparison to the long-term benefits of automatically transferring pots (in terms of reduced administrative burden), at this stage the Department is

unable to present a precise estimate of the transitional costs associated with developing a solution that facilitates this (including its design and implementation, and any transitional changes schemes would need to make to their processes and infrastructure), as well as the ongoing costs of maintaining and updating it.

- Therefore, a combination of international evidence from Australia and the estimated costs of the implementation of the Pensions Dashboard have been used to estimate the potential cost of a Small Pots Data Platform.
- Australia's SuperStream reforms (which included a central mechanism and gateway platform) took about 4 years to fully develop and had investment costs of an estimated A$1.5bn[305] (£930m[306]) over the 2012 to 2018 financial years. However, this was based on an estimated A$900m (£560m) cost to schemes and A$600m (£370m) cost to employers. The cost to schemes were borne through levies. Due to differences in the pension systems, there should be no costs to employers in the UK.
- Initially, Australia projected the costs of implementing the SuperStream reforms to be A$467m (£280m) over 7 years[307]. Of this, about 2/3s of the costs were expected to be IT-based, the majority of which were expected to be data and e-commerce standardisation. The initial estimates did also identify savings of £620m each year in processing costs, averaging £19 across each of the 33 million accounts. The temporary levy costs were expected to increase costs by less than £3 per account.
- Any solution implemented in the UK, however, is likely to build upon the data standards used for the Pensions Dashboard – a similar large-scale reform with an estimated upfront cost to industry of £324m[308]. As data standardisation will have already been necessary for the Pensions Dashboard, it is expected that £324m would represent the top end of an estimate for the transitional costs to industry of an automated transfer system as some data standardisation costs will have already been incurred. If data standardisation is assumed to account for up to 2/3s of the costs, as in Australia, that would represent significant savings. There will also likely be some overlap between the ongoing costs for Dashboard and an automated transfer solution, such as the costs associated with updating and maintaining data and ensuring regulatory compliance. The ongoing costs to schemes that are unique

[305] https://s3-ap-southeast-2.amazonaws.com/ehq-production-australia/53e3f6fa82b1a879b47722905068f5e523748c45/documents/attachments/000/062/060/original/SuperStream_Program_Benefits_Report.pdf?1504139268

[306] Based on a A$/£ conversion rate of 0.62 in August 2017.

[307] https://ministers.treasury.gov.au/sites/ministers.treasury.gov.au/files/2019-08/SuperStream_factsheet.pdf

[308] https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

to an automated solution are not fully known at this point, though most are assumed to be captured within the estimated costs of transfers.

- A transition and build cost of £324m is considered to be a high estimate of the cost of a Small Pots Data Platform, with the Department's current best estimate being £216m with 2/3s of the cost being for data standardisation & processes (£144m) and 1/3 for the build of a Small Pots Data Platform (£72m). Engagement with industry has suggested that due the Pensions Dashboard programme, much of the data processing that would be required has already been done - therefore lowering the required costs of a Small Pots Data Platform. This is estimated to account for a saving in the region of one-third of the total cost of implementing a Small Pots Data Platform, therefore representing a reduction from £324m to a best estimate of £216m. This central estimate is highly uncertain and will be dependent on the specification of a Small Pots Data Platform. Nevertheless, at this point in time, based on the very limited evidence, this is the best available information to inform the cost until further policy details emerge.
    - **Data Standardisation –** For the purposes of this IA any additional costs around a Small Pots Data Platform have not been monetised or estimated largely due to the uncertainty around any additional costs. It is possible that schemes do face additional costs as a result such as increased communication costs to explain the process to members and broader costs outside of data standardisation.
    - With the assumption that significant costs savings could be leveraged through the data standardisation that has already occurred for the Pensions Dashboard, the central estimate of £144m data standardisation cost is thought to also cover any additional costs that schemes would face as a result of the implementation of a Small Pots Data Platform, however, this cost does remain inherently uncertain.
- For the IA it is assumed that the central estimate of £216m is split evenly across the 2 years of transitional costs (2028-2030) and is a cost to schemes. The data standardisation costs would be the costs to schemes in order to meet the requirements to facilitate the transfer of pots alongside the Small Pots Data Platform. More detail on this is discussed below (paragraph 127).

109. **Opt-Out –** Members can choose to opt-out of the policy, but it is expected that any opt-out would remain low and an opt-out rate of **3.5%** has been assumed. Given the relatively low value of the pension pots being moved, and that individuals have already not opted-out of

AE in order to create the small pot, it is expected that the opt-out rate would be lower than that for automatic enrolment which varies around 8-10%[309]. This assumption is supported by a range of other evidence including:

- **International Evidence –** Australia's stapled pot model, which sees members keeping the same pension pot across their working lives, found just 3.5% of assets in the Australian pension market switch schemes each year[310] (i.e. a member has decided to change which pension scheme their contributions are paid into).
- **Default Arrangement –** TPR data[311] shows that just less than 97% of total memberships (where a default arrangement is both available and known) are within default funds, leaving just less than 3.5% of memberships outside of schemes' default funds. As the consolidation of small pots would not involve any active changes in contributions but rather see the movement of members' pots between schemes, the level of members opting out of default funds is considered a useful proxy.
- **Current Consolidation Levels –** Members who currently consolidate their pension pots themselves may opt-out of an automatic solution in-order to remain in-control of the consolidation of their pension savings. As referenced previously (paragraph 78), member-led consolidation remains low between 3-5% in recent years[312].

110. **Matching Rate –** Low engagement with pensions can result in poor data quality, with members' data quickly becoming outdated as they move between employments, etc. Therefore, it is assumed that in some instances not all of the small pots eligible for consolidation would be able to be matched to an individual and instead would result in a mismatch, where the data available does not sufficiently match that held on record by schemes and therefore the transfer cannot occur securely. As part of the Small Pots Delivery Group, stringent matching criterion was recommended to ensure the accuracy of the transfers of pension pots, and it is this criteria that has been used as the basis for a matching rate assumption.

- **Primary data set:** First name, Surname, Date of Birth and NINo
- **Supplementary data set:** Mobile Number, Email Address and Previous Addresses and Post Codes.

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309 https://www.gov.uk/government/statistics/ten-years-of-automatic-enrolment-in-workplace-pensions/ten-years-of-automatic-enrolment-in-workplace-pensions-statistics-and-analysis

310 https://corporate-adviser.com/australia-pensions-special-pot-for-life-a-model-for-the-uk/

311 https://webarchive.nationalarchives.gov.uk/ukgwa/20240605050724/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023/occupational-defined-contribution-landscape-2023-annex

312 https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf

- Evidence and research around a matching rate between pensions pots and members is limited but the Department has called upon several research reports to build up a matching rate assumption.
- **PLSA's Small Pots cross-industry co-ordination group**[313] included analysis conducted by ITM on the probability that a pension pot would be matched to a member correctly based on a selection of data items. The research distinguished between whether a correct match would be made and then whether a correct match was likely to actually occur. Based on the criteria: NINo, Surname, DoB and First Name, the research concluded a 91.6% chance of a correct match, with a 90.5% chance it would occur. The report concluded that "forming conclusions… for the likelihood of mismatches… is statistically challenging, anything like a 9% chance of a mismatch may be too high to provide assurance".
- **Initial findings from PPI's Pensions Data Project**[314] show that over the last 5 years, the data supplied was consistent and to a high degree of accuracy and quality. The findings also suggest that combining data across schemes should result in many exact matches being made. 85% of good matches were classified as an exact match. There were also a large number of partial matches (47% of potential matches in 2022) that would require further verification for a match to be made.
- If a correct match was not achieved, the Small Pots Data Platform would work with schemes to undertake further tracing to update member records, with a requirement on schemes throughout to ensure that member data is kept up to date. Work continues with HMRC to assess the possibility of accessing HMRC data for the purposes of improving data matches. The matching programme under a small pots consolidator would likely build upon that of the Pensions Dashboard and therefore a similar mismatch rate may be expected. A report by Pension Fusion[315] continued to attempt matches with those pension records that were not matched in the original matching exercise. Over 10 tests with differing data criteria, an overall mismatch rate of below 1% was reached.

313 https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2021/Small-pots-cross-industry-co-ordination-group-update-report.pdf

314 https://static1.squarespace.com/static/5d88d0560f00b11d45ecc14e/t/67ab67b59770e3017c018071/1739286456765/202502+PDP+Lessons+Learned+matching+provider+data.pdf

315 https://www.pensionfusion.com/sites/default/files/2022-09/Pension%20Fusion%20-%20Pensions%20Dashboards%20-%20Getting%20to%20the%20heart%20of%20matching%20-%20Single%20page%20view.pdf

    - The Pensions Data Project reported 10.1m bad matches, an average of 0.44 bad matches per member, but the anonymous nature of the member records involved meant that no further verification using additional data was possible.
- Based on these sources and the assumption that matching rates should improve over time a central assumption of a **5% mismatch rate** has been used. Accounting for previous research such as that conducted by ITM and the research that suggests that correct matches can be made after further matching attempts, a mid-point of 5% between 1% and 9% has been taken as a central estimate.
- As with any automated solution that would involve the transfer of members' pension pots there is a potential risk of members' pots becoming lost or an incorrect match being made, resulting in a pension pot being matched and transferred to the wrong member. DWP has worked with industry (as part of the Small Pots Delivery Group) and continues to do so to formulate the best procedures to address these potential issues.
    - The plan is to ensure that the appropriate compensation is available to members – discussions are ongoing around how this should be funded and how it would be administered and managed
    - The rate of incorrect matches occurring is expected to be low, with a very high standard of matching expected by schemes with initial findings from PPI's Pensions Data Project finding a low risk of wrong matches being made based on a strict matching criteria and overall good quality data records across the schemes involved.
    - The mismatch rate represents an assumption of the number of pots that would either be transferred to the wrong member (which is expected to be minimal) and those pots that cannot be transferred either due to insufficient member data available or the available data being of insufficient and poor quality.

111. Both the opt-out and mismatch rate assumptions have been modelled on a per pot basis rather than being applied on a per member basis by using the average number of pots per member (paragraph 114). This is due to a number of reasons including:
    - There is inherent uncertainty about the behaviour of individuals when it comes to the decisions around opting-out, it could be that an individual would continue to opt-out in the future for each small pot they accrue. Alternatively, this may not be the case, and an individual may only opt-out of the consolidation of one of their multiple small

pots over their working lives. This could be to keep a certain small pot within its existing scheme, for a specific reason, or forgetting to, or not engaging with, opt-out.

- Any mismatches of pots would not be individually linked and would likely be a result of the quality of data held previously by employers or by pension schemes. Therefore, the likelihood of a pot being mismatched should not increase for members who have already experienced the mismatch of a different small pot within a different scheme if they provided the required data to employers or schemes.
    - There is the possibility that some members be it due to characteristics or engagement with their pensions may be more prone to a mismatch of their small pots; however, the impacts or existence of such a link is unknown and therefore cannot be considered within this assumption.
- Therefore, the opt-out and mismatch rates are applied on a per pot basis to account for potential changes in member opt-out behaviour and the uncertainty about any resulting mismatches.

112. **Administration Costs –** It is assumed that the marginal costs of administrating a small, deferred pension pot (and in turn the saving from no longer having to) is **£20 per annum.** This figure is based on provider data from DWP's recent 2024 data gather[316]. These findings gave a range that was largely between £10-£30, therefore a midpoint of £20 has been taken as an estimation. This aligns with DWP's previous 2023 Call for Evidence[317] where provider data ranged between £5-£75 per annum, with a potential breakeven point around a pot value of £4,000. With an average AMC close to 0.5% across DC schemes, 0.5% of £4,000 would give a breakeven point around £20. As a result, a lower estimate of £10 and a higher estimate of £30 have been presented in sensitivity analysis of the costs and benefits of a multiple default consolidator solution (**Annex B**).

113. The midpoint of estimates from industry data have remained similar over time and therefore administration costs are not assumed to change over the 10-year appraisal period, with the fixed costs of administering a small pot not expected to change significantly or be impacted as a result of a consolidator solution.

- As consolidator schemes grow in scale in terms of memberships, the average fixed administration costs per pot could fall. However, it is not possible to know how the scale of the consolidator schemes may grow (with uncertainty over the number of

316 https://www.gov.uk/government/publications/small-pots-delivery-group-report/small-pots-delivery-group-report

317 https://www.gov.uk/government/consultations/ending-the-proliferation-of-deferred-small-pension-pots/ending-the-proliferation-of-deferred-small-pots

consolidator schemes among other factors) and therefore any potential impact of this cannot be accounted for.

114. **Multiple Pots –** Assumptions on the proportion of members that are expected to have multiple (more than one) deferred small pots are based on DWP's analysis of findings from ONS' Wealth and Assets Survey[318]. The Wealth and Assets Survey (WAS) is based upon self-reported findings from individuals and therefore, especially due to the inertia around pensions there is the potential for individuals to undercount the number of deferred pension pots they may have. The Department considers this to be the best estimate available around the number of deferred pension pots per individual. Early findings from PPI's Pensions Data Project[319] suggest an average of 1.3 memberships per individual across the five schemes involved, matching the 1.3 (rounded to the nearest Tenth) pots per individual estimated from findings from Wealth and Assets Survey Round 8 (2020-2022).

    - The number of members that were identified within the Pensions Data Project[320] across multiple schemes increased from 14% in 2019 to 18% in 2022.

115. **Communication Costs –** The increased transfers of pension pots could increase the costs to schemes in relation to communications. The transfer process could include a number of communications to be sent such as informing members of the transfer and requesting if the member would like to opt-out or choose a consolidator scheme (under a consolidator solution). This could therefore increase the overall communication costs involved for schemes. It is expected that these increased costs would be offset by a reduction in communication costs elsewhere through the reduction in small pots over time. Any improvements in engagement as a result of consolidation could improve digital engagement and therefore further reduce the need for paper communication which represent a significant cost over digital communication.

    - Any communication costs experienced within the transition period and particularly those around the setup of the Small Pots Data Platform are assumed to be covered by the estimated £144m data standardisation costs, this is explained further previously (paragraph 108).

318 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/debt/methodologies/wealthandassetssurveyqmi

319 https://static1.squarespace.com/static/5d88d0560f00b11d45ecc14e/t/67ab67b59770e3017c018071/1739286456765/202502+PDP+Lessons+Learned+matching+provider+data.pdf

320 https://static1.squarespace.com/static/5d88d0560f00b11d45ecc14e/t/67ab67b59770e3017c018071/1739286456765/202502+PDP+Lessons+Learned+matching+provider+data.pdf

Option 0: Do Nothing Costs & Benefits

Costs and Benefits to Industry

116. Without intervention to address the issue of small pots there would be no additional costs or benefits to schemes or members. Evidence shows that over 10 years from 2028-2037 the number of small pots will likely rise from around 18m to close to 30m without intervention based on the current central estimates for the rate of yearly growth (paragraph 128).

117. Based on the average small pots value of £330 being charged the average AMC across Qualifying bundle schemes of 0.48%[321] - this would mean schemes would be generating £1.58 per pot each year, against an estimated administration cost of around £20 (paragraph 112). Meaning potential losses of over £18 per small pot each year.

118. It is estimated that across existing pots below £1,000, industry costs are already close to £240m a year, with the Small Pots Cross Industry Co-Ordination Group estimating that "the proliferation of small, deferred pensions by 2030 will likely result in wasted administration costs of around a third of a billion pounds per annum"[322]. By 2038, without intervention this could mean losses above half a billion pounds per annum, a significant cost burden on schemes.

119. Combining the already high levels of industry losses as a result of small pots alongside the high level of individual inertia around pensions (preventing individuals from requesting their pots be consolidated) and the potential expansion of automatic enrolment to 18-21 years olds[323] industry losses could continue to rise even further with the potential for the pensions landscape to be further inundated with the creation of small pots.

Costs and Benefits to Individuals

120. The AMC levied upon the majority of small pots is not enough to cover the administration costs borne by schemes and this would be expected to continue with no intervention. To address this, many members with larger pension pots are effectively charged higher fees to cross-subside the loss-making nature of small pots. Higher charges reduce the value of members' pension pots and result in poorer retirement outcomes. It could be expected that as the number of small pots continued to grow this problem becomes increasingly exacerbated.

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321 https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes#member-borne-charges-within-the-cap

322 https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2022/Small-pots-co-ordination-group-spring-2022-report.pdf

323 https://commonslibrary.parliament.uk/research-briefings/sn06417/#:~:text=A%20review%20of%20the%20policy,changes%20in%20the%20mid%2D2020s.

121. The introduction of the Pensions Dashboard[324] will provide an online platform for members to centrally access their pensions information, in the hope to address low engagement. The expected level of engagement with Dashboards remains uncertain and as the Dashboard would not be a tool to enforce consolidation, the impact of its implementation upon consolidation is therefore unknown.

122. The Pensions Dashboard should help to re-unite members with their lost pots, as whilst members can currently use the Pensions Tracing Service to trace any lost pots, the Pensions Dashboard should display all pots belonging to a member including any lost pots within a central online infrastructure. Therefore, this has the potential to reduce the number of lost pots that need to be found at the point of decumulation and could potentially have some impact on member-led consolidation figures. All this could make it easier for engaged members with lost pots to make pension decisions and improve the experience for members at the point of decumulation.

- Prior to the implementation of the Pensions Dashboard, the suggestion is that use of the Pensions Tracing Service is low. Findings from Wave 2 of the PPLL survey[325], discussed below (paragraph 147), suggest only 3% of all respondents aged 40-75 had used the Pensions Tracing Service in the past 12 months or had checked for lost pension pots. This is a potential indicator that wider pensions engagement remains low.

Option 1: Multiple Default Consolidator (preferred option) Costs & Benefits

123. It has been assumed that all deferred small DC pots created since and as a result of AE are in scope, and that all DC workplace pension pots below the pot size limit of £1,000 are automatically transferred (minus 3.5% opt-out and mis-match rate of 5%).

124. Figure 11 summarises the costs and benefits estimated under a Multiple Default Consolidator Solution.

[324] https://www.pensionsdashboardsprogramme.org.uk/

[325] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/planning-and-preparing-for-later-life-2024

Figure 11 – The estimated monetised costs and benefits to industry and individuals of a Multiple Default Consolidator Solution

Multiple Default Consolidator	
Industry	**Individual**
Familiarisation Costs: £0.2m	Consumer Surplus (benefit): £81.0m
Small Pots Data Platform (cost): £216.0m	Lower Charges (benefit): £805.8m
Transfer Costs: £215.0m	
Pot Administration Savings: £1,168.3m	
Net Benefit: £737.2m	**Net Benefit: £886.9m**

Costs to Industry

125. The Department expects there would be a number of costs to industry as the result of the implementation of a Multiple Default Consolidator solution.

126. **Familiarisation costs** – These are the costs incurred by schemes to understand and comply with the new regulations and would form part of the transition costs to industry prior to implementation. The Department's estimate of the familiarisation costs covers the time and cost of staff for schemes to familiarise with the multiple default consolidator legislation, including reading through the legislation documents and undertaking a gap analysis (to recognise the requirements to comply with the new legislation).

- The assumptions of the costs to schemes of familiarising with the new legislation are based on the FCA's cost-benefit analysis on Investment Pathways with some adjustments to account for the trust-based market[326]. This was based on a survey of around 70 pension schemes and supplemented with FCA's wider evidence on costs of compliance, thereby giving confidence in the estimates and wide-spread market coverage. This estimated:
    - The policy documentation to be 40 pages which would take around 2 hours to read. Given both proposals are focused on the pensions industry and the current uncertainty over the length of any legislation for a multiple default consolidator solution it is assumed that the proposed multiple default consolidator legislation would be of a similar length. The Department has

[326] https://www.fca.org.uk/publication/consultation/cp19-05.pdf

presented the impacts of a reduction and increase in the number of legislative pages within the sensitivity analysis (paragraph 244).

- Based on TPR input, the average number of trustees per pension scheme is assumed to be around 3 and the average hourly wage of each trustee, using ONS ASHE data, is assumed to be around £36.51.

- This has then been scaled up across the whole market based on DWP's estimates on the number of DC workplace schemes in 2028. With current consolidation expected to continue at a similar rate of around 12%, the number of schemes is estimated at under 700 in 2028, down from around 1,110 in 2024[327]. Therefore, a total familiarisation cost of around £189,000 is estimated, after a 25% optimism bias is applied.

127. **Small Pots Data Platform –** As referred to above (paragraph 108) the costs of the build and set-up of a Small Pots Data Platform that would help facilitate the consolidation of small pots is estimated to be £216m over the 2 years of transition costs. There may be alternative approaches taken after further feasibility analysis is undertaken; though the Small Pots Data Platform is currently the most developed concept. The cost profile could be different depending on delivery models. For the purposes of this IA, it is assumed that the build costs of a Small Pots Data Platform would be directly funded by the pensions industry. Therefore, in this IA the costs of a Small Pots Data Platform have been classified as a direct cost to business.

128. **Transfer Costs –** The cost of transferring deferred small pots for consolidation is considered a significant ongoing cost to industry. The estimated transfer costs across the 10-year appraisal period of **£215m** are based on the cost of transferring the current stock in the year of implementation and then the yearly creation of small pots in the following years thereafter. In the initial year of implementation, the number of transfers required is based on the projected number of small pots expected in 2030 (more detail below).

- **Cost of Transfer per pot –** The cost of a transfer pot has been estimated at an initial cost of **£20 per pot** (£10 cost for both the ceding and receiving schemes). It has been assumed that over time the costs of transfers will begin to fall, with a reduction in costs expected from year two after implementation **falling by £2 per transfer** to a total cost of £18 by 2031. Transfer costs are then expected to continue falling by £2 each year until year four (2033) after implementation where costs are assumed to

[327] https://webarchive.nationalarchives.gov.uk/ukgwa/20240605045559/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023

have fallen to **£14 per pot** which is the assumed total cost for each transfer in the following years of consolidation modelled within the 10-year appraisal period.

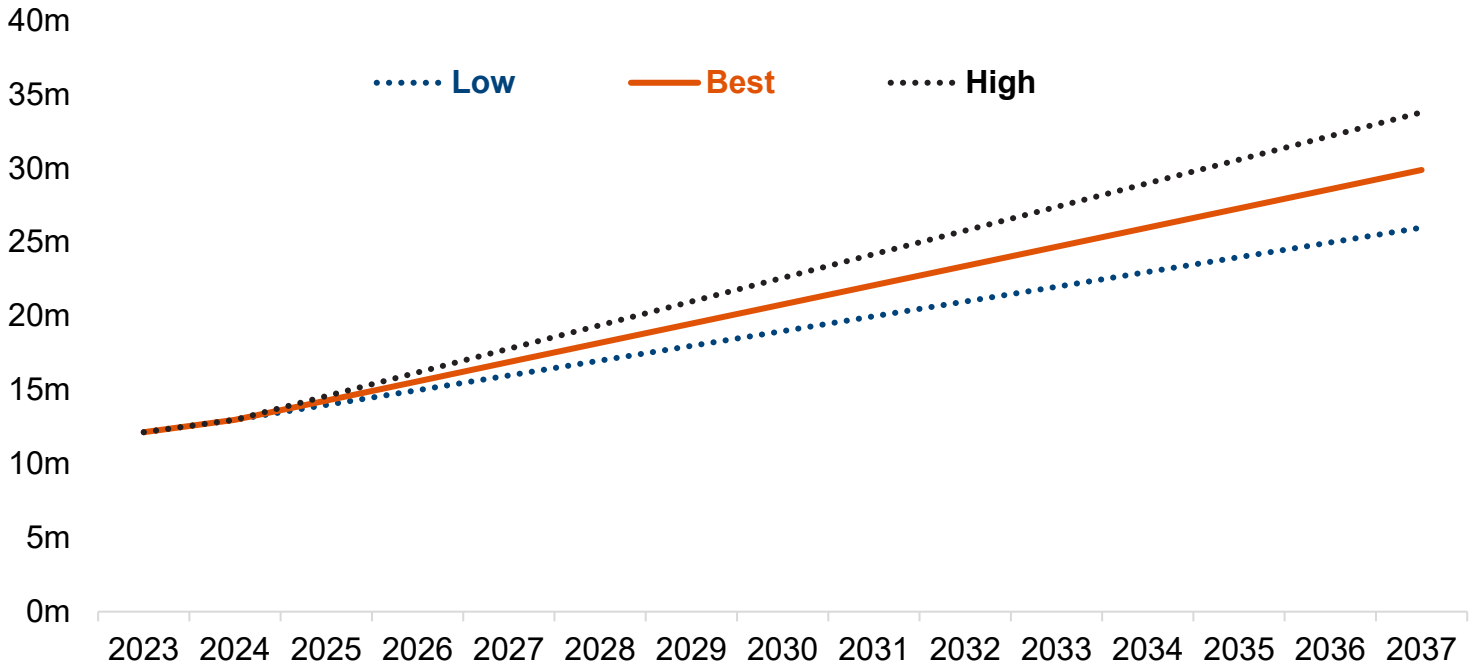
- Initial costs of £20 per transfer are based upon provider data, similar to the cost estimates of administration costs mentioned previously. Figures from DWP's 2024 data gather largely varied between £20-£40 per transfer, which aligned with previous figures from DWP's 2023 Call for Evidence which varied between £15-£40. These costs are based on the existing transfer processes which are typically case-by-case and can be labour intensive.
- Evidence suggests that these costs should fall by the point of implementation and as a result of a consolidator solution:
  - **Automation –** As the current cost of transfers are largely based on manual administration time, there is an expectation from stakeholders that transfer costs will fall as the process becomes more automated. In responses to the data gather the majority of providers indicated they expected transfer costs to decline in the next 3-5 years with improved automation cited as a significant factor in any reduction.
  - **Economies of Scale –** Bulk transfers are considered as a vital mechanism to the lower transfer costs under a consolidator solution with the potential for significant costs savings to be realised compared to singular pot transfers. Responses from industry suggested that costs could be expected to fall below £10 with some estimating automated transfer costs in the range of £3-£7 as a result of automated transfers. Some responses even quoted cost savings per pot through bulk transfers of between 50-80% in comparison to a singular pot transfer.
  - **Lessons from abroad –** In Australia transfers are fully automated and can be done online in less than three minutes at a cost of around $20-30 AUD (c£11-£17)[328]. It's unlikely that costs would initially be as low as those in Australia due to their transfer systems and processes being more mature and refined.
- Based on the above evidence the assumed transfer costs are considered appropriate, with consensus across industry responses that transfer costs are falling and the potential for automated bulk transfers to significantly reduce costs. With costs expected to decline to £7 per scheme (£14 per transfer) considered a conservative estimate at the upper end of some of the

[328] https://www.abi.org.uk/globalassets/files/publications/public/lts/2022/small-pots-co-ordination-group-spring-2022-report.pdf

estimated costs of automated transfers and comparable with similar transfers undertaken in Australia.

- **Volume of Small Pots –** Evidence from providers (via data gathers) and analysis of stopping saving levels (via HMRC's RTI data) enables projections to be made of the future creation of small pension pots. Figure 12 shows the projected number of small pots up to 2037 based on a low, central and high estimate of yearly growth. Figures for the number of small pots in 2023 and 2024 are based on previously mentioned provider data, with an estimated 13m small pots in 2024.

Figure 12 - Projected number of deferred pots worth less than £1,000 (2024 Earnings Terms) without intervention



Source: Projections based on provider data from DWP's Data Gathers and Call for Evidence and DWP analysis of HMRC RTI data

- The 'Low Estimate' is a continued growth of 1m small pots per year, based on the first 12 years of automatic enrolment and the current known number of pots below £1,000. This is considered as the low-end of estimates because the period to date includes the staggered roll-out of AE and the atypical pandemic period. Under this estimate, without intervention, there would be 26m pots worth less than £1,000 by 2037 (2024 Earnings Terms).
- The "High Estimate" is a growth of 1.6m small pots per year, aligning with the number of instances of people who stopped contributing to a pension in 2021/22 which are estimated to have created a pension pot worth less than

£1,000. This also reflects potential future expansion of AE, via the proposed expansion to 18–21-year-olds, which may increase the number of pots and rate at which pots are created (as they are likely to experience shorter periods of employment and lower pay)[329]. The IFS suggests that younger employees, lower earners and women are more likely to accumulate new DC pension pots[330]. Those in the lowest earning band of our analysis of HMRC data are estimated to have accounted for around 60% of the small pots created by cessation in pension contributions in 2021/22. Under this estimate, without intervention, there would be 34m pension pots worth less than £1,000 by 2037 (2024 Earnings Terms).

- The "**Best Estimate**" is a growth of **1.3m** small pots each year, factoring in that although the responses to DWP's data gathers and call for evidence were largely representative, there will have been additional small pots created outside of the 13m covered by the responding providers to the 2024 data gather.
  - **Historical data** from providers shows that the number of small pots has been growing by around 1m a year between 2020-2024 and looking wider since the introduction of AE, the Department estimates the proliferation of 13m small pots, which averages to around 1.1m small pots created each year over the first 12-years of Automatic Enrolment. As mentioned above this trend of around 1m small pots a year is based upon provider figures provided to DWP and therefore whilst the data does encompass the majority of the largest schemes in which the issue of small pots is thought to be concentrated within, there will be inevitably a number of small pots that have been and will be created each year outside of the schemes encompassed within the data available to the Department.
  - **Real Time Information (RTI) data** from HMRC has therefore been used as a complimentary data source to bridge the under-representation of schemes within DWP's data. RTI data can confirm the rate in which individuals have stopped saving into a pension pot, with DWP using data across 2020-2022 to estimate the number of stopped saving instances that would have likely resulted in a small pot

[329] https://minimumwage.blog.gov.uk/2020/03/09/why-do-young-people-have-lower-minimum-wages/

[330] https://ifs.org.uk/sites/default/files/2025-02/IFS-Report-Small-pension-pots-problems-and-potential-policy-responses%20%281%29.pdf

being created. RTI data is able to cover instances of small pots being created outside the largest schemes with NINos (National Insurance Numbers) used to track the months individuals are contributing into a workplace pension.

- ❖ Analysis of RTI data suggests around 1.5m small pots are created every 12 months; however, the RTI data doesn't contain pension wealth information and therefore may be a slight overestimate as relies on 2 key assumptions:
  - Those stopping saving do not subsequently save again into the same pension pot within the 12-month period.
  - Earnings are assumed to be in line with upper banded earnings[331] of the data and savings in-line with AE minimum contributions of 8%[332] (minus lower level of qualifying earnings[333]).

- In response to the potential overestimation of the RTI data and the underestimation of estimates based on provider data, an average between the two data sources has been taken which equates to **around 1.3m small pots created each year**.
- Under this estimate, without intervention, there would be 30m pots worth less than £1,000 by 2037 (2024 Earnings Terms) and at implementation of 2030 the number of small pots is estimated to be around **20.8m small pots**.

- As mentioned previously, the Department recognises that the small pots figures gathered as part of DWP's 2023 call for evidence and 2024 data gather do not cover the entirety of the DC market and therefore do not represent the entire number of current small pots, but the Department considers the estimate of 13m in 2024 to be the best estimate available.
  - Therefore, it is this estimate to which the yearly flow of 1.3m small pots is added to each year and forms the basis for the calculation of small pots at the point of implementation. The yearly flow of 1.3m small pots figure looks to account for the missing data from smaller schemes on a yearly basis and therefore it was deemed most appropriate to use the Department's current

[331] Earning bands are as follows: £10,000 - £19,999, £20,000 - £29,0000, £30,000 - £39,999, £40,000 - £49,999, £50,000 - £59,999, £60,000+ (assumed to earn £69,999)

[332] https://www.gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-202324/review-of-the-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-202324-supporting-analysis

[333] https://www.thepensionsregulator.gov.uk/en/employers/new-employers/im-an-employer-who-has-to-provide-a-pension/declare-your-compliance/ongoing-duties-for-employers/earnings-thresholds

best estimate of 13m small pots as the starting point for the projected number of small pots by implementation.

- The implications of not accounting for additional small pots outside the current stock estimate of 13m are thought to be limited with the majority of small pots expected to have been captured in the data provided by industry, with the small pots problem believed to persist largely within the larger Master Trust schemes.

129. **Existing Consolidator Schemes –** Currently within the DC pensions market, some schemes already offer consolidation services to members, with the business model of some schemes focused on consolidating pots into one pot within their scheme. The introduction of a multiple default consolidator solution that would be free to members could have an implication on these schemes. The potential implications have not been monetised, but the impact is expected to be minimal, with the pot limit of £1,000 meaning only those pots that are currently unprofitable would be within scope of a consolidator solution, pots that are unlikely to be those targeted by the existing consolidator schemes. Evidence also does show that existing consolidation levels remain low, further discussion around the potential impact on existing consolidator schemes is discussed below (paragraph 240).

Costs to Individuals

130. A significant benefit of a Multiple Default Consolidator solution is that the Department does not consider there to be any cost to employees as the solution would be addressing pots that have been deferred for at least 12 months and therefore are no longer receiving any employer or employee contributions.

131. The consolidation of members deferred small pots under a default consolidator solution would be **free of charge** and therefore there would be no direct costs to members involved in the process of consolidation.

132. **Risk of schemes passing on costs –** The costs of a Small Pots Data Platform are likely to represent a significant cost to industry and therefore there is a risk that some schemes could mitigate against these costs by passing them on to members through higher charges. On balance, the risk of this is considered low given:

- Schemes compete heavily on charges, with the average charge well below the charge cap of 0.75%[334] - so are unlikely to raise charges as they would risk becoming uncompetitive.
- The costs of a Small Pots Data Platform are likely to borne across the pensions industry – reducing the average cost to each scheme and therefore reducing the need for individual schemes to offset any costs through increased member charges.
- Small pots are currently loss-making, so the expectation is that in in the long-term schemes will benefit from the consolidation of small pots even when considering the cost implication of a Small Pots Data Platform and therefore cost savings should mitigate against the need to recoup increased costs through member charges.
- Given that price-setting is commercially sensitive and challenging to estimate as well as the downward pressure on charges across the pensions industry it is assumed that any increase in costs would not be passed on to members.

133. **Charges –** There is the risk to members of their pots being moved to a scheme with higher charges and/or lower investment returns. However, given the authorisation regime to become a consolidator scheme, VfM framework[335] and other mitigations including the 0.75% charge cap[336] and the de minimis[337] – members are unlikely to face detriment as a result of a consolidation solution.

134. Whilst the de minimis protects the smallest pension pots from flat fees, there is the potential for some members to be disadvantaged, with the combination of numerous very small pension pots. Schemes are currently unable to charge flat fees on pension pots below £100, however, if when consolidated a member's small pots had a combined value greater than £100 this pot could now face a flat fee from some schemes, resulting in a flat fee being charged on a pension pot of minimal value, increasing the risk of the pot being eroded over time.
    - The impact of this is thought be largely outweighed for most members through the benefits of consolidation and the Department is considering the level of the de minimis, for consolidated members, which would reduce the number of members facing flat fees, but any change is yet to be decided.

334 https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes#member-borne-charges-within-the-cap
335 https://www.fca.org.uk/publication/consultation/cp24-16.pdf
336 https://assets.publishing.service.gov.uk/media/61d823e3d3bf7f053fd8254e/charge-cap-guidance.pdf
337 https://www.gov.uk/government/consultations/permitted-charges-within-defined-contribution-pension-schemes/permitted-charges-within-defined-contribution-pension-schemes

Costs and Benefits to Employers

135. The Department does not anticipate there to be a cost to employers as the result of the consolidation of small pots as the consolidation process under a multiple consolidator solution would be separate to employer interactions with employees' workplace pensions. The process of consolidation will be the responsibility of the pension schemes and supported by the Small Pots Data Platform and would require no input from employers as only deferred pots would be within scope.

- **Employers would not be involved in the consolidation process under a multiple default consolidator solution.**

136. As the Policy details are still to be finalised, whilst employers will have no direct role in the consolidation process the Department is considering increasing the duties on employers in terms of updating member records and adding email addresses for example where appropriate to support the consolidation process. If decided on, there is the potential for some minimal administrative cost on employers as a result. Any increase in costs experienced by employers would be to improve member records across the industry and not necessarily specific to a consolidator solution.

Benefits to Industry

137. The consolidation of small pots will result in a reduction in the number of pots having to be administered across the DC workplace pensions market and with the majority of these small pots expected to be loss-making to schemes the Department considers this reduction in administration costs as a result to be a significant benefit to schemes.

- For schemes transferring out small pots, the reduction in administration costs as a result should outweigh the estimated transfer costs per pot (paragraph 128).

138. The reduction in the number of pots that schemes have to administer as a result of the consolidation of small pots will represent a reduction in total administration costs. As previously referenced (paragraph 112), the average administration cost of a deferred pot has been estimated at around £20 per pot and therefore once accounting for the estimated charge that would've been applied to each of these deferred pots (average value * average % AMC) this is the assumed saving benefit to industry of the cumulative reduction of each small pot. With each reduction in the number of pots representing a cost saving of around £18 per pot reduced per year. The benefits are compounded each year with a reduction in one year representing a saving in the following years compared to a do-nothing approach where the assumption is that the scheme would have continued to administer the small pot as member-led consolidation is unlikely.

139. The modelling of the impacts of the introduction of a Multiple Default Consolidator solution which are modelled in Figure 13 below, calculates the projected costs and benefits of the transfer process and the reduction of small pots through consolidation. It should be noted that the modelling doesn't account for transition costs, but these have been monetised previously; instead, it focuses on the costs and benefits of the transfer process involved after implementation.

Figure 13 – Estimated impacts under a Multiple Default Consolidator Model

Multiple Default Consolidator (Central Estimate)							
	No. of transfers (m)	Transfer costs (£)	Administration cost saving per pot (£)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	8.1	20	18	-6.6	162.2	110.5	-51.7
2031/32	0.5	18	18	-7.3	9.1	120.6	111.5
2032/33	0.5	16	18	-8.0	8.1	130.8	122.7
2033/34	0.5	14	18	-8.8	7.1	140.9	133.8
2034/35	0.5	14	18	-9.5	7.1	151.1	144.0
2035/36	0.5	14	18	-10.2	7.1	161.3	154.2
2036/37	0.5	14	18	-10.9	7.1	171.5	164.3
2037/38	0.5	14	18	-11.6	7.1	181.6	174.5
Cumulative	**11.7**	**–**	**–**	**-11.6**	**215.0**	**1,168.3**	**953.3**

Notes:

i. Solution implemented in 2030/31.
ii. 3.5% of individuals are assumed to opt-out.
iii. 5% mismatch rate
iv. Pot size limit is £1,000 (2024 Earnings Terms)
v. Volumes rounded to the nearest 0.1m
vi. The costs of administering a deferred small pension pot is assumed to be £20 per annum. Accounting for an average management charge (AMC) of 0.48% based on the average small pot value, the saving through the reduction in small pots is around £18 per pot per annum. The total cost of transferring a deferred small pension pot is assumed to start at £20 in 2030 and gradually fall to £14 by 2033.
vii. Initial stock is estimated to be 20.8m pots in 2030, with an annual flow of 1.3m pots.
viii. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.
ix. For the purposes of the analysis, it's assumed there are five consolidators in the multiple default consolidator option. This is not government policy and will be decided by the number of schemes who apply to and meet the criteria to be a consolidator. The five consolidators are assumed to cover more than 70% of the market.

140. Across the 10-year appraisal period, which involves 8 years of estimated cost savings due to the reduction in the number of small pots, a cost saving of around £1.17bn is estimated therefore representing a significant monetary benefit to industry as a result, with the benefit savings represented annually in Figure 13.

141. The cumulative reduction in small pots in Figure 13 is below that of the number of total transfers as any consolidator pots that would be expected to remain below £1,000 have not been classified as a reduction in the number of small pots. With only those consolidator pots that are estimated to have a total value above £1,000 being considered a reduction, this estimation has been based upon an average pot value of £330 from provider data and the proportion of multiple pots calculated from WAS Round 8 data.

- It is therefore assumed that only those consolidator pots that have had 3 or more small pots consolidated into them would have a value above £1,000 and therefore have been classified as a reduction in the number of small pots, with an assumption that investment returns would bring the consolidator pots value above £1,000.
- Any multiple pots being consolidated into one singular deferred pot have been classified as a reduction in the number of small pots regardless of if the consolidator pot remains below £1,000. For example, if a member's two small pots were to be consolidated this would represent a reduction of one small pot as the consolidator pot is assumed to remain below £1,000. Only, as outlined in the assumption above, those consolidator pots assumed to have a value above £1,000 would class as a further reduction in the number of small pots (which would represent reduction of two small pots for the outlined scenario if the consolidator pot had a value above £1,000).

Benefits to Individuals

142. The assessment is that fewer deferred small pots would be of benefit to individuals, who would see their pension savings spread across fewer schemes. The benefit will largely be felt amongst those who would've otherwise accumulated a large number of deferred small pots.

143. Although it is expected that the industry savings generated by an automated transfer solution would be passed on to members in the form of lower charges, given it's a competitive price-based market and average AMCs are already below 0.5%, the impact on charges in % terms is likely to be small. As part of the analysis to support the July 2023 pension reforms, the impact on charges of a multiple default consolidator model were

estimated to be a reduction of 2 basis points.[338] For a median earner with a full work history, this reduction was modelled to increase their pension pot by £700 at retirement (2023 earnings terms), and £500 for a National Living Wage earner. Across millions of savers, the extra pension income would represent billions of pounds.

144. The Department has attempted to monetise the benefit to members of a 0.02% reduction in average AMCs, bringing the average charge per pot down from 0.48% to 0.46%. This reduction in the average % AMC represents the removal of the cross-subsidisation effect alluded to previously (paragraph 47) with the reduction in small pots meaning schemes no-longer have to counter the loss-making nature of these small pots by applying higher charges across all members.
    - Therefore, the Department has calculated the saving to members of a 2-basis points reduction in the average % AMC as a saving across all pots within the DC market and not just small pots by estimating projected values of DC assets across the DC pensions market.
    - It is assumed the reduction in costs would not occur at the point of implementation but would instead take several years before any costs savings are passed on by schemes to members. The benefits of lower charges have therefore been monetised from 2034-2037 and are estimated to represent a total benefit of **£805.8m** to members over these four years.
145. **Consumer Surplus -** The automatic consolidation of small pots should bring a direct economic benefit to some members through the consumer surplus they accrue from the free of charge nature of a default consolidator solution. For members that would have been willing to pay a sum of money for the automatic consolidation of their deferred pension pots (below £1,000), their consumer surplus will represent the value in which they would have been willing to pay for said automatic consolidation. Therefore, a default consolidator solution should represent a direct monetary benefit to these members.
146. Not all members that would see their deferred small pots consolidated would have been willing to pay to have their small pots automatically consolidated and therefore a default consolidator solution would bring them no consumer surplus by providing a service that the member would have been unwilling to pay for.
147. Respondents were asked about their willingness to pay for the automatic consolidation of their small pots in a recent wave of the Planning and Preparing for Later Life (PPLL)

[338] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1168816/analysing-the-impact-of-private-pension-measures-on-member-outcomes.pdf

survey[339]. The PPLL survey is a cross-sectional survey of GB adults aged 40-75 that is nationally representative and commissioned by DWP, covering a range of policy areas.

148. The most recent wave (Wave 2) gathered around 4,000 responses, with responses obtained through a "web-first" approach with a small number obtained via telephone.

149. To estimate the potential monetary benefit to members as part of the PPLL survey respondents were asked whether and how much they would value (in monetary terms) the automatic consolidation of their small pension pots.

150. As there is a "say-do" gap in any research – the difference between what people report they would do or are willing to do in a survey compared to what they actually do in reality - 3 scenarios have been used to estimate the average value that members would be willing to pay for consolidation.

151. The implementation date of the default consolidator solution in which the transfer and reduction in small pots would be expected to commence has been assumed to be 2030. Any deviation from this would impact the potential consumer surplus experienced by members whether a reduction due to a smaller stock of small pots or an increase in consumer surplus due to a later implementation date resulting in a higher stock of small pots to be addressed.

152. 73% of respondents indicated they would want the option of the automatic merging of small pots, however, this equated to only 53% of all respondents willing to pay a monetary value above £0 for the automatic merging of small pots[340].

153. Across all responses including those individuals who would not be willing to pay for the consolidation of their small pots, the mean Willingness to Pay value was **£8.80**. The respondents that would not be willing to pay for the automatic merging of small pots have been attributed a WTP value of £0.

154. Due to the before mentioned "say-do" gap in research a low, central and upper estimate for total consumer surplus has been estimated to consider the uncertainty around the true willingness to pay for the automatic consolidation of small pension pots. There is little evidence to suggest what the "say-do" gap would be, especially within the scope of the Pensions industry. Taking into account, however, the consistent low levels of engagement across the pensions industry and that the members that have small pots are likely amongst some of the least engaged members across the pensions landscape, it is sensible to assume that this gap would exist in this scenario.

[339] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/planning-and-preparing-for-later-life-2024

[340] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/planning-and-preparing-for-later-life-2024-willingness-to-pay-for-pension-products-and-services

155. The low and high estimates are based on the mean and median values from the Willingness to Pay research. The average values used in the analysis are as follows:
    - **£5.00** (Low estimate, median)
    - **£8.80** (Central estimate, average WTP)
    - **£16.80** (High estimate, median of only those members who thought consolidation should be offered)
156. The Low Estimate of £5.00 is based on the median WTP value of all respondents. The median value should help to discount against any outlying WTP responses that are significantly high that could have the potential to skew the mean.
157. The mean value of £8.80 has been used as the Central Estimate to provide an average across all respondents.
158. The High Estimate of £16.80 is based on the mean value of only those respondents who thought that consolidation should be offered. This, therefore, removes the potential risk of the mean being skewed downwards by a high proportion of £0 responses being included within the mean calculation. The low and central estimate are based on the mean and median calculations using data from all respondents including those who don't think that the automatic merging of small pots should be offered (and therefore are attributed a WTP value of £0). Therefore, these calculations include a larger proportion of respondents attributed a WTP value of £0, compared to the high estimate.
159. Figure 14 below combines the estimates of the willingness to pay values with the number of transfers under a multiple default consolidator solution that is modelled in Figure 13 (this has been equated to number of members) to calculate a range for the estimated consumer surplus.

Figure 14 – Estimated Consumer Surplus from a multiple default consolidator solution[341]

	Low Estimate	Central Estimate	High Estimate
Number of members modelled to have a small pot consolidated over the 10-year appraisal period	9,300,000	9,300,000	9,300,000
Average Value Willing to Pay	£5.00	£8.80	£16.80
Total Consumer Surplus	**£46,300,000**	**£81,000,000**	**£155,500,000**

Source: DWP calculations from Planning and Preparing for Later Life Survey (PPLL)[342]

160. Considering the central estimate, the monetary benefit to individuals as a result of the consumer surplus gained by the free provision of a default consolidator solution is estimated to be **£56.4m** in the year of implementation (after the two-year transition period) where the stock of small pots would be addressed.

161. Based on a growth of 1.3m small pots each year after the initial year of implementation there would be an expected consumer surplus gained by the continued transfer of small pots each year. This has been estimated as a yearly consumer surplus benefit of around **£3.5m,** therefore the total consumer surplus over the 10-year appraisal period has been estimated at **£81m,** as shown in Figure 14.

Summary of Costs and Benefits

162. A number of estimated costs and benefits across schemes and members have been monetised with total costs to schemes estimated at **£407.2m** (Present Value). The total benefits across the 10-year appraisal period are estimated to be around **£1.65bn** (Present Value) of which **£957.7m** (Present Value) is expected to be a benefit to schemes and around **£694.8m** (Present Value) expected to be the monetary benefit to members.

163. For purely comparative purposes, the impacts (costs and benefits) of a Single Consolidator (new scheme) and a Single Consolidator (existing scheme) solution have been modelled with both tables included in **Annex C.** As with Figure 13, Figure 33 and Figure 34 have only focused on the cost and benefits to schemes of the transfer process and have not considered the wider transition costs or the monetary benefits to members of either option.

- The wider costs and benefits of a single consolidator model have not been explored due to both models not being considered as a viable model to address the stock and

[341] Figures have been rounded within the table to the nearest 100,000 where applicable

[342] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024

flow of small pots whilst supporting both members and the wider pensions industry as has been discussed previously (paragraph 84). More work with industry therefore would be needed to portray the wider costs and benefits of these models, this was not deemed necessary as neither solution is thought to be viable when compared to a multiple default consolidator solution.

- Whilst the wider monetary costs and benefits would be expected to differ to those discussed and monetised for a multiple default consolidator solution the format of the cost and benefits could be expected to be broadly similar albeit differences in set-up and implementation costs and then any nuances in the ongoing costs depending on policy development.

Option 2: Pot follows Member (PfM) Costs and Benefits

164. The monetised costs and benefits that would be anticipated under a PfM model have been estimated. Figure 15 highlights these estimated monetised costs and benefits of PfM.

Figure 15 – The estimated monetised costs and benefits to industry and individuals of a Pot follows Member (PfM) solution

Pot follows Member	
Industry	**Individual**
Familiarisation Costs: £0.2m	Consumer Surplus (benefit): £56.2m
Small Pots Data Platform (cost): £216.0m	Lower Charges (benefit): £402.9m
Transfer Costs: £161.9m	
Pot Administration Savings: £962.7m	
Net Benefit: £584.7m	**Net Benefit: £459.1m**

Costs and Benefits to Industry

165. The costs involved in the implementation of PfM would be expected to be borne by schemes. A number of the key costs and benefits that would be expected under a PfM solution have been monetised:

- **Familiarisation Costs –** These would be expected to be similar to the familiarisation costs estimated for the implementation of a Multiple Default Consolidator solution and therefore for this IA the same familiarisation costs for a consolidator and PfM solution have been used. As outlined in more detail above (paragraph 126),

familiarisation costs across the 2-years of transition before implementation have been estimated at £189,000 across all schemes.

- **Small Pots Data Platform –** The build and set-up costs of a Small Pots Data Platform for a PfM solution have also been estimated with a Small Pots Data Platform being the current most developed concept to support the transfer process, discussed previously (paragraph 127). How the design requirements or functionality of a Small Pots Data Platform may differ under PfM compared to a default consolidator solution is currently unknown due to the uncertainty surrounding a central mechanism. Therefore, the same cost estimates for a Small Pots Data Platform under PfM have been assumed as those discussed previously for a default consolidator solution (paragraph 108), as the foundational purposes would likely to be similar under both solutions. The costs of a Small Pots Data Platform under PfM therefore have been estimated as **£216m** over the 2 years of transition costs.
- **Transfer Costs –** A PfM solution would require the transfer of pension pots when individuals move employment and therefore schemes would face an increase in overall transfer costs due to an increase in the number of transfers.
    - Due to the build-up of the stock of small pension pots, it is assumed that when an individual moves to a new employer and a new automatic enrolment DC scheme, their existing pots (created since the introduction of automatic enrolment) are in scope to be automatically transferred to their new scheme.
    - Purely for illustrative purposes, it is assumed that all DC workplace pension pots are eligible, as the scale of pots with particular rights or guarantees is unknown, and that all DC pension schemes are eligible to receive pots. In practice, the Department could limit the scope to only pots created after the implementation date, pots without any extra rights or guarantees, and limit the eligibility of schemes to receive pots through an authorisation process.

166. The number of transfers that would be expected under a PfM model is closely linked with the labour market and the expected movement of members between employments. The estimate that individuals move jobs every 3 years has been used alongside analysis of Wealth and Assets Survey data to estimate the number of transfers required each year.
    - The estimate that on average an individual moves jobs around every 3 years is based on DWP's analysis of HMRC's RTI data using the median job count figures discussed in further detail in **Annex A.**

167. The same cost savings of bulk transfers that have been estimated under a consolidator solution would not be expected under PfM. An initial transfer cost of £20 per pot has been

estimated, with more detail given on the evidential base around this given previously (paragraph 128). However, unlike under a consolidator model, no economies of scale are expected to be realised, with a lower likelihood of bulk transfers being widely used and an overall reduction in the number of transfers required. Therefore, across the 10-year appraisal period transfer costs are expected to remain at £20 per pot. Therefore, the total transfer costs of a PfM model over the 10-year appraisal period are estimated to cost schemes **£161.9m**. This cost estimate would be impacted by any changes within the labour market and any potential cost savings around transfers as a result of a PfM solution.

168. The initial transfer costs would depend on the design and timings of the solution. For the purposes of this IA, the transfer of a small pot has been assumed to occur when a member moves within the labour market and joins a new scheme. The movement of small pots is assumed to be based on the job churn of individuals.

- If schemes were to immediately begin to search for an active pot to transfer out their current small pots and/or schemes immediately search for deferred pots to transfer into their members' current active pots, the level of transfers within the first few years after implementation could be higher.
- The interactions of schemes and a Small Pots Data Platform would largely determine the rate at which small pots are moved between schemes.
- **Staggered movement of Small Pots –** As referenced above, it is assumed that there would not be a big bulk movement of small pots at the point of implementation. This accounts for:
    - It may be harder for schemes to find an active pot in which to transfer their deferred pots into as it relies on members with small pots currently making active contributions into a pension pot – some for example may not be within the labour market or may have opted out of workplace pension savings.
    - The design of a PfM solution may mean that schemes have to wait until a new pot has been created by a member in order to trigger the transfer process – which may result in schemes taking a longer period to report a small pot as schemes wait until a new pot has been identified.

169. Figure 16 highlights estimates of the impact of a Pot follows Member solution based just on the transfer process with no transition costs included.

Figure 16 – Estimated impacts under a Pot follows Member (PfM) solution

	PfM (Central Estimate)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	3.1	-3.1	62.2	57.3	-5
2031/32	2.2	-5.3	43.6	97.4	54
2032/33	1.2	-6.5	24.9	120.3	95
2033/34	0.3	-6.8	6.2	126.1	120
2034/35	0.3	-7.2	6.2	131.8	126
2035/36	0.3	-7.5	6.2	137.5	131
2036/37	0.3	-7.8	6.2	143.3	137
2037/38	0.3	-8.1	6.2	149.0	143
Cumulative	**8.1**	**-8.1**	**161.9**	**962.7**	**800.9**

Notes:

i. Solution implemented (transfers begin) in 2030/31.
ii. 3.5% of individuals are assumed to opt-out.
iii. Pot size limit is £1,000 (2024 Earnings Terms)
iv. 5% mismatch rate
v. Volumes rounded to the nearest 0.1m
vi. An average of 1.3 small pots per individual with small pots
vii. The costs of administering a deferred small pension pot is assumed to be £20 per annum. Accounting for an average management charge (AMC) of 0.48% based on the average small pot value, the saving through the reduction in small pots is around £18 per pot per annum.
viii. The total cost of transferring a deferred small pension pot is assumed to be £20 across the 10-year appraisal period.
ix. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.
x. Individuals are assumed to move jobs every 3 years.

170. Figure 16 compares the reduction in small pots under PfM to the projection under the ‘do nothing’ scenario, estimating the number of transfers and the recurring administrative cost and benefits which would arise as a result (i.e. the saving from no longer having to administer small, deferred pots and the cost of the transfers). Schemes would see higher costs in the early years as they incur the upfront cost of processing transfers, but over time this would be outweighed by the savings they make from having to administer fewer and fewer deferred pots.

171. The reduction in the number of small pots through the transfer of members' old workplace pensions into their new AE schemes as they move employment should see a reduction in the total number of loss-making pots that schemes must administer.
    - Unlike the modelling of a multiple default consolidator solution, each transfer of a small pot under a PfM solution is classified as a reduction in the number of small pots regardless of whether the active pot the small pots have been consolidated into has a value above £1,000 or not. This is because any small pots consolidated under PfM would be consolidated into an active pot and therefore would no longer be classed as a small pot even if the total value remains below £1,000 as the pot would not be deferred.

172. The same assumption of £20 administration costs per pot for a multiple consolidator solution have been used for the industry benefit estimates of a PfM solution due to both solutions not expected to significantly impact the overall administration costs of individual small pots. Based on this assumption, outlined in further detail previously (paragraph 138), the benefit to industry through a reduction in small pots as a result of a PfM solution have been estimated to be **£962.7m** over the 10-year appraisal period.

173. The deferred pots which would remain in the system include those which are too big to be transferred and those which remain deferred because the individual does not enter a new DC scheme (for example because they have opted out, have not re-entered work or have entered a DB or CDC scheme).

174. There is the potential that consolidating small pots into marginally larger pots could have a behavioural effect on saving and hereby change the amount savers choose to save into a pension. This could either be members choosing to increase savings as they are able to better understand the income they can expect in retirement through their pensions or a reduction in savings as the consolidation of pots means members' pension savings may be higher than they originally thought. Any behavioural impacts would vary on an individual basis and therefore for the purposes of this IA it is assumed there would be no impact on the amount of money saved by members. This is because of the relatively low value of the pots involved and the low level of pension engagement of many members meaning contributions are more likely to remain at the level set by their AE scheme or employer rather than being changed by members themselves as a result of the combination of their old and new workplace pension pots. Therefore, the impact on the pension industry's revenue has simply been looked at in the terms of any changes in the number of pension pots to administer.

Costs and Benefits to Individuals

175. The potential impact of a Pot follows Member solution on members have been considered.

176. **Consumer Surplus -** The transfer of small pots into members' active pots free of charge should represent a monetary benefit to those members that would have been willing to pay for these transfers. Whilst there are some differences in how a multiple default consolidator and PfM solution would consolidate small pots, research suggests member support for either solution[343], therefore the same method of calculating the consumer surplus has been used for both models. The method used is explained in detail above (paragraph 145-158) and uses data collected through the PPLL survey[344].

177. Figure 17 below presents the estimated consumer surplus benefit of a PfM solution over the 10-year appraisal period.

Figure 17 – Consumer Surplus of a Pot follows Member solution[345]

	Low Estimate	Central Estimate	High Estimate
Number of members modelled to have a small pot consolidated over the 10-year appraisal period	6,400,000	6,400,000	6,400,000
Average Value Willing to Pay	£5.00	£8.80	£16.80
Total Consumer Surplus	**£32,100,000**	**£56,200,000**	**£107,900,000**

Source: DWP calculations from Planning and Preparing for Later Life Survey (PPLL)[346]

178. Considering the central estimate, the monetary benefit to individuals as a result of the consumer surplus gained by the free provision of a pot follows member solution is estimated to be **£21.6m** in the year of implementation (after the two-year transition period).

179. Over the 10-year appraisal period, the total consumer surplus to members under a PfM solution is estimated at **£56.2m**, however, depending on the true willingness of members to pay, this figure could potentially vary between £32m-£108m as shown in Figure 17.

180. The proportion of members willing to pay and the value that they would be willing to pay has been assumed to be the same under both a PfM and default consolidator solution; however, it is possible that this would not be the case and without further research it is not possible to say how the willingness to pay of members may vary across the two solutions.

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343 https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions#consolidating-deferred-pension-pots

344 https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024

345 Figures have been rounded within the table to the nearest 100,000 where applicable

346 https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024

Therefore, using the WTP data from the PPLL survey is considered as the best estimate for the consumer surplus under a PfM solution. A low and high estimate for the consumer surplus has been estimated to partly account for the uncertainty on the similarity between the WTP of members across both a consolidator and PfM solution.

181. **Lower Charges –** As mentioned previously (paragraph 171), it is expected that schemes benefit from the reduction in the number of pots to administer as a result of the transfer of members' small pots into their currently active pots under a PfM solution. The expectation would be that the industry savings would be passed on to members through a reduction in % charges.

- To monetise the potential benefit to members as a result of the lower charges, the same methodology used to monetise the benefit under a multiple default consolidator solution (paragraph 144) has been used. However, the expectation would be that the basis points reduction as a result of a PfM solution would be below that previously modelled as a result of a default consolidator solution.
- The reduction in charges is assumed to be lower than that under a default consolidator solution due to a number of considerations:
    - **Pots could become deferred once again –** As small pots would be transferred into a member's active pot in a PfM solution, depending on how close each member is to retirement, there is a chance that members will move jobs again before retirement. Depending on the pot limit set under a PfM solution for the automatic transfer of deferred members it risks members creating numerous larger deferred pots. If the pot limit was set around the £1,000 limit proposed under a default consolidator model, the combination of small pots into an active pot could easily result in a pot created with a value above this limit. Any pot above the limit would not be eligible for an automatic transfer and therefore due to inertia and lack of engagement would likely remain deferred were the member to move jobs. As discussed previously (paragraph 35) even pots up to around £4,000 can be loss-making and therefore there is the potential for a PfM solution to transfer small pots into an active pot which could then itself become deferred and still be loss-making for schemes. This would limit the economic benefit to schemes and their ability to pass on lower charges to members as a result.
    - **Pots transferred into more schemes –** The expectation under a default consolidator solution is for a small number of already large schemes to apply for authorisation to become consolidator schemes and therefore any pots

consolidated would be transferred to a small number of schemes that are already benefitting from scale. The influx in small pots should allow the consolidator schemes to further increase in scale and further benefit from doing so through economies of scale. These economies of scale should allow schemes to reduce fixed costs per member and negotiate lower fees helping them to offer members lower charges, with a 2-basis point reduction modelled previously (paragraph 143). Under a PfM solution, however, the small pots could be transferred into a much wider range of schemes which could limit the ability of schemes to grow in scale as a result and therefore achieving economies of scale benefits would be more challenging. The schemes that receive the transfer of small pots may not receive enough in terms of scale to benefit and therefore could struggle to offer any reduction in charges to members as they face a growth in loss-making pots in which their scale is potentially not sufficient enough to comfortably outweigh.

    - **More frequent transfers of each pot –** PfM may require the continued transfer over time of a member's combined deferred small pots and active pot as members move jobs. This would require schemes to buy and sell assets as they transfer members' pots between schemes. This could increase the administration costs to schemes and therefore reduce the likelihood that schemes would experience a sufficient level of economic benefit to pass on to members through lower charges.

- Although the impacts are challenging to know, on balance, it is expected that the risk of a greater pool of smaller pots and them being spread across a wider range of schemes may still result in a greater number of small pots remaining and thus losses to industry under PfM. As a result, the reduction in lower charges is estimated at 1 basis points, rather than 2 basis points.
- The Department has therefore monetised a 1 basis-point reduction in % AMC charges across all DC members under a PfM solution to account for the benefit that schemes should be able to pass on to members. The benefits of lower charges have therefore been monetised to represent a total benefit of **£402.9m** between 2034-2037.
    - A low assumption of 0.5 basis point reduction and high assumption of 2 basis point reduction has been modelled in **Annex D** to represent the inherent uncertainty of the benefits that schemes may choose to pass on to members.

182. Members should benefit from the reduced risk of creating a deferred pot as they move between employments which should help to support longer-term member outcomes at retirement. Given that some members will either not start saving again (through not re-entering the labour market or opt-outing out of future pensions saving) or may join an employer who enrols employees into a DB or CDC scheme, not all small pots would be within the potential scope of a PfM solution, with some pots not being consolidated under a PfM model but otherwise would be under a default consolidator solution.

183. The impact on members could be impacted by the schemes that members' pots are moved between. More generally, members may be made better or worse off depending on whether their new scheme has higher or lower charges and/or worse or better investment performance than their previous scheme(s). It is not possible to assess the impact of this as it will vary in each case, however, the gains and losses from differences between scheme charges and investment performance are expected to cancel out on average.

184. Members whose pots are transferred multiple times could see the value of their savings eroded slightly each time through buy and sell spreads (charges which reflect the costs that a fund incurs when it buys and sells assets), and individuals who do not re-enter the labour market would not see the same benefits as those who do.

185. Consolidating pension savings into members' current schemes may result in less diversification in their overall investment portfolio. Although each member's automatic enrolment scheme should provide an appropriate and diversified allocation of assets, the performance of the member's current scheme would be having the greater current impact on the member's eventual retirement income. The overall risk of this is low, given the relatively small amounts of money being transferred and the broadly similar investment strategies of default funds[347].

186. For schemes with a high turnover of members (and therefore a lot of small pots generated) there may be a preference to hold funds in more liquid assets (such as cash) to manage the increase in transfers required under PfM. This could potentially disincentivise pension schemes from investing in illiquid assets such as infrastructure or venture capital. This could result in lower investment returns for pension savers as their schemes switch into more liquid (and lower return) assets and have wider knock-on effects to the economy.

[347] For example, https://corporate-adviser.com/ca-master-trust-gpp-defaults-report-key-findings/ (CA Master Trust & GPP Defaults report – key findings – Corporate Adviser), shows that while there is some variation in default scheme investment strategy, most schemes follow a broadly similar strategy of high equity/growth asset exposure for younger savers before 'de-risking' as the saver nears retirement into higher proportions of fixed income assets.

Summary of Costs and Benefits

187. A number of estimated costs and benefits across schemes and members have been monetised with total costs to schemes estimated at **£356.1m** (Present Value). The total benefits across the 10-year appraisal period is estimated to be around **£1.15bn** (Present Value) of which **£785.8m** (Present Value) is expected to be a benefit to schemes and around **£360.9m** (Present Value) expected to be the monetary benefit to members.

Option 3: Member Exchange Costs and Benefits

Costs to Industry

188. The costs of a Member Exchange solution would be expected to be borne by the schemes involved, it is however, difficult to quantify the resultant costs.
189. The difficulties arise due to the uncertainties over the number of schemes that would partake and the process that would be required for a Member Exchange solution to be implemented.
190. The cost burden on the schemes involved could be significant in terms of both time and monetary cost due to the repetitive and ongoing requirement for schemes to check for matches with other schemes. This could pose a significant administrative burden on the participating schemes over time.
191. Schemes would also face the transfer costs involved in the swapping of pension pots between schemes and due to the likely smaller scale nature of a Member Exchange solution compared to a larger default consolidator solution the economies of scale in terms of transfers would be expected to be on a smaller scale, resulting in higher transfer costs per pot in comparison.

Benefits to Industry

192. The uncertainty over the potential number of small pots that would be consolidated under a Member Exchange solution means that any quantification of the potential benefits to schemes is challenging. This would be entirely dependent on take-up (for example, the recent data project underway by PPI only contains 5 schemes, highlighting the challenge of getting large-scale data sharing off the ground without government).
193. The exchange of small pots for pots in which the scheme already has an ongoing relationship with the member should be beneficial to schemes, with the potential to exchange loss-making small pots for potentially profit-making pots when transferred into a member's active pension pot, with the potential for these schemes to reduce the proportion of their assets/pots that are loss-making.

Costs and Benefits to Individuals

194. The combination of members' pension pots would be expected to benefit those members that currently face higher charges or flat fees, with the removal of a set of fees. The extent to which this occurred would depend on the charging structure of the schemes that the pensions have been moved between.

195. The expectation would be that the schemes that would be involved in a Member Exchange system would be amongst the largest pension schemes in the UK's DC market and therefore it is expected that a movement between these schemes shouldn't result in significant changes in the value offered to members with charges across Master Trust schemes consistently below that of the 0.75% charge cap[348], with an average AMC of 0.48% across all Master Trust schemes according to the 2020 Pension charges survey[349]. Therefore, members should be offered a relatively consistent value for money as their deferred pots are exchanged between schemes.

Risks and Assumptions

196. Throughout this IA, the key risks and assumptions have been covered, however the main areas of risk are listed and RAG-rated below (Red = significant analytical/policy risk or significant driver of IA modelling; Green = low impact risk or assumption and/or unlikely to significantly impact IA modelling):

Policy Risks

197. **Transition Costs (Amber) –** For the purposes of this IA transition costs have been assumed to occur over a two-year period and therefore the 10-year appraisal period consists of 2 years of transition costs and then 8 years of ongoing costs after the policy implementation.
    - The duration of the transition costs may deviate from the assumed two years, with more certainty likely after the feasibility review around the Small Pots Data Platform. Any deviation itself is not expected to impact the nominal monetary cost and benefit estimates, rather the net present value calculations could be potentially impacted by any changes in the distribution of the transition costs over a period of years.

198. **Small Pots Data Platform (Red) –** How the costs of a Small Pots Data Platform would be re-couped from industry is currently under consideration, so whilst in this IA it has been

[348] https://assets.publishing.service.gov.uk/media/61d823e3d3bf7f053fd8254e/charge-cap-guidance.pdf

[349] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes#member-borne-charges-within-the-cap

assumed that any costs incurred would be paid directly by industry, how this would work in practice is currently being explored. The current process of this is unknown and therefore a different mechanism or different timeframe may be used after the build of a Small Pots Data Platform.

- After further feasibility analysis is undertaken, an alternative approach to a Small Pots Data Platform could be taken, which could impact the cost estimates included within this IA, with any change in the delivery model of a central mechanism likely to impact the cost profile. For the purposes of this IA, several assumptions around a central mechanism have been made based on a Small Pots Data Platform, which is currently the most developed and likely concept at this stage.

199. **Year of Implementation (Green) –** There is currently some uncertainty over the timescale that would be required to implement a Small Pots solution, with more certainty expected as the policy progresses. For this IA, it is assumed the beginning of the transition period will begin in 2028, with the full implementation and transfers occurring from 2030 onwards. This assumes that this represents a reasonable timeframe based on the current status of the policy development and the infrastructure required for its implementation.

- If the timeframe for implementation were to differ from the one referenced in this IA, there could be some small impact on costs and benefits depending on the scale of the deviation.

200. **£1,000 Pot limit (Green) –** As part of legislation for a multiple default consolidator solution an eligibility pot limit of £1,000 will be outlined and therefore throughout this IA, the pot limit is assumed to remain at £1,000 across the 10 year-appraisal period. Reasons for setting the initial eligibility pot limit at £1,000 are discussed previously (paragraph 23).

- Whilst the Department plans to introduce legislation to support future uplifts of the pot limit, any potential impact of an uplift cannot be considered as part of this IA as the Department would only proceed with an uplift of the pot limit if and when this was deemed appropriate to support member outcomes and the stability of the pensions industry. Any instances of the pot limit being uplifted over time cannot be known in advance, but there is the potential that both costs and benefits could change depending on the potential for future changes in the eligibility for consolidation under a multiple default consolidator solution.

Analytical Risks

201. **Yearly Creation of Small Pots (Amber) –** Projections over time are highly uncertain and there are several upward and downward pressures on the potential creation of small pots that may impact the best estimate of 1.3m small pots a year (paragraph 128).
    - **Upward Pressures (Green) –** include future policy expansions and changes (we've not accounted for this) but could potentially expand eligibility for consolidation and therefore the overall number of pot creations. An expansion of the population and/or an increase in the size of the working population or any changes resulting in shorter tenures could further increase the number of small pots created. These upwards pressures are all uncertain but could have a potential impact on the number of small pots created each year and the stock of small pots at the point of implementation.
    - **Downward Pressures (Green) –** could also be the result of future policy expansions. The trust-based side of the DC market is becoming increasingly concentrated, and the consolidation of the market continues to be encouraged. Within a more consolidated market, it would become increasingly likely that a member would return to the same pension scheme over time as they move in and out of employment and/or pension saving. This could result in a reduction in the creation of small pots as members recommence contributions into their previously deferred pots. Currently, however, it is known that not all pension schemes apply a lifetime pot model and therefore this uncertainty means that any potential impacts cannot be currently accounted for.
    - Since the introduction of AE, the rate of small pots creation has remained relatively stable but the average growth in pots since AE may be less representative for future growth. The number of instances of people that stopped contributions into a pension after less than 6 months[350] in 2021/22 nearly doubled when compared to 2015/16; however, evidence from industry does suggest a potential reduction year on year in the growth of small pots. Therefore, any estimates do remain uncertain.
        - **Comparisons (Green) –** PPI suggested that the number of small pots within the DC master trust market was likely to reach around 27m by 2035[351], very

350 https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fassets.publishing.service.gov.uk%2Fmedia%2F64a82b88a32f130013f068dc%2Fstopping-saving-and-pensions-in-payment-statistics.ods%23%3A~%3Atext%3DAs%2520published%2520previously%2520in%2520the%2Cthe%2520financial%2520year%25202021%2520to&wdOrigin=BROWSELINK (Table 7: Count of individuals who have stopped workplace pension contributions in each year, by length of contribution period)

351 https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2020/2020-07-23-policy-options-for-tackling-the-growing-number-of-deferred-members-with-small-pots/ (Policy options for tackling the growing number of deferred members with small pots)

similar to DWP's estimates of an overall number of 27.3m small pots across the DC market by 2035, based on a growth of 1.3m small pots each year.

- ❖ DWP modelling on the average year-on-year growth rate of DC memberships between 2020/21 – 2024/25 returns an average yearly growth rate of 11%. 11% of the current stock of small pots would represent around 1.4m small pots, similar to DWP's estimate of a 1.3m growth rate each year. It is difficult to extrapolate any average % growth figure over time due to the compounding impact this would have and the changing growth in small pots over time as the Automatic Enrolment market has matured since its introduction and continues to do so.

- o These comparisons help to give confidence to a somewhat highly uncertain value.

202. **Transfer Costs (Green) –** It is unknown how quickly costs will fall. It is possible in the interim period between the policy being announced and implemented that systems and processes will be established which allow for cheaper transfers immediately, especially as data quality improves in light of the Pensions Dashboard. The marginal savings of each additional pot transferred simultaneously are also unknown, with industry suggestions that the costs of bulk transfers can be highly subjective to a number of factors. This has been addressed by staggering the projected reduction in transfer costs over a number of years of the appraisal period after implementation to account for the uncertainty on how and when cost savings may materialise within the transfer process. International evidence from Australia has been used as a suggestion for the level of cost savings that could occur and our sensitivity analysis **Annex B** portrays the impacts of transfer costs remaining stable over the appraisal period, as well as transfer costs falling in the intervening period before implementation.

203. **Small Pots Data Platform (Red) –** The costs of a Small Pots Data Platform are currently uncertain with the estimates given within this IA being the current best estimates. Further work through the feasibility review is exploring the infrastructure required for a Small Pots Data Platform, which is hoped will help to refine the cost estimates over time.

204. **Lower Charges (Green) –** A 2-basis points reduction in average annual management charges across the DC market was estimated through modelling by DWP but there does remain some uncertainty as it would ultimately be the behaviour of schemes that decides whether any and if so what proportion of the costs savings are passed onto members.

- To mitigate this, DWP has estimated the benefit to members of lower charges to commence in year 7 of the appraisal period (year 5 after implementation) to account for the time it would take for cost savings to be realised and then passed onto members and in attempts to mitigate against a potentially smaller than 2 basis-points reduction in the average % AMC. Therefore, the benefit of lower charges to members has been monetised for 4 years across the 10-year appraisal period.
- The impact of the lower charges is based on DWP's estimates for the growth in assets across the DC market with DWP projecting DC assets across the 10-year appraisal period. As within any projections, the true assets values could vary but these DC asset projections are broadly in line with estimates modelled by PPI[352].

205. **Opt-Out (Green) –** Whilst a 3.5% opt-out rate is supported by member research[353] which showed strong support for an automated solution, the opt-out rate will only become clear after the implementation of a consolidator solution. If the opt-out rate were to be higher than the estimated 3.5%, along a similar level to the opt-out rate for automatic enrolment, the number of transfers and the cumulative reduction in small pots may have been slightly over-estimated. This would also impact the estimated costs and benefits to both schemes and members. Therefore, our sensitivity analysis uses an opt-out rate of 5% (a 1.5 percentage points increase over the central estimate), to represent the impacts if a small pots consolidator solution were to have a higher opt-out rate that is slightly closer to that of Automatic Enrolment of around 8% to 10%[354]. Our sensitivity analysis also uses an opt-out rate of 2% (a 1.5 percentage points decrease over the central estimate) to represent the impacts if a small pots consolidator solution were to have a relatively low opt-out rate due to the low levels of pensions engagement and high levels of inertia which is prevalent across pension savings and specifically amongst members with small pots.

- Early findings from the PPLL survey[355] also suggest broad support for the automatic consolidation of small pots with 73% of respondents (adults 40-75) wanting the option of the automatic merging of small pots. It is likely due to the inertia around pensions that of the 27% of respondents who indicated they would not want the option of the automatic merging of small pots that a large number would not opt-out of a consolidator solution due to its automatic nature. Those that responded no may be more likely to not currently have a small pot and therefore do not see the benefit

352 https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf

353 https://www.gov.uk/government/publications/understanding-member-engagement-with-workplace-pensions/understanding-member-engagement-with-workplace-pensions#consolidating-deferred-pension-pots

354 https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2023

355 https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024

of such a solution, however, in the future they could accrue a small pot and therefore they may wish for the option for the automatic consolidation of small pots at a future date.

206. **Multiple Pots (Red) –** Where individuals already have existing pots within the consolidator schemes there would be an additional benefit to schemes from administering a larger, potentially more profitable pot after the consolidation of a member's small pots. With the continually growing stock of small pots, it is expected that at implementation many individuals will have multiple small pots below £1,000 which would be consolidated into one pot under a consolidator solution. The extent to which individuals have multiple deferred small pots is currently unknown and for the purposes of this IA, estimates reached through analysis of ONS' Wealth and Assets Survey Round 8 have been used. The Wealth and Assets Survey is self-reported by members and there is the tendency for many small pots to go unnoticed by members. Therefore, any estimates are likely to be an underestimation of the number of individuals with multiple small pots. Therefore, it is difficult to assess the true size of the stock reduction that would be expected but work is ongoing with industry stakeholders and others including PPI to better understand the instances of members having multiple small pots.

207. **Mismatch rates (Amber) –** As previously stated, the evidence and research around a mismatch rate is limited and therefore the Department has included a high and low estimate in its sensitivity analysis of the costs and benefits of a multiple consolidator solution (paragraph 244).

- **Low estimate** of 9% is based on research by ITM published in PLSA's report[356], with the assumption that no further improvements in matching rates occur over time.
- **High estimate of** 1% is based on research conducted based on the Pensions Dashboard[357] that suggested with repeated matching attempts a matching rate above 99% could be reached and the assumption that matching rates should improve over time.
- As with the opt-out rates used in the sensitivity analysis, a higher % figure is used for the low estimate of the mismatch rate than for the high estimate as the low estimate forms part of the wider analysis to model a low estimate for the number of transfers and therefore a low estimate for the reduction in small pots and vice versa for the high estimate. This is explained further below (paragraph 253).

[356] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2021/Small-pots-cross-industry-co-ordination-group-update-report.pdf

[357] https://www.pensionfusion.com/sites/default/files/2022-09/Pension%20Fusion%20-%20Pensions%20Dashboards%20-%20Getting%20to%20the%20heart%20of%20matching%20-%20Single%20page%20view.pdf

Summary of why Option 1 is the preferred option

208. A Multiple Default Consolidator solution presents the best overall net benefits of the viable solutions explored by the Department and should provide a focus on improving member outcomes throughout.

209. **Do Nothing** – Even with the introduction of the Pensions Dashboards and FCA's consultation on targeted support, due to their reliance on member engagement, the continued growth in the number of small pots would be expected to continue as such member engagement is not present at scale. The Department therefore does not consider this a viable option. Under a "do nothing" approach the costs to schemes and the detriment to members would be expected to increase as the number of small pots continued to grow.

210. **Pot follows Member** – As with a default consolidator solution, a PfM solution would require the use of government legislation either using existing powers that had already previously legislated for in anticipation of a small pots solution, or (most likely) the requirement for further government legislation. The transition costs are assumed to be similar to those under a default consolidator model and due to the lower number of transfers under a PfM model the yearly costs to schemes would be expected to be lower than the yearly costs of a consolidator solution. The lower number of transfers due to the initiation of any transfers based on when a member moves between employment means that when compared to a consolidator model it is expected that a PfM model would result in a lower overall reduction in the number of small pots over the 10-year appraisal period. Therefore, whilst a consolidator solution is assumed to involve higher overall costs, the benefit to both members and industry as a result of a larger reduction in small pots would be expected to outweigh the higher costs.

- DWP analysis finds PfM would have slightly fewer pots consolidated compared to the default consolidator approach (as discussed in the Costs & Benefit section). However, it is recognised these results are uncertain and dependent on a number of assumptions, including opt-outs.
- For example, PPI previously estimated[358] the impacts of Small Pots solutions on the number of pension pots. They estimated 70-90% of small deferred pots would be consolidated under PfM compared to around 60-80% under default consolidator.

[358] https://www.pensionspolicyinstitute.org.uk/media/pqynaq5p/20200723-deferred-members-final-report-for-the-website.pdf

- Nevertheless, there are wider advantages of a Default Consolidator solution, including the ability to develop scale and drive efficiencies in managing smaller pots, which was seen as more advantageous compared to PfM.

211. **Member Exchange –** A member exchange solution was considered as an alternative to a government legislated solution, however, the member exchange pilot found that schemes would struggle to move forward without supporting legislative change. The scope of member exchange would likely be more limited compared to an industry wide solution such as default consolidation as only the small pots within the participating schemes would be within scope of a member exchange solution. Therefore, a member exchange solution is not considered as a viable alternative to a government legislated solution.

212. **Multiple Default Consolidator –** The preferred option that would be expected to address the stock and flow of small pots whilst having a minimal impact on the pensions industry with the distribution of the consolidated small pots across several schemes with a focus on improving member outcomes.

- The consolidation of small pots into a select number of consolidator schemes should allow the consolidator schemes to have access to a greater value of assets as they grow in scale and these assets would be less liquid than those under a PfM model where schemes may have to carry out more regular transfers of members' pots. As pots consolidated under a PfM model could continue to be transferred over time as the active pot they were transferred into becomes deferred. The extent to which would depend on the pot limit set for pots to be transferred, whilst under a default consolidator solution, once a pot is consolidated into a consolidator pot it would not need to be transferred again as part of a consolidator solution. The access to a greater number of more illiquid assets should help the consolidator schemes investment in higher growth assets and improve retirement outcomes for members.

Direct and Indirect costs and benefits

213. As referenced in the sections above, the costs and benefits to both members and business of the introduction of a multiple default consolidator solution have been estimated. Figure 18 below summarises whether these estimated monetised costs and benefits are considered direct or indirect to either schemes or members.

Figure 18 – Summary of the Monetised Costs and Benefits

Monetised Costs		
Transition Costs: Central Mechanism (assumed to be a Small Pots Data Platform for the purposes of this IA) and Familiarisation Costs	**Direct cost to business**	Costs are immediate and unavoidable. They are the necessary costs involved for schemes in the implementation of the policy and therefore are direct costs as a result of the measures.
Transfer Costs	**Direct cost to business**	The first step in the logic chain as schemes will be required to send their pots to the relevant consolidator. As the costs of the immediate action required to be undertaken to achieve the policy objectives, these are therefore direct costs.
Monetised Benefits		
Pot Administration Savings	**Direct benefit to business**	The transfer of small pots will be a direct action of the legislation and the first step in the logic chain (the reduction in the number of small pots). Therefore, it is appropriate to see the reduction in costs of administrating these pots as a direct benefit.
Lower charges for Members	**Indirect benefit to Members**	As it is a choice whether providers lower the charges for members, this is considered an indirect benefit. This is because it relies on schemes passing on some of their cost savings onto members. As this is therefore “avoidable” and requires an additional step in the logic chain for the benefit for members to be realised, it is considered indirect.

Consumer Surplus	**Direct benefit to Members**	As all members of small pots will gain directly from having their pots automatically consolidated (unless they opt-out), the consumer surplus from the measure is a direct benefit to members. It is a result of members having their pots consolidated and these savers attributing a value to this. This is the result of the first step in the logic chain.

Summary of direct and indirect costs and benefits

214. The Department's assessment is that a default consolidator solution would have no cost burden, either directly or indirectly on members. The policy will focus on improving outcomes for members.

215. All of the monetised costs to schemes are considered to be direct costs.

216. Each of the costs and benefits to business and members have been explained in further detail in the costs and benefits sections above (paragraphs 123-163).

217. In the earlier sections of this IA, estimates were given for the costs and benefits to both members and schemes of the introduction of a multiple default consolidator solution. Therefore, the monetised values of any costs and benefits to members have not been included again within this section, which instead focuses on the direct costs and benefits to business.

Direct costs and benefits to businesses – EANDCB

218. Figure 19 summarises the direct costs and benefits to business of a multiple default consolidator solution with all figures presented in present value form. The table also summarises the EANDCB and Net Present Value figures for a multiple default consolidator solution.

Figure 19 – Direct Costs and Benefits to Business – EANDCB and Net Present Value[359]

Impact	**Present Value (over the 10-year appraisal period)[360]**
Monetised Direct Costs	
Familiarisation Costs	£0.2m
Small Pots Data Platform (Build/Set-up and Data Standardisation)	£212m
Transfer Costs	£195m
Annual Direct Business Costs	**£47.3m**
Monetised Direct Benefits	
Pot Administration Savings	£958m
Annual Direct Business Benefits	**£111.3m**
Equivalent Annual Net Cost to Business (EANDCB)	**-£64.0m**
Business Net Present Value	
Present Value Direct Costs to Business	£407m
Present Value Direct Benefit to Business	£958m
Net Present Value Direct Impact on Business	**£551m**

Wider impacts

Market Impact

219. One potential challenge of a consolidator model is around competition with the potential for a distortive impact on the DC pensions market, especially compared to PfM. This is because a large number of pots and assets could be concentrated in a few selected schemes. This could potentially give them advantages in terms of economies of scale and making them more appealing to members and employers.

220. However, the assessment is that given the existing concentration of small pots in large schemes, with over 80% of the estimated 13m small pots within five large schemes any market distortion is unlikely to be significant, especially as the proposed pot limit is relatively low. Most small pots are believed to be within the trust-based market within

[359] Some figures have been rounded to the nearest million where this was deemed appropriate throughout the table.

[360] The aggregated monetised impacts are calculated for a ten-year appraisal period, and all costs are given in 2024 prices and use 2028 as the base year for the present value calculation, as given in the RPC/DBT Impact Assessment Calculator.

Master Trusts, which is already a relatively concentrated market, with the Master Trust schemes accounting for 91% of total memberships and 90% active memberships within the trust-based market (including hybrid but excluding micro schemes)[361].

221. PPI's DC Future Book estimated total assets of £650bn within workplace DC schemes in 2024[362]; of which £166bn is in master trusts (excluding hybrids)[363]. Based on DWP's data the 13m deferred pots worth less than £1,000 account for about £4.3bn in assets, or less than 1% of the total assets in the occupational DC market.

222. If the pot limit was £1,000 and all £4bn in assets below this were consolidated into a single scheme, this is only equal to a shift of around 3% of the master trust market, and the likelihood is that the chosen scheme would already have a large share of these existing assets. However, £4bn is larger than many Master Trusts, and could cause lasting distortion amongst schemes. A multiple default consolidator approach effectively mitigates any such risk.

223. The £4.3bn in current assets represents over 10 years of automatic enrolment policy, the annual displacement of new assets would be much less. The master trust market grew by £43bn between 2024 and 2025, but estimated growth in deferred pots under £1,000 only represents around 1% of this. The impact on market share becomes even less significant where these assets are divided between multiple consolidators, especially where they already have a large share of the new pots.

224. The schemes that become authorised consolidator schemes may look to encourage members to transfer larger pots (above £1,000) into their schemes by leveraging on their now existing relationship with these members with small pots. For some members this would be in their own interest and could help to improve member engagement, but it could have a distortive impact on competition between schemes. It could enable the consolidator schemes to gain a competitive advantage in areas such as decumulation services, however, due to the already relative concentration of the DC market, specifically the trust-based market which continues to become more concentrated with year-on-year consolidation, the impact on the market would likely therefore be diminished. Any potential risk of a distortive impact on areas including decumulation services could potentially be heightened with any uplift of the £1,000 pot limit but any impact would ultimately depend on the current status of competition within the DC market at the point any uplift did occur.

361 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

362 https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf

363 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

- The IFS[364] has similarly raised the potential risk of an anti-competitive effect if there was only a small number of consolidator schemes and the £1,000 limit was increased. With the potential for a small number of schemes to control the market.
- The continued consolidation of the DC market, specifically in the trust-based side of the market with the aim to support the growth in scale of schemes to result in a smaller number of larger schemes may help to off-set any potential competition risk. The consolidation of smaller schemes into a number of larger schemes should ensure continued competition by avoiding a small number of larger schemes being able to exert market dominance in terms of charges, etc. over a number of small schemes.

225. Member-led auto-consolidation of pension pots is currently very low at around 5% according to the FCA's Financial Lives Survey[365] and therefore there is unlikely to be any significant changes in the further consolidation of pension pots as a result of the consolidation of small pots under a consolidator solution. As mentioned previously, even with the introduction of the Pensions Dashboard and FCA's consultation on targeted support no significant changes in consolidation rates would be expected given the reliance on member action which would likely remain low due to low engagement. As the market continues to become more consolidated, members are more and more likely to have an existing pot with their consolidator scheme and therefore the need for further consolidation of members' other potentially larger pension pots may reduce – reducing the wider impact on the pensions market outside of the continued impact of a consolidating market.

Market Consolidation

226. The Defined Contribution (DC) Trust-based market has been consolidating over time with the number of schemes falling by around 10% each year since 2012 with an average of 12% per year for the last three years [366].

227. Other Pension Schemes Bill measures such as VfM may interact with any further consolidation but the potential scale of this is uncertain. Therefore, consolidation is assumed to continue at the rate of 12% annually. However, it would be reasonable to expect that VfM, and potentially other Pension Schemes Bill measures, will consolidate the market further which would accelerate the rate of consolidation above the current level

364 https://ifs.org.uk/sites/default/files/2025-02/IFS-Report-Small-pension-pots-problems-and-potential-policy-responses%20%281%29.pdf
365 https://www.fca.org.uk/publication/financial-lives/fls-2022-pensions.pdf
366 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

of 12%. The effect, however, cannot be accounted for as any impact cannot be known in advance.

228. Consolidation of the DC trust-based pensions market has resulted in a fall from 3,660 schemes in 2012 to 920 schemes in 2025. Over the same time period, the assets held, driven by the rollout of Automatic Enrolment, has been rapidly rising (an increase of 825% since 2012 to £205bn).

229. Much of the increase has been within Master Trusts (multi-employer pension funds), with just 33 Master Trusts accounting for over three-quarters of DC assets, 91% of DC memberships, and 90% of active savers (including hybrid schemes).

230. This trend of consolidation in the market is likely to continue, and a number of pension reforms have been aimed at encouraging further consolidation where this is in the interests of members. As outlined in DWP's previous consultation in 2021[367], consolidation can help ensure all savers are receiving the best value for money from well-governed schemes that can achieve economies of scale, especially at the lower end of the market. Consolidation may also deliver greater opportunities for schemes to access a more diverse range of investment products and investment strategies to the benefit of members and the broader UK economy. However, it is important consolidation is done in the interests of members and that the wider pensions market continues to exhibit competition and innovation.

231. The automatic consolidation of deferred small pots may further support market-wide consolidation as default consolidators may increase their competitiveness from generating more scale, encouraging smaller schemes to leave the market. However, this may be offset by the improved financial sustainability for smaller schemes from removing loss-making small pots off their books. Any behavioural impact on schemes cannot be known in advance. The Department has therefore considered the potential costs/benefits to members and schemes which might arise but has not monetised any impacts of market consolidation changes. This is due to a mixture of uncertain evidence, and market consolidation being considered as an indirect impact of the reforms.

Wider Costs and Benefits to Individuals

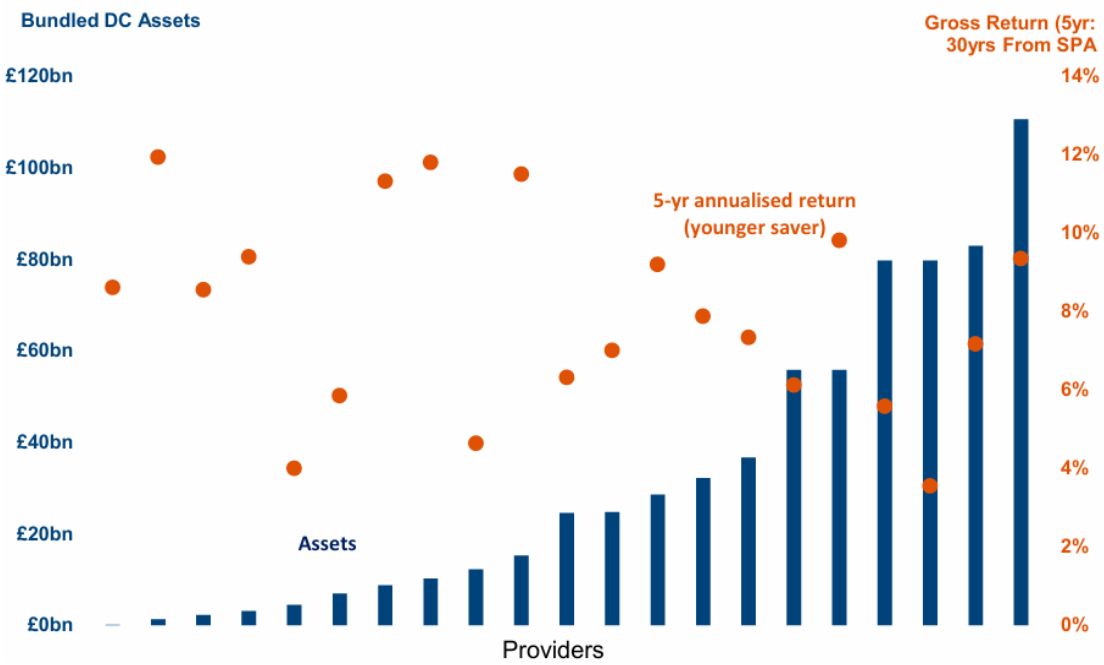
232. **Investment Returns –** Consolidation could help drive investment performance as it is known that scale can create a wider range of investment opportunities and help negotiate

[367] https://www.gov.uk/government/consultations/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation

lower investment fees[368]. However, evidence that scale delivers better performance is mixed. Analysis on a small sample of larger schemes suggests there is not a positive relationship between scheme size and gross investment returns (see Figure 20). However, the Department recognises this may be different if the much smaller pension funds were included in the data, and that there may be a survivorship bias in good performing smaller schemes. This is supported by evidence from Australia[369] which found schemes had a weak positive relationship between asset size and annual returns. This is seconded by analysis from CEM benchmarking which found that, where larger schemes do outperform, this is often due to scale efficiencies such as negotiating lower investment fees, internalising asset management and/or accessing more diverse asset classes[370]. These factors improve net (after costs and charges), if not gross (underlying), risk-adjusted investment returns. Consolidation, therefore, in itself may not necessarily drive investment performance (but should not worsen outcomes and could improve the net returns members earn).

[368] https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf
[369] https://www.apra.gov.au/sites/default/files/2023-06/Drivers%20of%20performance%20-%20APRA%20paper%20for%20MMF%20conference%20Feb%202023.pdf
[370] https://www.imcoinvest.com/pdf/research/CEM-Benchmarking-Report_A-Case-For-Scale-February-2022.pdf

***Figure 20* - UK DC pension schemes, assets under management (AUM) by annualised gross returns for younger savers over the last 5 years**



Source: DWP calculations of Corporate Adviser MT/GPP Default Report 2024[371] and Q2 2024 Returns

233. **Governance –** There is a wide-range of evidence that shows a positive relationship between size and governance[372]. Research carried out by the Pensions Regulator (TPR) in 2019 showed around 70% of micro (2-11 members) and 60% of small (12-99 members) schemes were not hitting any of the five key governance requirements that applied to them. Whereas 84% of large schemes (1000+ members), and 100% of Master Trusts, were meeting at least two of the five key governance requirements. Additionally, Australian regulators, and PPI research[373], have previously found the quality of investment governance is a crucial driver of returns. Consolidation might therefore be expected to help deliver improved governance and help deliver greater returns.

234. **Costs –** DWP's Pension Charges Survey[374] found around a 10-basis points difference between smaller schemes and larger schemes – therefore size can drive down costs. This may be expected given the ability to negotiate lower fees with a greater level of

371 https://corporate-adviser.com/ca-master-trust-gpp-defaults-report-key-findings/ (Corporate Adviser Master Trust and GPP Defaults Report, April 2024)
372 https://webarchive.nationalarchives.gov.uk/ukgwa/20200102111009mp_/https:/www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-research-summary-report-2019.ashx
373 https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2017/2017-11-08-the-impact-of-dc-asset-pooling-international-evidence/ (The impact of DC asset pooling: International evidence)
374 https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

assets through economies of scale. However, there is evidence[375] there may be a limit to the gains which can be made through scale on costs, with PPI finding the benefits start to level off around $500m in the US DC system. Nevertheless, consolidation may be expected to lower charges for members.

235. **Fewer lost pension pots –** PPI estimated in 2024[376] there are over £31bn in lost pension pots. This number is likely to continue growing and potentially lead to members missing out. A more consolidated market is likely to help members through having a reduced number of pension schemes, reducing the likelihood of forgetting which scheme a pension pot may be with. Combined with this, a default consolidator solution will result in all a member's small pots being consolidated into a single place, reducing the possibility of them becoming lost. Other initiatives being planned, such as the Pensions Dashboard, will further support this for engaged members, regardless of consolidation.

236. **Fewer Pension Pots per Member –** The bringing together of pension pots has the potential to reduce the number of pension pots members have at the point of retirement and therefore could improve clarity for members around the potential for their overall pension savings to generate a retirement income.

- Research by DWP[377] into decumulation decisions found there was evidence of mental accounting across different sizes of DC pots. Participants were more willing to liquidate smaller pots entirely, particularly if these were inactive, compared to either not touching or drawing down a more complex mix of retirement income products and cash from larger ones. If more members consolidated their DC pensions it could encourage detailed consideration of exactly how much a member needs to withdraw, rather than encouraging a tendency to close a whole pot, because it doesn't feel worth leaving a small amount in a pension.
- **Investment Performance –** There remains a risk, however, that some members could be made worse off from having their old pension pots consolidated or moved into a new scheme – most likely due to a worse level of investment performance. The authorisation criteria for consolidator schemes should help to mitigate the potential impact on members with consolidators required to continue to offer members value for money. At the aggregate level, the relatively low initial value for

[375] https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2021/2021-11-18-what-can-other-countries-teach-the-uk-about-measuring-value-for-money-in-pension-schemes/ (What can other countries teach the UK about measuring Value for Money in pension schemes?)
[376] https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2024/briefing-note-138-lost-pensions-2024/ (Briefing Note 138 – Lost Pensions 2024)
[377] https://www.gov.uk/government/publications/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys#factors-affecting-decumulation-decisions

eligibility would mean any potential impact of any investment performance variation would be minimised.

- **Flat Fees –** Members with small pots below the current level of the de minimis[378] (£100 threshold below which pots can't be charged a flat fee) which if consolidated could then have a combined value above the de minimis could face higher charges if a flat fee were to be charged which could erode the value of the consolidator pot over time. The Department is considering an increase in the level of de minimis, for consolidated members, which should help to protect more pots of lower value from flat fees.

Wider Costs and Benefits to Industry

237. **Gain/Loss of business –** Consolidation means some schemes may merge their scheme into others (largely into Master Trusts). This is essentially a transfer cost/benefit, with one scheme losing with another scheme gaining. As many small pension schemes are largely run by trustees (with many doing this voluntarily), it is not anticipated that there would be any material employer impact through consolidation. Consolidation should help larger schemes achieve greater scale in a quicker timeframe, supporting their business model and helping profitability.

238. **Cost of seeking out a new scheme to transfer into** – It has previously been estimated[379] there may be costs arising for schemes seeking out larger schemes who they believe would take them on should they decide to move their pension scheme members into a different scheme. With larger schemes such as Master Trusts able to provide increased access to investment opportunities and reduce costs[380] compared to smaller schemes, therefore merging into larger schemes could benefit both members and employers. This was estimated at around £60,000 across the industry; though on a per scheme basis, was very low (around an hour of a Trustee's time).

239. **Fewer Pots** to administer should generate costs savings across the pensions industry, with the same amount of pension savings being administered across a smaller number of individual pension pots as a result of consolidation.

240. **Existing Consolidators –** Some existing pension schemes' business models revolve around offering member-led consolidation and in theory could therefore be placed in direct

[378] https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/cost-and-charge-restrictions#:~:text=On%206%20April%202022%2C%20a,scope%20of%20the%20charge%20cap.

[379] https://www.legislation.gov.uk/nisr/2021/272/pdfs/nisrem_20210272_en.pdf

[380] https://www.mercer.com/en-gb/insights/investments/portfolio-strategies/accelerating-trend-master-trusts/#:~:text=In%20a%20Master%20Trust%2C%20the,a%20typical%20single%2Demployer%20plan.

competition with a government legislated consolidator solution. These pension schemes charge members for the consolidation of their multiple pensions pot into one singular pension pot within their scheme. A similar process to which a consolidator solution would operate for small pots meaning the free cost nature of a consolidator solution could impact these existing consolidators.

- For members with small pots that meet the eligibility for consolidation they may no longer feel the need to seek the services of the existing consolidator schemes as they could now have their small pots consolidated free of charge rather than paying one of the existing schemes that offers consolidation services.
- An overall reduction in the number of pension pots held by members as a result of a consolidator solution could result in some members feeling less inclined to seek member-led consolidation through an existing consolidator scheme for those pots that are above the eligibility criteria of a consolidator solution. As members may feel they can better manage a fewer number of pension pots without the need for consolidation.
- Whilst there would ultimately be some overlap between a default consolidator solution and the existing business model of the existing consolidator schemes, the eligibility of a consolidator solution should help to mitigate this impact.
- A consolidator solution's primary aim would be to improve member outcomes by addressing the challenges of deferred small pots and is therefore focused on the lower end of the market with a focus on unprofitable pots. At implementation only deferred pots with a value below £1,000 would be eligible for consolidation under a consolidator solution.
- For any members with pots outside of this eligibility criteria, they would need to continue to seek the services of existing consolidator schemes if they wanted their pensions pots across multiple schemes to be consolidated, therefore, keeping the higher end of the market with larger, more profitable pots still open to the existing consolidator schemes.
- Individuals would also retain the right to opt-out of any consolidation solution and therefore even those members with small pots could choose to have their small pots consolidated themselves through an existing consolidator scheme.
- So, whilst there is a potential business impact on the existing schemes offering consolidation services, a consolidator solution would be focused on addressing the member and scheme detriment of the low-value and unprofitable deferred pots and therefore the wider consolidation market would remain unimpeded. Competition

within the existing consolidator market of higher value and profitable pots would not be directly impacted by the implementation of a consolidator solution which at implementation would only focus on those deferred pots with a value below £1,000.

- For the existing consolidator schemes much of their focus is likely on pots of a higher value than £1,000 due to the unprofitable nature of these pots, which is supported by the continued proliferation of small pots suggesting very little member-led consolidation of small pots is currently taking place.

Benefits to Wider UK Economy

241. One key wider benefit of an increase in the consolidation of small pots could be **the increased share of assets saved in large, well-governed DC schemes potentially able to direct funds towards longer-term, illiquid investments**. This could mean that key, potentially strategically important sectors of the economy such as smaller innovative firms, housing, infrastructure, and green infrastructure receive more investment flows than previously which could have wide-ranging benefits across society.
242. There remains no consensus on what the optimal size of DC pension fund in terms of assets is, but a growing number of papers do suggest that the number of benefits increases at a scale of £25bn-£50bn AUM and above[381]. With the scale of benefits thought to increase for those schemes at a higher level in terms of AUM.
243. It is likely that the schemes that would choose to become consolidators would be at the larger end of £25bn-£50bn AUM with the continued growth of the largest Master Trust schemes as consolidation of the DC trust-based market continues at a rate of around 12% each year. The opportunity for consolidators to grow in scale as a result of the consolidation of small pots should mean that the consolidator schemes are best placed to benefit from the economics of scale experienced by larger pension funds.

Sensitivity analysis of Multiple Default Consolidator (preferred option)

244. Due to the uncertainty behind much of the data that surrounds small pots, a sensitivity analysis of the costs and benefits to members and schemes has been conducted to explore this uncertainty.
245. Tables displaying sensitivity analysis of a Pot follows Member solution are included in **Annex D.**
246. Figure 21 below summarises the high estimate of the costs and benefits under a multiple default consolidator solution.

[381] https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf

Figure 21 - High estimate of costs and benefits of a multiple default consolidator solution

Multiple Default Consolidator	
Industry	**Individual**
Familiarisation Costs: £0.3m	Consumer Surplus (benefit): £155.5m
Small Pots Data Platform (cost): £324.0m	Lower Charges (benefit): £1,208.7m
Transfer Costs: £255.3m	
Pot Administration Savings: £1,382.3m	
Net Benefit: £802.8m	**Net Benefit: £1,364.2m**

247. Figure 22 below summarises the low estimate of the costs and benefits under a multiple default consolidator solution.

Figure 22 - Low estimate of costs and benefits of a multiple default consolidator solution

Multiple Default Consolidator	
Industry	**Individual**
Familiarisation Costs: £0.1m	Consumer Surplus (benefit): £46.3m
Small Pots Data Platform (cost): £108.0m	Lower Charges (benefit): £402.9m
Transfer Costs: £178.0m	
Pot Administration Savings: £970.3m	
Net Benefit: £684.2m	**Net Benefit: £449.2m**

248. Figures 21 and 22 display the low and high estimates for the monetised costs of a multiple default consolidator solution, the sensitivity analysis is explained in further detail below.

249. The sensitivity analysis of the pot administration savings and the transfers costs is based on a number of assumption changes that impact the number of transfers and overall cumulative reduction of small pots estimated; the cost of each transfer and the administration costs per pot have themselves not been assumed to change. However, the impact of a change in transfer and administration costs has been modelled in **Annex B.**

250. The sensitivity analysis of the other costs and benefits (included in Figures 21 and 22) are based on stand-alone changes in the assumptions for each individual cost and benefit and are based (where applicable) on the number of transfers and the cumulative reduction in small pots modelled previously in Figure 13.

251. Figure 23 below displays the low, central and high estimate for the monetised costs and benefits of a multiple default consolidator solution, with the change in assumption explained alongside each monetised cost/benefit (except transfer costs and administration costs, where the change in assumptions is explained in Figure 24).

Figure 23 – Sensitivity Analysis of a Multiple Default Consolidator Solution

Costs/Benefit	Low	Central	High
Familiarisation Costs	**£94,000**: Based on a reduction in the estimated number of policy documentation pages.	**£189,000**	**£283,000**: Based on an increase in the estimated number of policy documentation pages.
Small Pots Data Platform and Data Standardisation (cost)	**£108m:** Based on 1/3rd of the upfront cost estimates of the Pensions Dashboard to account for the significant data standardisation that will already have taken place for the Pensions Dashboard that could potentially be leveraged upon for a consolidator solution.	**£216m**	**£324m**: Based on the estimates of the upfront costs of the Pensions Dashboard.
Transfer Costs	**£178m**	**£215m**	**£255m**
Pot Administration Savings (benefit)	**£970m**	**£1.2bn**	**£1.4bn**
Consumer Surplus (benefit)	**£46m:** Based on median WTP of £5.00	**£81m**	**£155m:** Based on mean WTP of only those respondents who thought the automatic consolidation of small pots should be offered, £16.80
Lower Charges (benefit)	**£403m:** Based on 1 basis-point reduction in the Average % AMC.	**£806m**	**£1.2bn:** Based on 3 basis-points reduction in the Average % AMC.

Figure 24 – Low and High assumptions for the modelling of a Multiple Default Consolidator solution

Assumption	Low	Central	High
Yearly growth in Small Pots	**1.0m** based on the first 12 years of AE.	**1.3m**	**1.6m** based on analysis of HMRC RTI data on the instances of members ceasing pension contributions, to reflect that not all schemes are represented in the Department's data collected from industry.
Stock of Small Pots	**19.0m:** Based on a yearly growth of 1.0m small pots (above) from the current estimate of 13m small pots.	**20.8m**	**22.6m:** Based on a yearly growth of 1.6m small pots (above) from the current estimate of 13m small pots.
Opt-Out Rate	**5%:** Based on a 1.5 percentage points increase over the central estimate of 3.5% - still below the opt-out rate for AE but represents the potential that some members may engage with a consolidator solution and choose to opt-out.	**3.5%**	**2%:** Based on a 1.5 percentage points decrease over the central estimate of 3.5% - significantly below the opt-out rate for AE but represents the low engagement of members already AE enrolled.
Mismatch Rate	**9%:** Based on the assumption that the level of mismatches will not decrease overtime and is kept in-line with ITM's[382] analysis of mismatch estimates.	**5%**	**1%:** Based on the assumption that overtime the level of mismatches will decrease and evidence[383] around the Pensions Dashboard suggesting that continuous matching attempts could result in correct matches being made with a mismatch rate below 1%.

[382] https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2021/Small-pots-cross-industry-co-ordination-group-update-report.pdf

252. Figure 24 below explains the changes made in the assumptions behind DWP's modelling that influences the low and high estimates for the transfer costs and pot administration savings. The low and high estimate for the number of transfers and cumulative reduction of small pots is modelled in **Annex E.**

253. The low and high assumptions in Figure 24 above are based on calculating a high and low estimate for the number of transfers and cumulative reduction in the number of small pots under a multiple default consolidator solution. The transfer costs and administration savings are then estimated based on the change in the number of transfers and the cumulative reduction of small pots. Therefore, for the mismatch and opt-out rate assumptions, the higher the % the lower the number of transfers and the cumulative reduction in small pots.

254. The detail of the assumptions in Figure 24 have been discussed in the earlier sections of this IA in more detail.

Small and Micro Businesses Assessment

255. The Department has considered the potential impacts that the implementation of a multiple default consolidator solution could have on micro and small businesses, including employers and pension schemes. Whilst several potential costs have been identified, attempts have been made to mitigate the impact that small and micro businesses may face as a result.

256. Some small pension schemes could be considered smaller businesses and to be consistent with the Pensions Dashboard Impact Assessment[384], as well as with other Pensions Scheme Bill Measures, Small and Micro businesses are defined as DC schemes having fewer than 1,000 members. This is not a perfect definition of a small/micro business as scheme size and employer size do not always perfectly correlate, but best attempts to estimate the impact on smaller schemes. However, trust-based schemes can be set up by both smaller and larger employers, with a trend of smaller employers using Master Trusts for workplace pensions to minimise costs and improve governance. The nature of pension schemes can often differ to that of other businesses, with a large number of assets managed by a pension scheme not necessarily correlating into a large number of employees.

[383] https://www.pensionfusion.com/sites/default/files/2022-09/Pension%20Fusion%20-%20Pensions%20Dashboards%20-%20Getting%20to%20the%20heart%20of%20matching%20-%20Single%20page%20view.pdf

[384] Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

Exemptions

257. One of the overarching benefits of a default consolidator solution is its automatic nature and the need for no involvement from employers in the consolidation process. A consolidator solution would only involve pension pots that are currently deferred and there would be no implications on pension pots that are currently active. As deferred pots, the only pots in scope of a consolidator solution, would no longer be receiving any employer contributions and therefore should not impose any costs on employers. The costs would be on the pension schemes themselves who would carry the costs of the transfer process.
258. A default consolidator model would be focused on pension schemes (rather than wider businesses or employers) and the costs would be borne by schemes themselves, with benefits for both members and schemes expected.
259. As discussed previously (paragraph 10), the Department proposes based on the grounds of proportionality that Small Self-Administered Schemes and Executive Pension Plans would be excluded and that to apply the Default Consolidator framework to these micro schemes would be disproportionate due to the cost the schemes would incur as a result. **Therefore, the very smallest pension schemes have been exempted**.
260. As per the above referenced definition, small schemes (defined as having between 12 and 999 members) would be within the scope of a default consolidator solution.

Proportionality

261. The Department has estimated the monetised costs and benefits to small schemes, along the same methodology as described previously within the main parts of this IA. As described below this shows that there is estimated to be **a net benefit to small schemes from this legislation**.
262. To estimate the total number of small schemes in scope at the start of the appraisal period, a number of assumptions have been used.
263. **Consolidation –** The reduction in the number of DC schemes each year has been based on the assumption that the recent trend of consolidation will continue, with analysis of TPR scheme returns data[385], suggesting an average consolidation rate around 12% per year for the last three years. The number of contract-based schemes has been kept constant across the appraisal period at around 30 contract-based schemes as the consolidation of the DC market is currently focused on the trust-based side of the market. Some consolidation within the contract-based market could occur but any such consolidation

[385] https://webarchive.nationalarchives.gov.uk/ukgwa/20240605050724/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023/occupational-defined-contribution-landscape-2023-annex

cannot be known in advance and the absence of consistent consolidation over recent years means the Department cannot quantify any potential impacts, any such consolidation would be expected to be minimal.

264. **Proportion of Small Schemes –** Small schemes were calculated to account for 71% of total DC schemes. This proportion has been kept constant across the analysis over the 10-year appraisal period due to the uncertainty of the extent to which consolidation might impact this.
    - The rate of consolidation of DC schemes is being driven by the reduction in small schemes as they consolidate into the larger Master Trusts. Therefore, it could be considered likely that with continued consolidation the proportion of small schemes in the DC market will fall over time. If the number of small schemes were to fall in-line with the expectation that the consolidation of the market will continue the costs and benefits to small schemes outlined in Figure 25 could be reduced.
265. Based on these assumptions, the estimated number of small schemes in scope at the start of the appraisal period (2028) is around **490.**
266. Familiarisation costs have been estimated at around £135,000 for small schemes split evenly across the two years of transition costs (2028, 2029). Whilst this represents a significant proportion of the total estimated familiarisation costs, due to the larger number of smaller schemes these costs would represent an average total cost of around £270 for each of the 490 small schemes.
267. The costs and benefits to small schemes after implementation (2030-2037) are based on the number of small pot transfers (modelled in Figure 13) that would be expected to be transfers from small schemes. Based on TPR data[386], just 0.53% of deferred memberships within trust-based schemes are thought to be within small schemes and this proportion has been kept constant over the 10-year appraisal period.
    - Therefore, as the majority of small pots are thought to be within trust-based schemes, 0.53% of all transfers each year have been assumed to be transfers from small schemes.
268. Figure 25 estimates the costs and benefits to small schemes over the 10-year appraisal period.

[386] https://webarchive.nationalarchives.gov.uk/ukgwa/20240605045559/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023

Figure 25 – The estimated costs and benefits to small schemes of a Multiple Default Consolidator solution[387]

	Estimated Number of schemes in scope	… of which small schemes	Estimated costs to small schemes	Estimated cumulative benefit to small schemes	Net
2028	690	490	£67,000		-£67,000
2029	620	440	£67,000		-£67,000
2030	550	390	£431,000	£793,000	£362,000
2031	490	350	£27,000	£843,000	£816,000
2032	440	310	£27,000	£892,000	£865,000
2033	390	280	£27,000	£942,000	£915,000
2034	350	250	£27,000	£992,000	£965,000
2035	310	220	£27,000	£1,041,000	£1,014,000
2036	280	200	£27,000	£1,091,000	£1,064,000
2037	250	180	£27,000	£1,141,000	£1,114,000
Cumulative			**£754,000**	**£7,734,000**	**£6,980,000**

269. Figure 25 does not monetise the potential cost implications on small schemes of a central mechanism (referred to throughout as a Small Pots Data Platform) but there would be the potential for small schemes to face some cost as a result depending on the decisions of the Department on how to recoup the costs from schemes.

270. Work is ongoing to consider the feasibility and implementation of a central mechanism and how options to fund the build and set-up costs may work in practice. Therefore, it is not currently known what the cost implications on small schemes may be as a result of the implementation of a central mechanism. Based on a Small Pots Data Platform any costs could potentially be proportioned across schemes of different sizes, with the largest schemes being those schemes that would benefit the most from the consolidation of small pots. At this stage it is not possible, however, to proportion the costs to small schemes specifically.

271. The most significant costs to small schemes are expected in the year of implementation (2030) where the current stock is expected to be dealt with and therefore is expected to be the year with the highest number of transfers. Costs in 2030 to small schemes are

[387] The number of schemes within the table have been rounded and the cost and benefit figures have been rounded to the nearest £1,000 where applicable

estimated at around £431,000 and are expected to be outweighed by benefits of around £793,000. The costs are then expected to level off, with an estimated annual cost just below £27,000.

272. The costs are the result of the estimated cost of transfers, with the cost kept steady at £10 per pot for each scheme, representing half of the estimated £20 cost per transfer. The receiving schemes would be the authorised consolidator schemes, and it is anticipated that these would not be small schemes and are likely to be amongst the largest pension providers within the DC market. Therefore, only the ceding cost of transfers would be applicable to smaller schemes. The transfers costs per pot for small schemes has assumed to remain level over the appraisal period, unlike the wider reduction expected for the average cost of transfers across the market. This is because small schemes would not be expected to benefit from the same level of economies of scale like the larger schemes due to the much smaller number of transfers and reduced use of bulk transfers expected by small schemes.

273. The benefits to small schemes are the reduction in administration costs through the reduction in the number of pots to administer as a result of the consolidation of multiple small pots. Each transfer is assumed to represent a cost saving of £20 minus the average AMC based on the average small pots value. This is a cumulative benefit each year, with the benefit through the transfer of a small pot in one year being counted as a benefit each year thereafter.

274. The Department therefore considers any costs to small schemes associated with a default consolidator solution to be proportionate, with the Department estimating that on an aggregate level small schemes will benefit over the 10-year appraisal period.

275. As shown in Figure 26 below, the total benefit over the appraisal period to small schemes is estimated at £6.4m (Present Value), representing an annual net direct cost to small schemes of **-£0.7m**.

- For those schemes with members with small pots the cost of transferring the small pots to the consolidator schemes would be expected to be outweighed by the cost saving through a reduction in administration costs each year due to the transfer out of likely loss-making small pots.

Figure 26 – Small and Micro Business Assessment EANDCB – direct costs and benefits to small businesses

Impact	Overview	Cost/Benefit to small businesses (2024 prices summed over appraisal period)
One-off costs	Small schemes familiarise with legislation and implement systems	£0.1m
Ongoing costs	Small schemes comply with the annual small pots policy requirements	£0.6m
Total direct costs to small business are £0.7m (£0.1m per year)		
Administration savings	Small schemes see the benefit of lower administration costs due to the reduction in the number of small pots.	£6.4m
Total direct benefits to small businesses are £6.4m (£0.7m per year)		
EANDCB to small schemes = £0.7m benefit per year (2024 prices)		

276. The Department therefore considers it proportionate to include small schemes within the scope of the multiple default consolidator legislation. Any costs that small schemes would occur are not considered disproportionate, as a consolidator solution will provide the opportunity for small schemes with small pots to benefit from the removal of likely loss-making pots.

Mitigations

277. The Department's view that a default consolidator model **should help benefit small schemes on an aggregate level** across the 10-year appraisal period is a significant mitigating factor for the inclusion of small schemes within the scope of the policy.

278. Small schemes with small pots would be expected to benefit monetarily from the consolidation of small pots through the reduction in loss-making small pots that they have to administer.

279. The Department has also considered the following mitigations to the costs imposed on small businesses:

- **Central Mechanism –** Whilst there is still uncertainty in the decision and implementation of a central mechanism to support a multiple default consolidator solution, it is clear that a central mechanism is likely needed to support the transfer and consolidation process. A central mechanism should help to mitigate some of the administration costs to small schemes and reduce the administration time required to administer the transfer of small pots to the consolidator schemes.
- **No employer involvement –** There would be no active employer involvement within a multiple default consolidator solution due it its focus on deferred pots, which would be no longer receiving employer contributions. There are therefore no expected costs to employers as a result of the transfer or consolidation process for small pots under a multiple default consolidator solution.
- **Benefits outweigh the costs –** As referred to previously, it is considered that the costs to small schemes will be outweighed by the benefit of administration savings from the reduction in the number of small pots. The majority of the costs are expected to be to the larger pension schemes where the majority of the small pots problem is believed to be concentrated within.

Monitoring and Evaluation

280. After implementation the Department recognises the importance of monitoring and evaluating a multiple default consolidator solution and remains committed to ensuring that appropriate evaluation is undertaken. Given that pension policy and administration operate within a wider UK framework, the Department will be informed by monitoring and evaluation undertaken by DWP, supported by consideration of NI specific impacts and outcomes. Throughout the policy process there has been close engagement with industry, and this would continue in the evaluation of a small pots solution.

281. One significant element of monitoring and evaluation would be a planned statutory review after implementation. The initial review would then be supported by a range of future monitoring and evaluation methods, of which some are explored below.

- The first review should be undertaken within 5 years of implementation, with implementation in this case being defined as the commencement of duties on ceding schemes to transfer eligible pots for consolidation under the default consolidator model. Any future reviews should be undertaken periodically as deemed necessary.

282. The following ways to monitor and evaluate a multiple default consolidator solution have been considered:

- **Work with industry stakeholders** – The PPI continues to conduct research on the number of lost pots[388], of which many may be small pots. Monitoring any changes in the research findings over time could help to illustrate the impact of a consolidator solution on the number of small pots across the market and any wider implications on the number of lost pots overall. Work would continue with other industry stakeholders to monitor and evaluate the impact of a consolidator solution.
- **Qualitative or Quantitative research –** There is a potential to commission or conduct research to explore views across stakeholders, which could include views from schemes and members. Research could draw on the experiences from across schemes and members and explore how attitudes towards consolidation and pension saving as a whole have changed as a result. This could also include member views of the opt-out process and of having their small pots consolidated.
- **Industry Engagement –** Engagement with industry will continue to address any barriers that may arise under a default consolidator solution. The Department remains committed to ensure a consolidator solution whilst ensuring improved member outcomes works for the wider pensions industry and schemes.
- **Delivery Group Discussions –** DWP has chaired a number of group discussions with industry in the policy development process and could do so if further consultation is needed both prior to and after the implementation of a policy solution.
- **Secondary Sources –** A number of secondary sources have been used throughout this IA and this would continue in the evaluation and monitoring of a consolidator solution. Using sources such as the Financial Conduct Authority's Financial Lives Survey or ONS' Wealth and Assets Survey will allow the wider impacts of a consolidator solution to be considered. This could include monitoring changes in

[388] https://www.pensionspolicyinstitute.org.uk/research-library/research-reports/2024/briefing-note-138-lost-pensions-2024/ (Briefing Note 138 – Lost Pensions 2024)

member confidence around pension savings or progress on the consolidation of small pots.

- DWP may also conduct a further **data gather exercise** with providers after implementation to evaluate and monitor the impacts of a consolidator solution on the number of small pots across schemes. Previous data gather exercises would provide a useful base mark to evaluate the impact of a consolidator solution.

283. The Department will continue to consider further ways it could monitor and evaluate a consolidator solution.

284. The Department reserves the right, and remains committed, to continually review the eligibility criteria for consolidation to ensure a consolidator solution continues to benefit members and support the pensions industry. Any specific changes to the eligibility criteria of pension pots to be in scope of the default consolidator solution would be subject to affirmative regulations.

285. The “success” of the default consolidator approach within the first 5 years of implementation can be assessed against the following but not limited criteria:

- Fewer small pots in the DC market.
- Consolidation of the DC pensions market, with fewer, better managed large schemes.
- The successful authorisation of consolidators to allow for the consolidation of deferred small pots across the DC pensions landscape.
- Improved data matching, with the smooth matching of member data across schemes for the transfer of pension pots between schemes.
- A reduction in the number of pension pots, resulting in members having a lower number of pension pots but of larger value (helping to support members in retirement).
- Consistently low levels of mismatches in the movement/consolidation of small pots between schemes.
- Improved performance on average for members with a DC pension, especially those who previously had a number of small, deferred pots.
- A potential for a financially stable and digitally possible expansion in the number of pots that are eligible for consolidation.

Annex A: Estimates of the number of jobs per individual

1. An average of 11 jobs per individual over their working lives has previously been estimated. To support the understanding and work around the Small Pots issue, 3 methodologies were explored to strengthen the estimate for the average number of jobs per individual. The 3 methodologies used were as follows: HMRC RTI data, DWP PENSIM models and external research and data as supporting evidence.
2. The analysis of these 3 methodologies was referenced above (paragraph 16) but is presented further below: His Majesty's Revenue and Customs (HMRC's) Real Time Information (RTI) is a reporting system for income taxed via Pay As You Earn (PAYE). It is a requirement of employers and pension schemes to report payments to employees or recipients of occupational pensions to HMRC on or before each payment date where it is practical to do so. HMRC provided DWP with RTI job count data, which has then used here as a proxy for the average number of jobs per individual over a lifetime by using the RTI employment tables which show the count of unique employment identifiers for each NINO.

Figure 27 – Mean and Median job count figures by age and gender

		Count of Jobs per Person								
		Female			Male			Overall		
		N	Mean	Median	N	Mean	Median	N	Mean	Median
Age Band	UNKNOWN	3,300	2	1	1,500	3	2	3,258,000	1	1
	Under 16	10,300	1	1	9,000	1	1	20,000	1	1
	16 - 25	3,315,000	4	3	3,319,000	4	3	6,640,000	4	3
	26 - 35	5,404,000	5	4	5,618,000	6	4	11,034,000	6	4
	36 - 45	4,864,000	4	3	5,201,000	4	3	10,066,000	4	3
	46 - 55	4,097,000	4	3	4,271,000	4	3	8,368,000	4	3
	56 - 65	4,082,000	4	3	4,155,000	4	3	8,237,000	4	3
	66+	7,248,000	3	2	7,804,000	3	2	15,054,000	3	2

Source: HMRC RTI Employment Tables

3. Figure 27 above summarises the mean and median number of unique jobs held by individuals within different age bands with a split by gender as reported by HMRC's RTI data from April 2014 – March 2024. The age bands outlined within the table were calculated as of 4th April 2024.

4. The distribution of individuals across the RTI data is heavily focused on a job count ranging between 1-20 jobs, with less than 1% of individuals having a total job count of 20 or above and 95% having 10 or fewer jobs according to the RTI data. Whilst the mean figures from the table above provide an average number of unique employments by age and gender, it was deemed more appropriate to use the median job count figures to avoid skewness from a small number of individuals reported to have had a significant number of jobs.
5. The median level of jobs increases between ages 16-35 with the highest median number of 4 jobs per individual between ages 26-35. The number of jobs per individual then begins to fall across the age bands, to a median of 2 jobs for individuals aged 66 and above.
6. Figure 28 combines the mean and median job count figures across the age bands, excluding those unknown, under 16 or aged 66+ in order to remain consistent with other analysis where a starting age for employment of 16 and a retirement age of 65 was assumed. The age band 16-25 has also been excluded as not all the individuals covered within this age band would be covered by the 10 years of RTI data since 2014.

Figure 28 – Overall mean and median job count figures by gender

	Mean	Median
Female	17	13
Male	18	13
Overall	18	13

Source: HMRC RTI Employment Tables

7. By combining the job count figures across the age bands to depict an estimate for the total job count for individuals over their lifetime it should be caveated that these estimates are extrapolating the trends and figures from the 10 years of RTI data across the assumed working life of individuals across an averaged basis. Therefore, DWP's PENSIM model has also been used to help build up the evidential basis around average job counts.
8. DWP's PENSIM model is a dynamic micro simulation model that ages individuals within a sample whilst stimulating the key life events that occur from birth to death. Outputs have been used from PENSIM 2 from 2010[389] which modelled pensions through to 2100 alongside 2024 outputs from PENSIM 3.
9. Unlike with the RTI data, the mean outputs from the two PENSIM models have been used as estimates for the average job count per individual, with the outputs from both PENSIM

[389] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

models expected to be an underestimation of the true average job count. Figure 29 summarises the mean job count estimates from the PENSIM models. The outputs from PENSIM 2 suggest an average of 11 jobs per individual with 25% of individuals having 14 or more jobs. The outputs from PENSIM 3 suggest a slight reduction in comparison with an average of 8 jobs per individual with 25% having 10 or more jobs.

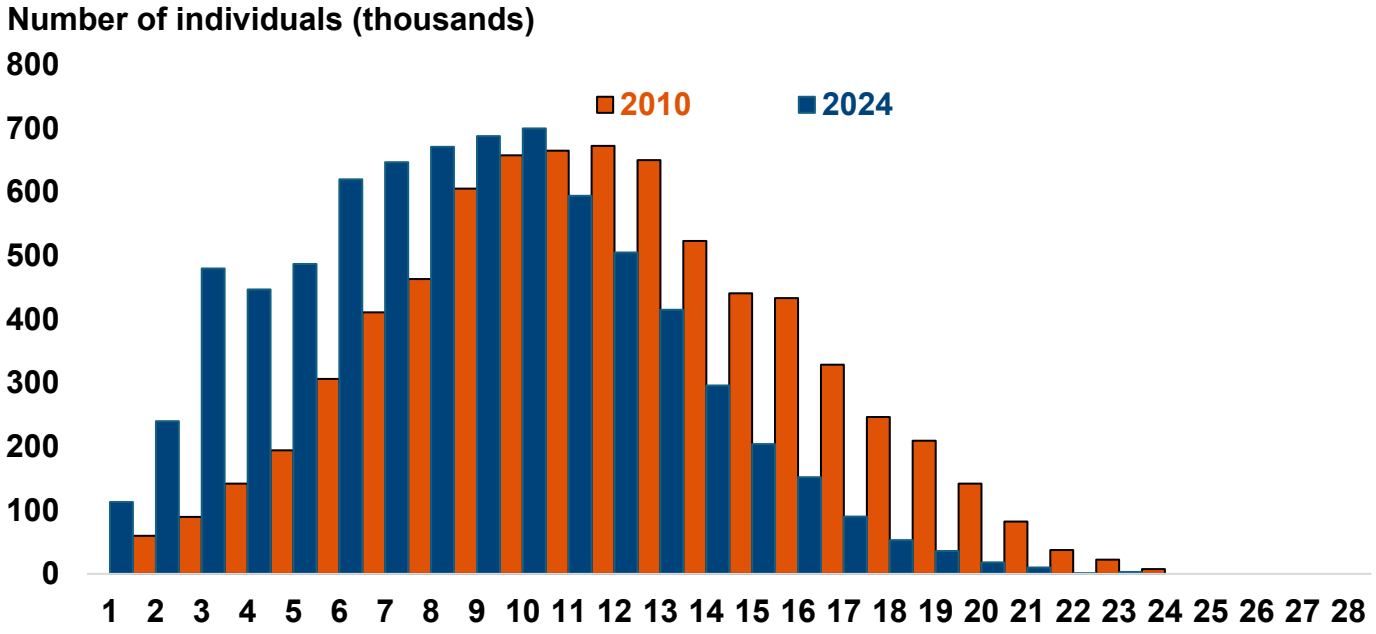
Figure 29 – Mean Job count figures from PENSIM models

Sources	Mean
2010 report (PENSIM 2)	11
PENSIM 3 (2024)	8

Source: DWP's PENSIM 2 and PENSIM 3 models

10. Similar to the distribution of the RTI outputs, the distribution across both PENSIM models is weighted towards the lower end of the job count range; with a peak in distribution around 10-11 jobs across both models, highlighted by Figure 30.

Figure 30 – Job Count distribution across PENSIM models 2 and 3



Source: DWP's PENSIM 2 and PENSIM 3 models

11. The outputs from the PENSIM models help to strengthen the decision to use the median job count figures from HMRC's RTI data, with the outputs of the PENSIM models considerably below the mean job count figures from the RTI outputs. The outputs from the PENSIM models are however, considered to be an underestimation of the average job

count due to the nature in which the models classify a job change. Any change in job that occurs within the same industry, where the individual stays within the same occupation, is not classified as a change in job under the PENSIM models and therefore has no impact on an individual's overall job count.

12. Based on all the evidence above; by combining the median figures from the RTI data and the mean figures from the PENSIM models an average of roughly 11 jobs per individual is considered a sufficient proxy to illustrate that on average an individual has multiple jobs across their lifetime. A proxy that considers the higher RTI outputs and the potential underestimation of the PENSIM models.

13. A figure around 11 jobs per individual is comparable internationally with an average of 12 jobs over a lifetime for individuals in the USA according to the 2019 Bureau of Labor Statistics (BLS) survey[390].

[390] https://www.thebalancemoney.com/how-often-do-people-change-jobs-2060467

Annex B: Sensitivity analysis of a Change in Transfer or Administration Costs

1. Based on best estimate modelling of the number of transfers and the resultant cumulative reduction in small pots (Figure 13), the impact of a change in the assumption of transfer and administration costs has been estimated. Figure 31 below explains the change in the transfer and administration cost assumptions.

Figure 31 – Low and High assumptions of Transfer and administration costs

Assumption	Low	Central	High
Transfer Costs	Transfer costs are assumed to start at **£14** and remain fixed at **£14** per transfer across the 10-year appraisal period.	Transfer costs are assumed to start at **£20** per transfer before gradually falling to **£14**.	Transfer costs are assumed to remain fixed at **£20** across the 10-year appraisal period.
Administration Costs	Administration costs are assumed to be **£10** per pot across the 10-year appraisal period.	Administration costs are assumed to be **£20** per pot across the 10-year appraisal period.	Administration costs are assumed to be **£30** per pot across the 10-year appraisal period.

2. Figure 32 below displays the high and low estimates for the transfer costs and pot administration savings of a multiple default consolidator solution across the 10-year appraisal period based on the change in assumptions above (Figure 31) and the best estimate modelling (Figure 13).

Figure 32 – The low and high estimate for total transfer costs and pot administration savings

Assumption	Low	Central	High
Transfer Costs	**£163m**	**£215m**	**£233m**
Pot Administration Savings	**£534m**	**£1.2bn**	**£1.8bn**

The cost and benefit estimates have been rounded

Annex C: Estimated impact tables of Single Consolidator solutions

1. Figures 33 and 34 below highlight the impact of the transfer and consolidation process and monetised costs and benefits of the transfer process under a Single consolidator (new scheme) and Single consolidator (existing scheme) solution.

Figure 33 – Impact of the transfer and consolidation process under a Single consolidator (new scheme) model

	Single Consolidator (new scheme)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	19.1	-4.7	381.1	72.4	-309
2031/32	1.2	-5.3	21.5	80.3	59
2032/33	1.2	-5.9	19.1	88.3	69
2033/34	1.2	-6.5	16.7	96.2	80
2034/35	1.2	-7.1	16.7	104.2	88
2035/36	1.2	-7.7	16.7	112.2	95
2036/37	1.2	-8.3	16.7	120.2	103
2037/38	1.2	-8.9	16.7	128.1	111
Cumulative	**27.4**	**-8.9**	**505.1**	**801.9**	**297**

	Single Consolidator (existing scheme)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	11.9	-8.4	237.3	145.3	-92
2031/32	0.7	-9.2	13.4	157.2	144
2032/33	0.7	-10.0	11.9	169.1	157
2033/34	0.7	-10.9	10.4	181.0	171
2034/35	0.7	-11.7	10.4	193.0	183
2035/36	0.7	-12.5	10.4	204.9	194
2036/37	0.7	-13.3	10.4	216.8	206
2037/38	0.7	-14.1	10.4	228.7	218
Cumulative	**17.1**	**-14.1**	**314.5**	**1496.1**	**1182**

Figure 34 – Impact of the transfer and consolidation process under a Single consolidator (existing scheme) model

Notes (Figure 33 and Figure 34)

i. Solution implemented in 2030/31.
ii. 3.5% of individuals are assumed to opt-out.
iii. 5% mismatch rate
iv. Pot size limit is £1,000 (2024 Earnings Terms)
v. Volumes rounded to the nearest 0.1m
vi. Costs rounded to the nearest £10m.
vii. The costs of administering a deferred small pension pot (and therefore the savings) is assumed to be £20 per annum. The total cost of transferring a deferred small pension pot is assumed to start at £20 in 2030 and gradually fall to £14 by 2034.
viii. Initial stock is estimated to be 20.8m pots in 2030, with an annual flow of 1.3m pots.
ix. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.
x. The scheme chosen to be a single existing consolidator is assumed to account for around 40% of deferred small pot creation and roughly ¼ active members.

Annex D: Sensitivity analysis of Pot follows Member

1. A sensitivity analysis of the transfer and consolidation process of small pots under a Pot follows Member solution has been carried out, by adjusting the estimated job churn of those saving into workplace pensions.
2. **Low Estimate –** Based on the number of individuals that start saving into a pension each year. Lower charges benefit to members is based on the assumption of a 0.5 basis points reduction in % AMC.
3. **Central Estimate –** Based on the total number of members saving within AE workplace pension schemes that are expected to move jobs each year based on the assumption that individuals move jobs on average every 3 years.
4. **High Estimate –** Based on the difference between the central and low estimate added on to the central estimate of the job churn to reflect a higher estimate of job churn and any potential volatility in the labour market. Lower charges benefit to members is based on the assumption of a 2-basis points reduction in % AMC.
5. Figure 35 and Figure 36 highlight the high estimate scenario analysis of PfM.

Figure 35 – High scenario estimate of the costs and benefits of PfM

Pot follows Member	
Industry	**Individual**
Familiarisation Costs: £0.3m	Consumer Surplus (benefit): £107.9m
Small Pots Data Platform (cost): £324.0m	Lower Charges (benefit): £805.8m
Transfer Costs: £213.5m	
Pot Administration Savings: £1270.1m	
Net Benefit: £732.3m	**Net Benefit: £913.7m**

Figure 36 – High estimate scenario impact under a PfM solution

	Pot Follows Member (High estimate)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	4.1	-4.1	82.1	75.6	-6
2031/32	2.9	-7.0	57.5	128.5	71
2032/33	1.6	-8.6	32.9	158.7	126
2033/34	0.4	-9.0	8.2	166.3	158
2034/35	0.4	-9.4	8.2	173.9	166
2035/36	0.4	-9.9	8.2	181.5	173
2036/37	0.4	-10.3	8.2	189.0	181
2037/38	0.4	-10.7	8.2	196.6	188
Cumulative	**10.7**	**-10.7**	**213.5**	**1270.1**	**1057**

Notes:

i. Solution implemented (transfers begin) in 2030/31.
ii. 2% of individuals are assumed to opt-out.
iii. Pot size limit is £1,000 (2024 Earnings Terms)
iv. 1% mismatch rate
v. Volumes rounded to the nearest 0.1m
vi. An average of 1.3 small pots per individual with small pots
vii. The costs of administering a deferred small pension pot is assumed to be £20 per annum. Accounting for an average management charge (AMC) of 0.48% based on the average small pot value, the saving through the reduction in small pots is around £18 per pot per annum.
viii. The total cost of transferring a deferred small pension pot is assumed to be £20 across the 10-year appraisal period.
ix. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.
x. Individuals are assumed to move jobs every 3 years.

6. Figure 37 and Figure 38 highlight the low estimate scenario analysis of PfM.

Figure 37 – Low scenario estimate of the costs and benefits of PfM

Pot follows Member	
Industry	**Individual**
Familiarisation Costs: £0.1m	Consumer Surplus (benefit): £32.1m
Small Pots Data Platform (cost): £108.0m	Lower Charges (benefit): £201.5m
Transfer Costs: £115.0m	
Pot Administration Savings: £683.9m	
Net Benefit: £460.9m	**Net Benefit: £233.6m**

Figure 38 – Low estimate scenario impact under a PfM solution

	Pot Follows Member (Low estimate)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	2.2	-2.2	44.2	40.7	-3
2031/32	1.5	-3.8	31.0	69.2	38
2032/33	0.9	-4.6	17.7	85.5	68
2033/34	0.2	-4.9	4.4	89.6	85
2034/35	0.2	-5.1	4.4	93.6	89
2035/36	0.2	-5.3	4.4	97.7	93
2036/37	0.2	-5.5	4.4	101.8	97
2037/38	0.2	-5.7	4.4	105.9	101
Cumulative	**5.7**	**-5.7**	**115.0**	**683.9**	**569**

Notes:

i. Solution implemented (transfers begin) in 2030/31.
ii. 5% of individuals are assumed to opt-out.
iii. Pot size limit is £1,000 (2024 Earnings Terms)
iv. 9% mismatch rate
v. Volumes rounded to the nearest 0.1m
vi. An average of 1.3 small pots per individual with small pots

vii. The costs of administering a deferred small pension pot is assumed to be £20 per annum. Accounting for an average management charge (AMC) of 0.48% based on the average small pot value, the saving through the reduction in small pots is around £18 per pot per annum.

viii. The total cost of transferring a deferred small pension pot is assumed to be £20 across the 10-year appraisal period.

ix. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.

x. Individuals are assumed to move jobs every 3 years.

Annex E: High and Low modelling of a Multiple Default Consolidator solution

1. As part of the sensitivity analysis of a multiple default consolidator solution, a high and low estimate has been modelled for the impact of a default consolidator solution in terms of the number of transfers and the cumulative reduction of small pots.
2. The change in assumptions behind the modelling has been explained previously in Figure 24 as part of the sensitivity analysis section.
3. The high estimate modelling of the impacts of the introduction of a Multiple Default Consolidator solution is modelled in Figure 39 below, calculating the projected costs and benefits of the transfer process and the reduction of small pots through consolidation.

Figure 39 – High estimate of the impacts under a Multiple Default Consolidator Model

	Multiple Default Consolidator (High estimate)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	9.3	-7.6	186.5	127.0	-59
2031/32	0.7	-8.5	11.9	140.1	128
2032/33	0.7	-9.4	10.6	153.2	143
2033/34	0.7	-10.3	9.3	166.2	157
2034/35	0.7	-11.1	9.3	179.3	170
2035/36	0.7	-12.0	9.3	192.4	183
2036/37	0.7	-12.9	9.3	205.5	196
2037/38	0.7	-13.8	9.3	218.6	209
Cumulative	**14.0**	**-13.8**	**255.3**	**1,382.3**	**1,127**

Notes:

i. Solution implemented in 2030/31.
ii. 2% of individuals are assumed to opt-out.
iii. 1% mismatch rate
iv. Pot size limit is £1,000 (2024 Earnings Terms)
v. Volumes rounded to the nearest 0.1m
vi. The costs of administering a deferred small pension pot is assumed to be £20 per annum. Accounting for an average management charge (AMC) of 0.48% based on the average small pot value, the saving through the reduction in small pots is around £18 per pot per annum. The total cost of transferring a deferred small pension pot is assumed to start at £20 in 2030 and gradually fall to £14 by 2033.
vii. Initial stock is estimated to be 22.6m pots in 2030, with an annual flow of 1.6m pots.
viii. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.
ix. For the purposes of the analysis, it's assumed there are five consolidators in the multiple default consolidator option. This is not government policy and will be decided by the number of schemes who apply to and meet the criteria to be a consolidator. The five consolidators are assumed to cover more than 70% of the market.

4. The low estimate modelling of the impacts of the introduction of a Multiple Default Consolidator solution are modelled in Figure 40 below, calculating the projected costs and benefits of the transfer process and the reduction of small pots through consolidation.

Figure 40 – Low estimate of the impacts under a Multiple Default Consolidator Model

	Multiple Default Consolidator (Low estimate)				
	No. of transfers (m)	Cumulative reduction in deferred small pots (m)	Cost (£m)	Benefits (£m)	Net (£m)
2030/31	7.0	-5.3	139.7	95.2	-45
2031/32	0.4	-5.7	6.6	102.6	96
2032/33	0.4	-6.1	5.9	110.1	104
2033/34	0.4	-6.6	5.2	117.5	112
2034/35	0.4	-7.0	5.2	125.0	120
2035/36	0.4	-7.5	5.2	132.5	127
2036/37	0.4	-7.9	5.2	140.0	135
2037/38	0.4	-8.4	5.2	147.4	142
Cumulative	**9.6**	**-8.4**	**178.0**	**970.3**	**792.3**

Notes:

i. Solution implemented in 2030/31.
ii. 5% of individuals are assumed to opt-out.
iii. 9% mismatch rate
iv. Pot size limit is £1,000 (2024 Earnings Terms)
v. Volumes rounded to the nearest 0.1m
vi. The costs of administering a deferred small pension pot is assumed to be £20 per annum. Accounting for an average management charge (AMC) of 0.48% based on the average small pot value, the saving through the reduction in small pots is around £18 per pot per annum. The total cost of transferring a deferred small pension pot is assumed to start at £20 in 2030 and gradually fall to £14 by 2033.
vii. Initial stock is estimated to be 19m pots in 2030, with an annual flow of 1m pots.
viii. Based on trends from Wealth and Assets Survey data, the proportion of individuals with multiple deferred small pots is assumed to be between 30%-40% in 2030.
ix. For the purposes of the analysis, it's assumed there are five consolidators in the multiple default consolidator option. This is not government policy and will be decided by the number of schemes who apply to and meet the criteria to be a consolidator. The five consolidators are assumed to cover more than 70% of the market.

Pension Schemes Bill (Northern Ireland) 2027

Scale and Asset Regulatory Impact Assessment

T**itle:**	**Regulatory Impact Assessment (RIA)**
DC Scale and Asset	**Date: May 2026**
	Type of measure: Primary Legislation
Lead department or agency:	**Stage:**Initial
Department for Communities	**Source of intervention:**Domestic NI
Other departments or agencies:	**Contact details:**
Department for Work and Pensions	

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)
The Defined Contribution (DC) pensions market is **fragmented**, with around 900 smaller DC schemes and around 60 multi-employer DC schemes. Alongside other market failures, a **principle-agent problem** exists, with employers (agent) choosing the pension scheme for their employees (principal), who bear the risks and reward associated with scheme selection. Given the fragmented market, and evidence that the main criteria used to select pension schemes are convenience of enrolment and cost, savers may be enrolled in smaller schemes and miss-out on the **benefits of scale.**

What are the policy objectives and the intended effects? (7 lines maximum)
The policy aims to build a market of fewer, but larger, multi-employer DC workplace pension schemes, consequently improving member outcomes. Evidence suggests that scale benefits directly accrue from numerous sources: A) **better governance**; B) **economies of scale,** whereby greater size reduces average costs per member; C) the **ability to move investment in-house**, reducing investment costs; D) **access to a wider range of assets, increasing diversification**; E) **the ability to invest directly in assets**, rather than needing to be part of a pooled fund to do so**;** F) **improved bargaining power**, enabling schemes to negotiate lower investment fees, improving net returns. Alongside these benefits, risks are sought to be mitigated against, including any potential reduction in market competition.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)
Policy option 0: Do nothing - consolidation would continue naturally, though concentrated among the smaller single employer trusts, meaning the evidence-supported levels of pension scheme scale may not be achieved.
Policy option 1 (preferred): Primary legislation – introduce a minimum assets under management (AUM) threshold of £25bn to be met by 2030, with time-limited exemptions if scheme scale is at least £10bn, and specific schemes out of scope of the legislation.
Policy option 2: Absence of legislation – utilising statutory guidance. This would fail to have a sufficient policy impact against the agreed objectives or provide necessary powers to regulate and enforce effectively.

The driving of meaningful consolidation across multi-employer DC workplace pension schemes requires primary legislation, with existing powers insufficient and statutory guidance ineffective. Consequently, option 1 is the preferred option.

Will the policy be reviewed? It will be reviewed	**If applicable, set review date:** May 2030

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
115	-26	N/A

Does Implementation go beyond minimum EU requirements?	**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?	**YES** ☐	**NO** ☒

Are any of these organisations in scope?	**Micro** Yes ☐ No ☒	**Small** Yes ☐ No ☒	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Date:

Summary: Analysis and Evidence — Policy Option 1

Description: Primary Legislation (Pension Schemes Bill) to achieve scale in the defined contribution market

ECONOMIC ASSESSMENT (Option 1)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	**4**	**1**	**7**	**64**
High	**4**		**18**	**167**
Best Estimate	**4**		**12**	**115**

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

All monetised costs are for **pension schemes**. To ensure understanding of the legislation, there will be **familiarisation costs** for all schemes, estimated at £4m. For schemes leaving the market there will be **search costs**, where a larger scheme is selected and engaged to consolidate funds into, estimated at £8m (present value). From transferring those assets, this results in **consolidation costs**, estimated at £103m (present value).

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

To members: Members may face indirect costs if the costs incurred by pension schemes are passed-on. However, this is not expected given the competitiveness of the market and low fees already charged.

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	**N/A**	**N/A**	**130**	**1,013**
High	**N/A**		**389**	**3,040**
Best Estimate	**N/A**		**260**	**2,027**

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

Lower investment fees, enabled by additional scale, create increased profits for schemes (estimated at £339m), with these partially passed-on as **lower charges** to enable increased net returns for members (estimated at a further £339m). Members transferred into larger schemes also benefit from the lower charges offered by their new scheme (estimated at £402m). Alongside this, **investment diversification** facilitated by scale results in additional returns for members (estimated at £939m), with the larger pension pots they build resulting in higher **charge revenue** being received by pension schemes (estimated at £7m).

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

To employers: Given there will be fewer, larger schemes in the market, this should reduce the search cost time when looking for a new pension provider and give greater certainty on the quality of the provider being chosen

Key Assumptions, Sensitivities, Risks Maximum 5 lines

AUM projections: Estimating growth in AUM is challenging and each provider will see different levels of growth. **Familiarisation and search costs**: Costings utilise analysis relating to other proposed private pensions measures given the similarities of the processes involved. **Consolidation costs**: Costings are based on industry consultation responses around transfers of assets. However, a wide range of responses were provided, from which an average was taken. **Diversification benefits**: The increased returns from diversification into private markets is informed by Government Actuary's Department (GAD) analysis and industry capital market assumptions, with an average taken.

BUSINESS ASSESSMENT (Option 1)

Direct Impact on business (Equivalent Annual) £m				
Costs: 13	**Benefits: 39**	**Net: -26**		

Cross Border Issues (Option 1)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

The proposals in this Impact Assessment correspond to proposals in the Impact Assessment for the Westminster Pension Schemes Bill. Under the policy of parity, this option would only be introduced in Northern Ireland if it was introduced in the rest of the UK. The options only apply to members of UK-based pension schemes.

Evidence Base

Unless stated otherwise, the costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis using 2024 data

Policy Background:

Automatic Enrolment has led to a large increase in Defined Contribution members and assets

1. Automatic Enrolment (AE) was first introduced in 2012, where employers are required to default eligible workers into a workplace pension. This has led to a huge increase in the number of workplace pension savers with 73% of eligible employees (over 0.8m) in Northern Ireland participating in a pension[391] (compared to 89% of employees in Great Britain[392]). The number of savers saving into a Defined Contribution (DC) pension has increased in that time (in Northern Ireland this has increased from 4% in 2011 to almost 25% in 2024). A DC pension is a pot of money for retirement which depends upon factors including the amount the individual and employer pay in, the fund's investment performance and costs/charges.
2. Workplace pensions are split into three markets:
   a) **Defined Benefit (DB)** – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service, rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:
      - **Public sector DB**
      - **Private sector DB** where there were around 5,000 pension schemes in 2024[393].
   b) **Defined Contribution (DC)** – This is a type of pension whereby pension contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:
      - **Trust-based market** - A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2025, there were around 920 pension schemes with 12 or more members[394].

391 https://www.nisra.gov.uk/statistics/work-pay-and-benefits/ashe-pensions-results

392 https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2024

393 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

394 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

- **Contract-based market** - A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2023, there were estimated to be around 30 firms with an authorised DC workplace pension business[395].

c) **Collective Defined Contribution (CDC)** – these schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under Defined Contribution schemes) and away from the employer (as is the case under Defined Benefit schemes). The only CDC arrangement in the UK so far is a scheme by the Royal Mail.

3. The vast majority of AE-eligible employees are saving into a Defined Contribution (DC) workplace pension[396] and this market is the focus of this Impact Assessment (IA) given this is where the policy applies. The contextual and background information within the IA reflects the latest information available. However, it is important to note the calculations are using the previous years' (2024) worth of data.
4. Overall, it is estimated there are around £300bn and 5m active savers in the contract-based DC market[397], and £200bn and 11m active savers in the DC trust-based market[398]. Data is more readily available on the trust side, which has a much greater number of schemes[399].
5. The DC-trust landscape is growing in scale and maturing quickly with 30.6 million DC memberships[400] in 2025, an increase of 6% since 2024. DC trust workplace pension assets have grown to £205 billion, increasing from only £22 billion in 2012[401].
6. There are three main types of pension scheme in the DC market:
    - **Master Trusts** – an occupational pension scheme that provides DC pensions for two or more unconnected employers (though often a lot more).
    - **Single Employer Trusts** (SETs) – pension schemes which are managed for and on behalf of a single employer or two or more legally connected employers.
    - **Group Personal Pensions** (GPPs) – DC contract-based schemes which are regulated by the FCA.

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395 https://www.fca.org.uk/publications/consultation-papers/cp24-16-value-for-money-framework

396 https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

397 https://www.fca.org.uk/publication/consultation/cp24-16.pdf

398 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

399 https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market

400 'Memberships' is used throughout this Impact Assessment. This more closely represents the number of DC pots - the number of members/savers is not knowable given an individual may have multiple pots with different providers.

401 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

7. AE has led to more people saving into a pension. However, inertia is strong and engagement is low. For example, 50% have not reviewed how much their pension is worth in last 12 months[402] and over 94% of pension savers are invested in a pension scheme's default investment strategy[403]. This highlights the importance of government intervention, where appropriate, to deliver outcomes for members who may not otherwise engage with their pension.

Regulation and types of DC pensions

8. DC pension schemes are either personal or occupational pensions. They can be workplace pensions arranged by an employer or private pensions arranged by an individual; the scale measures focus on workplace pension schemes. Regulation of the pensions industry in the UK is split between the FCA and TPR:
    i) **FCA** regulates personal pensions, including workplace personal pensions (contract-based pension schemes).
    ii) **TPR** regulates occupational pensions (trust-based pension schemes).

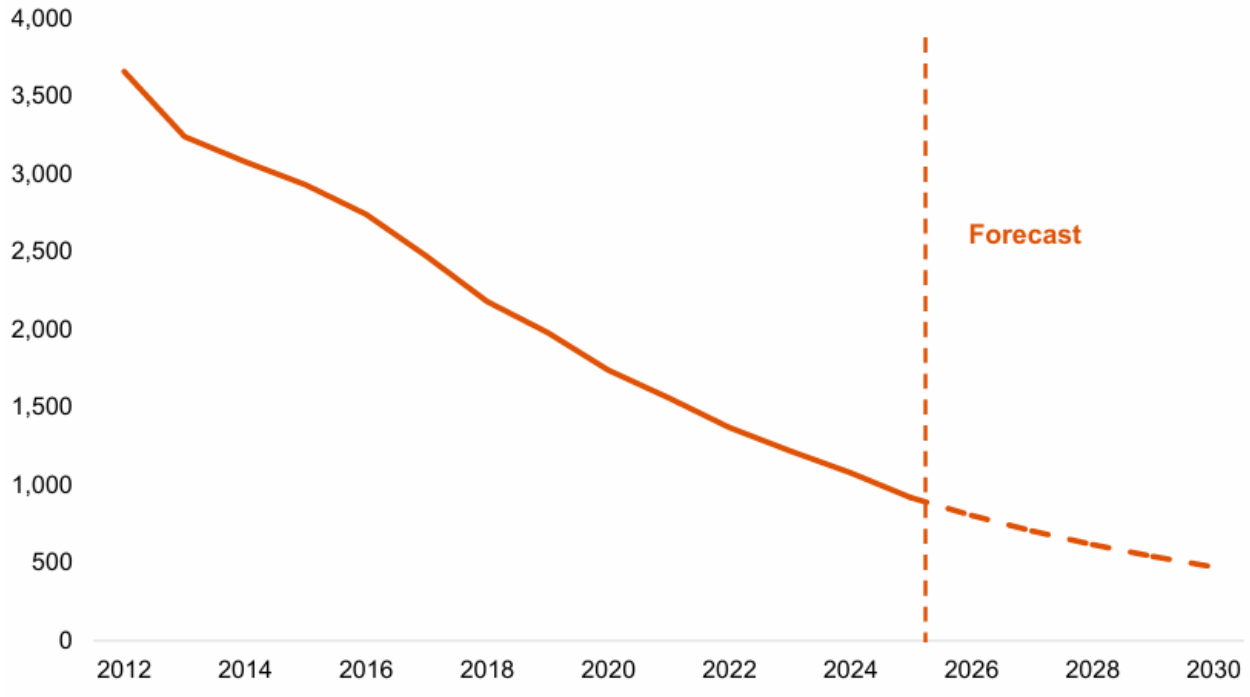
Current Trends in Scale and Consolidation

9. The DC market has been consolidating, with the number of pension schemes reducing from around 3,700 in 2012 to around 950 schemes now. In the trust-based market, over the last three years there has been an average decline in schemes of around 12% per year, which if maintained would leave under 500 schemes in 2030. This projection is shown in Figure 1 below.

[402] https://www.fca.org.uk/publication/financial-lives/fls-2024-pensions.pdf

[403] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

Figure 1: Count and forecast of trust-based DC pension schemes (including hybrid schemes[404], excluding micro schemes[405])



Source: DWP analysis of TPR data ([406])

10. Of these schemes, around 900 are single employer trusts, traditionally set-up by employers to support their workforce. However, as AE resulted in all employers needing to enrol their employees (where eligible) into a workplace pension, there has been a rise in Master Trusts (multi-employer pension schemes). Across around 30 schemes, these now account for 91% of total memberships, 90% of active memberships and 81% of assets in the DC trust market. In addition, there are around 30 GPPs, which operate in the DC contract market. Across those two markets, there are now 7 DC schemes managing over £25bn worth of assets, where economies of scale are most apparent enabling schemes to access a wider range of asset classes, negotiate lower fees and improve their governance[407]. A more detailed breakdown is shown in Table 1 below.

[404] "Hybrid schemes" are pension schemes with both a defined contribution (DC) section and a defined benefit (DB) section. For more information see: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[405] "Micro schemes" are pension schemes with 2-11 members. For more information see: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[406] DWP analysis of TPR data: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[407] Corporate Adviser 2024 Master Trusts and GPP Defaults Report (https://corporate-adviser.com/research/)

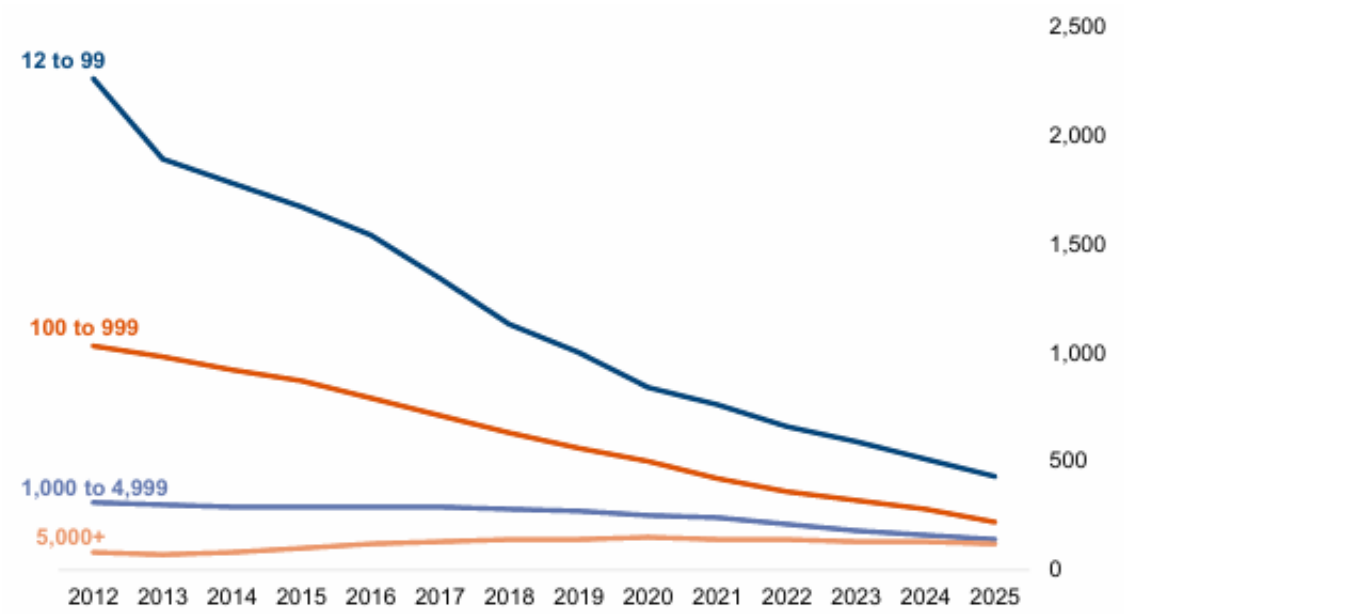
Table 1: DC Pension assets, schemes and members

Type	Number	Assets	Active Members
Master Trust	30	£166bn	10m
Single Employer Trust	890	£39bn	1m
GPP	30	£300bn	5m

Sources: Master Trust and Single Employer Trust statistics taken from TPR data ([408]); GPP statistics taken from FCA data ([409])

11. Of the consolidation that has occurred, this has been concentrated within smaller schemes (single employer trusts), as is illustrated in Figure 2 below. For employers, use of an external provider rather than administering their own pension scheme may limit costs, with the competitive pricing and investment expertise offered by multi-employer schemes enabling them to offer a more attractive benefits package to their employees[410]. Within the larger multi-employer schemes, to which the scale legislation is restricted, consolidation hasn't occurred as readily. For these schemes, while they continue to make a profit they are incentivised to continue operating.

Figure 2: Count of trust-based DC pension schemes by scheme size (including hybrid schemes, excluding micro schemes)



Source: DWP analysis of TPR data ([411])

Industry has been engaged throughout the development of the scale measures

[408] Statistics taken from the following: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex

[409] Statistics taken from the following: https://www.fca.org.uk/publication/consultation/cp24-16.pdf

[410] https://www.hymans.co.uk/insights/5-reasons-to-consider-moving-to-a-dc-master-trust

[411] DWP analysis of TPR data: https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

12. A Pensions Review[412] was announced on 20 July 2024, the first phase of which focussed on exploring new ways of boosting investment in the UK, increasing saver returns and tackling waste in the pensions system. One of four specific areas highlighted was "*driving scale and consolidation of defined contribution workplace schemes*". This built on the Labour Party manifesto commitment for workplace pensions to take advantage of consolidation and scale[413].
13. There has already been extensive engagement with industry on consolidation and scale across several other key policy reforms, including the Value for Money (VfM) framework. This was designed to ensure pension schemes had sufficient scale to maximise investment opportunities.
14. The review launched a Call for Evidence on 4 September 2024[414], collaborating with industry to develop its analysis and policy options. A wide range of external viewpoints were considered, including from employers, trade unions, the pensions industry, financial services, local government, and consumer voices.
15. Using this feedback, DWP and HMT launched a policy consultation ''Pensions Investment Review: Unlocking the UK pensions market for growth" on 14 November 2024, running to 16 January 2025[415]. This sought views on policy proposals to limit multi-employer DC schemes used for AE to a maximum number of defaults and that those defaults should operate at a minimum size. Alongside the consultation, research and analysis into "Pension fund investment and the UK economy" was published[416].

Pension Provider Structures

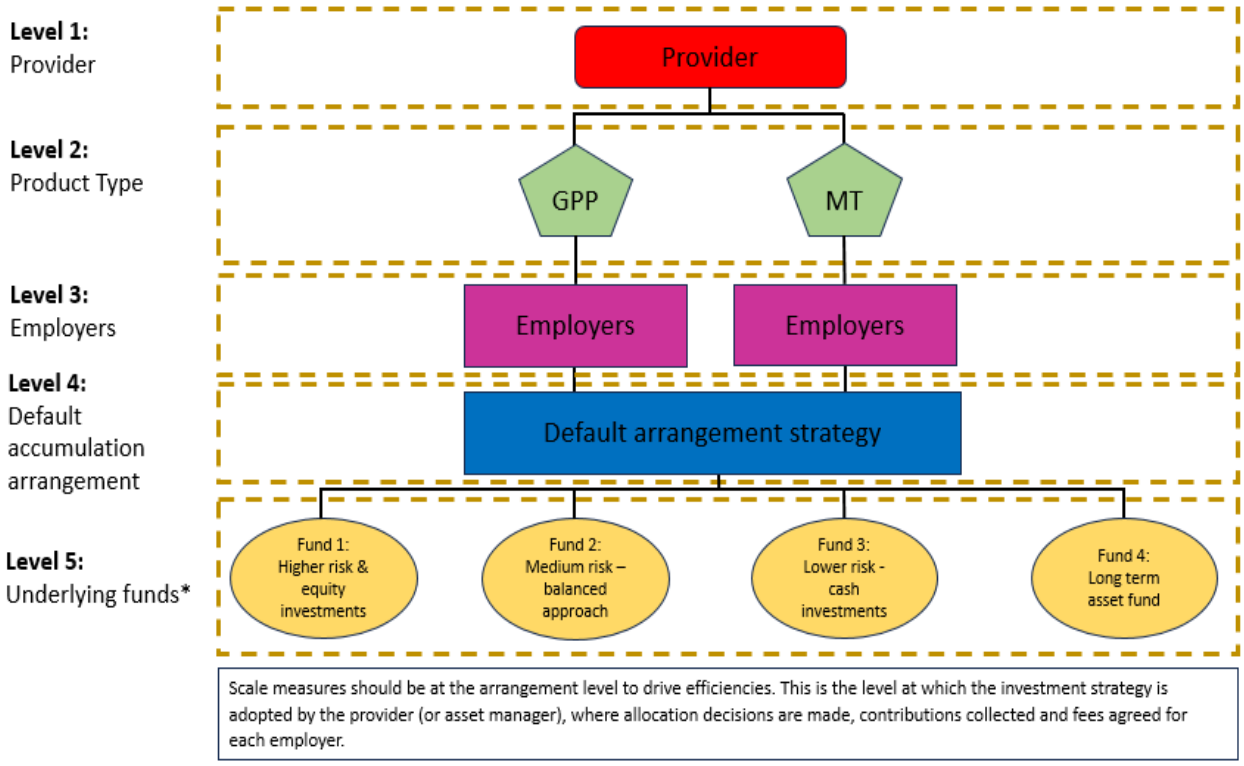
16. One area where engagement has been extremely valuable, utilising industry expertise, is to better understand the structure of pension providers.
17. Considering multi-employer DC schemes, being Master Trusts and GPPs, there are some providers who offer both types of schemes. Alongside this, there are many providers who offer solely a Master Trust, with a limited number of providers offering only a GPP.
18. There are a several different levels at which you can analyse the scale of pension providers. These include:

412 https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings
413 https://labour.org.uk/wp-content/uploads/2024/06/Change-Labour-Party-Manifesto-2024-large-print.pdf
414 https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence
415 https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth
416 https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy#executive-summary

- **Provider** – The assets under management (AUM) across the entire business, including non-pension assets, though economies of scale at this level are not necessarily being fully accessed by pension schemes.
- **Product** – This is either a GPP or Master Trust.
- **Arrangement** – This is the level at which contributions are collected, with investment expertise utilised to set the strategy for how these contributions are invested.
- **Fund** – Funds are the building blocks used to deliver the investment strategy, each consisting of a portfolio of investments.

19. Figure 3 below illustrates the structure of an example provider that offers both a Master Trust and a GPP.

Figure 3: Structure of a representative Pension Provider offering both a Master Trust and GPP



Source: Diagram produced by HMT

20. Despite the example given in the prior diagram, consultation responses illustrated that there is large variation in structures. For example, there was shown to be large variation in terms of the number of funds per arrangement:
    - For some schemes, **many funds sit beneath many arrangements**. For example, where schemes have several default arrangements with each utilising a different combination of building block funds.
    - For some schemes, there are a **limited number of funds per arrangement**. For example, where there are two default funds used by a scheme's default arrangement.
    - For schemes utilising more intricate lifestyling (where the risk profile of portfolios is adjusted given the proximity of a member to retirement), there can be **many funds per arrangement**.
    - Generally, Master Trusts appear to have fewer funds per arrangement than GPPs.
21. Alongside there being variation in terms of the number of funds per arrangement, there was also large variation in the number of default arrangements themselves. Though not a universal rule, GPPs also tended to have more default arrangements, with some having

hundreds. By contrast, there were examples of Master Trusts with tens of billions of pounds of AUM within a single default arrangement. This finding reflects that GPPs have generally been around longer than Master Trusts and have negotiated specific arrangements with employers over an extended period.

22. For the providers offering both a Master Trust and a GPP, the policy consultation asked whether their default arrangements and default funds are the same across both of their offerings. Most of these providers confirmed that these defaults are identical, and consequently investment performance across offerings is the same, though pricing can differ at the employer level. It was argued that close alignment between offerings enables providers to access economies of scale.
23. The consultation also asked whether scale should be set at the fund or arrangement level. Feedback was strongly in favour of interventions being considered at the default arrangement level rather than fund level, as this is the level at which key decisions are made.

Implementation of industry feedback when designing the policy

24. The policy consultation[417] sought views on proposals designed to increase scale in the DC workplace pension market, including that multi-employer DC schemes should operate at a minimum level of scale. No exact minimum AUM threshold was proposed, though evidence was provided regarding the benefits that arise at £25bn-£50bn, and that no such requirement would apply before 2030 at the earliest.
25. Feedback recognised the benefit of scale but argued a lower scale requirement would be more appropriate, reflecting potential industry capacity issues, with any such requirements preferably phased-in over a longer period. It was also agreed any requirements should be set at the default arrangement level.
26. Consequently, after listening to feedback to the consultation, as well as the wider evidence base, the proposal has been adapted, with the key components of the proposed legislation being:
    - Multi-employer DC workplace pension schemes must have at least one default arrangement with £25bn AUM by 2030.
    - Schemes with at least £10bn AUM in a default arrangement by 2030 can apply to be on a ‘transition pathway’, allowing them to continue operating in the AE market providing they meet certain requirements, including a credible plan to grow that arrangement to at least £25bn AUM by 2035.

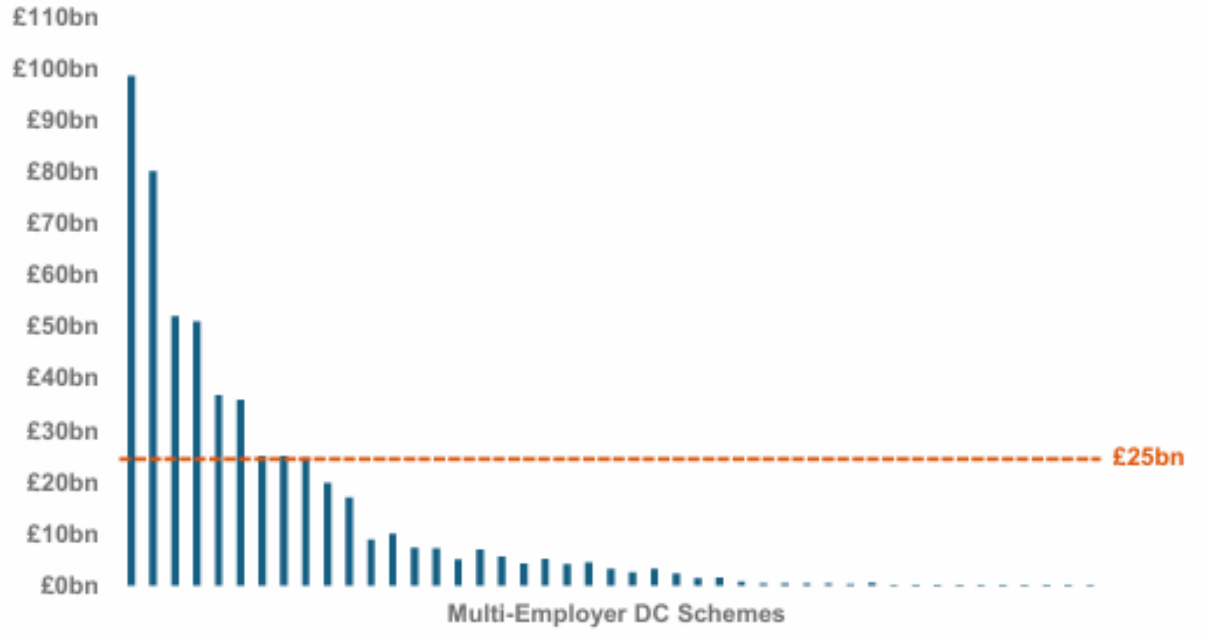
[417] https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

- Certain schemes are out of scope for the legislation (with further details included later in the IA).

27. The proposed legislation is restricted to multi-employer DC workplace schemes, of which there are around 60. Figure 4 shows AUM at year-end 2023 across the multi-employer DC schemes for which such data is available (45 schemes)[418], with the £25bn minimum AUM threshold also shown. Given the additional contributions and investment growth that will occur before 2030, the number of schemes with AUM above this threshold is projected to increase substantially, as is explored later in this IA. The very large range in scale across schemes can be seen, with many schemes operating with limited scale. For the schemes for which AUM data was unavailable, industry engagement and older data sources confirm low levels of AUM. Though scheme names are excluded from the chart given the commercial sensitivities present, it should be noted that AUM figures for some of the GPPs may also include personal pensions. Given that the policy is restricted to workplace pensions, some AUM values may therefore appear slightly inflated.

[418] Alongside the schemes with known AUM values, industry engagement and older data sources confirm that there are around a further 15 multi-employer DC schemes. These are very small GPPs, generally those where members are not actively contributing into their pension pots, with low levels of AUM relative to the rest of the market (for which a more accurate AUM picture is known).

Figure 4: AUM across multi-employer DC schemes at year-end 2023 (for schemes with available data)



Sources: AUM figures are mainly taken from the Go Pensions "DC Master Trust League Tables" ([419]) and CAPA data ([420]), though these are supplemented with additional information from Chair Statements and individual scheme documentation.

Rationale for intervention and intended effects

28. Research and analysis into "Pension fund investment and the UK economy" was published[421] alongside the joint policy consultation on 14 November 2024. This included a detailed exploration of the evidence relating to the scale of pension funds using national and international evidence; this informs the IA.
29. There are market failures, with intervention therefore required to enable greater levels of consolidation. In particular:
    - **Principal-Agent problem –** This exists as savers (principal) bear all the risks and reward, but the choice of scheme is made by the employer (agent). These incentives can be, and often are, misaligned, with the employer commonly choosing a pension scheme based on cost rather than performance[422]. Employers are also unlikely to switch or change schemes. Evidence from the DWP Employer Survey 2022[423] showed only 5% of employers with a DC pension scheme had switched to a different

[419] https://go-group.co.uk/dc-master-trust-league-table-2024-h2/

[420] https://www.capadata.co.uk

[421] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy#executive-summary

[422] https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fassets.publishing.service.gov.uk%2Fmedia%2F6500583c57e884000de12968%2Fdwp-employer-survey-2022-data-tables.xlsx&wdOrigin=BROWSELINK

[423] See table 7.3 and 7.4: https://www.gov.uk/government/publications/department-for-work-and-pensions-employer-survey-2022/department-for-work-and-pensions-employer-survey-2022-research-report#pensions

scheme, with their main criteria when selecting a scheme being convenience of enrolment and cost, not overall value for money. Employees are often not incentivised to switch the scheme chosen by their employer, given low engagement and information. They may also risk losing employer contributions if they do so, as employers are not required to contribute to pensions that they have not enrolled their employees into. As a result, savers may be enrolled in smaller pension schemes, missing out on the benefits that scale can bring across investments, costs and services. There are clear and notable examples of schemes not operating at scale, delivering high costs and lower investment performance. This has a detrimental impact to members.

- **Positive externalities –** The measure aims to build a pension market with fewer, but larger, pension schemes. Consequently, these schemes would have greater capability to invest in more illiquid and productive assets, including infrastructure and other private market assets. These investments are more likely to be UK-based when compared to other asset classes, such as listed equities. As a result, pension funds that increase their allocations to these assets may generate spillover and positive externalities to the UK economy. These benefits include crowding in further investment, supporting start-up businesses to scale up, improving key infrastructure services and helping capital markets function more efficiently[424].
- **Imperfect Information –** There is imperfect information regarding the scale of pension schemes across the market, with no single source for this information. Employers may be unaware of the benefits scale may provide to them or their employees. As a result, the DC marketplace remains fragmented with a large number of schemes on offer and, as explained by the Office of Fair Trading (OFT)[425], there is a very weak demand side which would drive competition and scale by itself.
- **Member benefits –** There are a range of benefits (discussed in more detail below) which can arise through schemes having additional scale. However, given the low levels of engagement with pensions by employers and savers, these may be missed or unknown. Government interventions to ensure pension schemes have scale may result in members growing larger pension pots, improving retirement income adequacy.
- **Protecting confidence in pension savings and financial stability –** To protect confidence in pensions saving, it is important that all pension schemes have the

[424] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy
[425] https://webarchive.nationalarchives.gov.uk/ukgwa/20131101164215/http:/www.oft.gov.uk/shared_oft/market-studies/oft1505

highest standards of governance in place. This is more likely to be achieved at scale, with a smaller market enabling easier regulation. This would allow regulators to have greater oversight, requiring relationships to be built with a smaller number of schemes across the market.

30. The most notable benefit, and aim, of the legislation is to drive consolidation and build scale. The case for consolidation has been explored in detail. DWP have previously explored the evidence on the potential benefits of DC consolidation and the optimal size of pension schemes: in a Call for Evidence[426]; in the Pension Trends analytical report[427]; and in a review of Master Trusts[428]. Across those reports a wide range of evidence has been provided on the benefits of scale within the pension market. Key benefits include:
    - Better **governance**.
    - **Economies of scale**, with greater size helping to reduce average costs per member.
    - The ability to **move investment in-house**, potentially reducing investment costs.
    - Access to a **wider range of assets.**
    - Being able to **invest directly** in certain assets, rather than needing to be part of a pooled fund to do so.
    - An **improved bargaining power**, including the ability to pay lower investment fees.
31. These benefits can also be linked to potential changes in pension funds' asset allocations, with associated economic and growth impacts. For example, having the scale to bring investment expertise in-house and to negotiate lower investment fees may allow more scope to invest in typically more expensive asset classes and private markets. Similarly, having the scale to diversify investment and to be able to invest directly should allow greater access to a wider range of asset classes. This is particularly true of asset classes that are shown to have a high (theoretical or empirical) impact on growth, such as infrastructure.
32. There is some evidence to support the existence of a good governance premium, particularly in DB pension schemes. For example, research by the PPI[429] attempts to quantify a 'governance premium'. That research references academic studies[430] across international pension schemes that identify a correlation between the features of better governance structures and sustained long-term performance.

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426 https://www.gov.uk/government/consultations/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation

427 https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market#the-potential-benefits-of-consolidation

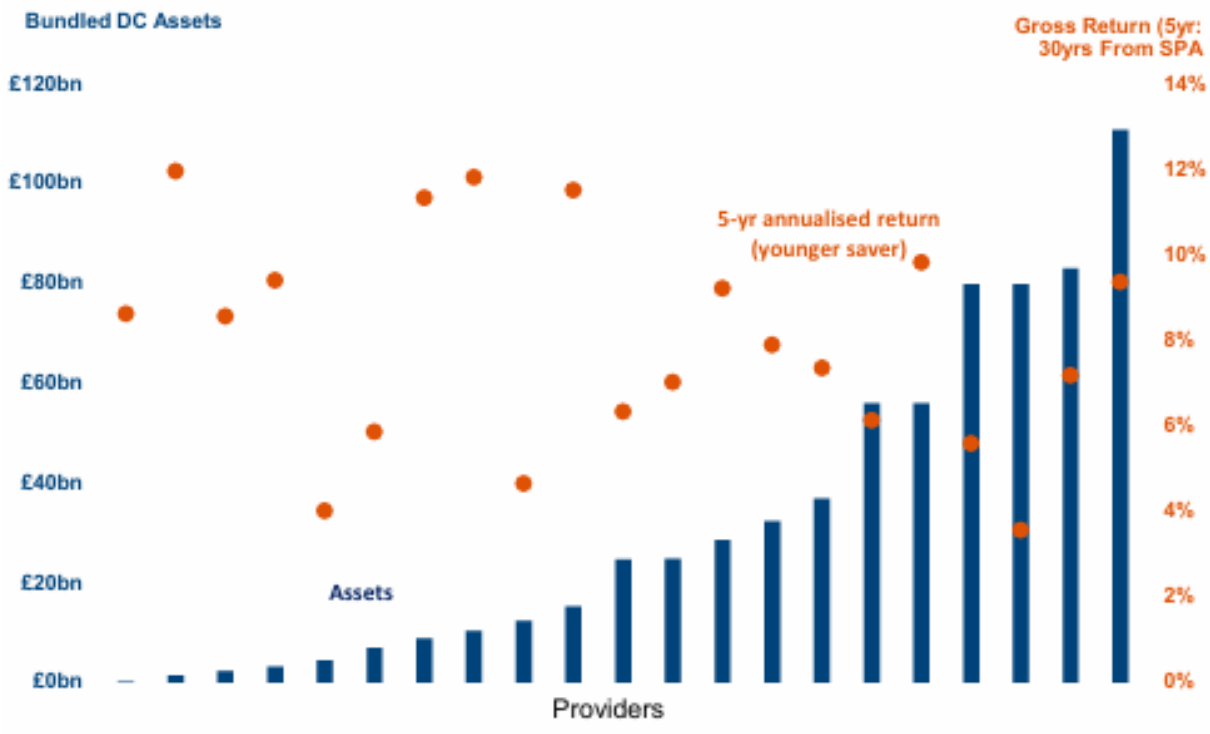
428 https://www.gov.uk/government/publications/evolving-the-regulatory-approach-to-master-trusts/evolving-the-regulatory-approach-to-master-trusts

429 https://www.pensionspolicyinstitute.org.uk/media/t2djkxca/201702-bn89-db-the-role-of-governance.pdf

430 https://www-2.rotman.utoronto.ca/icpm/2.pdf, https://ux-tauri.unisg.ch/RePEc/usg/sfwpfi/WPF-1623.pdf and https://mckellinstitute.org.au/wp-content/uploads/2022/02/McKell_Super_A4_WEB.pdf

33. There are, however, potential disadvantages and challenges[431] for pension schemes in reaching a large scale, as measured by AUM. For example:
    - **Investment difficulties**, including the ability to find attractive assets to invest in that are large enough. This risk is particularly pronounced in the less liquid asset classes.
    - **Costs can go up**, at least in the short-term, due to investing in more expensive asset types over sustained periods and the cost of bringing more expertise in-house.
    - **Concentration and competition risks** if there are too few schemes holding a large proportion of assets.
34. The evidence linking pension scheme scale and gross investment returns is mixed. Analysis of CAPA data, as shown in Figure 5, shows weak correlation between the asset size of Master Trusts/GPPs and five-year gross investment performance. However, this is based on a small sample of schemes. Across the AUM spectrum, there are examples of small, medium and large-sized schemes with both high and low gross returns.

Figure 5: UK DC pension schemes, assets under management (AUM) by annualised gross returns for younger savers over the last 5 years



Source: DWP calculations of Corporate Adviser MT/GPP Default Report 2024 and Q22024 Returns[432]

[431] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market#the-potential-benefits-of-consolidation
[432] https://corporate-adviser.com/research/

35. International evidence also seems inconclusive on the benefits of scale on gross investment returns[433] with any benefit in returns through greater scale often being driven by lower costs (which improve net returns) due to being able to negotiate lower prices or conducting investment in-house.
36. There are also examples of smaller schemes, including single employer trusts, who are delivering good outcomes for their members. Some single employer trusts may offer higher pension contributions or other guarantees for members. Some single employer schemes are quite large or may be able to benefit from the expertise of their wider business. For example, HSBC and J.P. Morgan both run their own DC pension scheme for their employees. Given their wider financial expertise, they may be able to access similar investment opportunities to larger pension schemes; for example, J.P. Morgan[434] reported 6% of their £6bn pension scheme is invested in unlisted equities.
37. Therefore, the evidence on the relationship between pension scheme scale and gross investment returns is mixed. However, as is explored later in the IA, there is evidence that scale can provide diversification benefits through investment into wider classes, enabling higher risk-adjusted returns. Also, it should be noted that the evidence presented on the relationship between returns and scale, including the analysis of CAPA data, has been restricted to analysis of gross returns rather than net returns.

Evidence on benefits of scale

38. A review of the evidence of scale on pension schemes indicates that benefits can take effect at a range of different levels, with no clear consensus on the right 'optimal' level of assets. This will depend on which benefits are being considered. Some reports suggest economies of scale (in terms of costs and charges) begin, and even peak, at low levels, such as for schemes with assets in the low hundreds of millions of pounds. Other analysis indicates that scale benefits continue for schemes with a higher level of assets, and that new advantages arise at this level.
39. Nevertheless, studies tend to suggest broadly around £25-£50 billion may give a wide-range of benefits (see Table 2 below). However, there is further evidence which indicates advantages to scale that can only be realised by pension schemes with an even greater level of assets (£50bn or more). As discussed below, the benefits seen at these higher levels tend to be around investment capability. This capability may mean pension schemes have a

[433] For example, https://www.mckinsey.com/~/media/McKinsey/Industries/Private%20Equity%20and%20Principal%20Investors/Our%20Insights/Is%20big%20really%20beautiful%20The%20limits%20of%20pension%20consolidation/Is-big-really-beautiful-the-limits-of-pension-consolidation.ashx; https://www.ft.com/content/2bea3268-c73d-45a9-b7b0-cd5c33229466; https://theconexusinstitute.org.au/wp-content/uploads/2023/03/Does-Size-Benefit-Super-Fund-Members-24-March-2023.pdf and https://www.apra.gov.au/sites/default/files/2023-06/Drivers%20of%20performance%20-%20APRA%20paper%20for%20MMF%20conference%20Feb%202023.pdf

[434] https://epa.towerswatson.com/doc/JMC/pdf/jpmuk-pension-plan-chairs-statement--.pdf

greater ability to invest in asset classes that have been linked to having a potentially higher impact on economic growth.

Scale benefits at a lower level (below £25bn AUM)

40. There is evidence from TPR which shows that there are benefits of scale in terms of scheme governance. One example is research from 2019[435] showing a strong positive correlation between scheme size and the number of key governance requirements being met. Only 12% of micro schemes (2-11 members) and 15% of small schemes (12-99 members) met two or more applicable requirements. This contrasted with large schemes (1000+ members) where 84% were meeting two or more applicable requirements, as were all Master Trusts.
41. This is supported by TPR research published in 2023[436] which showed that 78% of Master Trusts and 53% of large schemes met the requirement for trustee boards to assess the extent member-borne charges and transaction costs provide good value for money. However, only 45% of medium and fewer than 20% of small/micro schemes met this requirement.
42. This evidence supports the fact that larger pension schemes may be able to offer better governance than smaller schemes. As this better governance seems to start for schemes with 1,000 or more members, it could be that governance scale benefits are most apparent for schemes with hundreds of millions of pounds in assets under management.
43. DWP research[437] has shown that larger pension schemes have lower charges, being well below the current charge cap of 0.75%. For example, Master Trusts had an average charge of 0.48%; though this fell to 0.40% for larger Master Trusts. There was a similar pattern for both Contract-based schemes and other (non-Master Trust) trust-based schemes.
44. This is further supported by PPI international research[438] on value for money in pension schemes. Its analysis of the Netherlands found, once a scale of £0.5bn was reached, the impact of scale on reducing charges is negligible. It also found that in the US significant reductions in charges level-off for pension schemes of around US$500m (about £400m).
45. Similarly, a study by the Australian Prudential Regulation Authority (APRA)[439] looked at economies of scale in Australian pension funds and found that estimated efficiencies peak

435 https://webarchive.nationalarchives.gov.uk/ukgwa/20200102111009mp_/https:/www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-research-summary-report-2019.ashx
436 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-trust-based-pension-schemes-research-report-2022.ashx
437 https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes
438 https://www.pensionspolicyinstitute.org.uk/media/o52aoucb/20211118-value-for-money-final.pdf
439 https://www.apra.gov.au/sites/default/files/2023-06/Drivers%20of%20performance%20-%20APRA%20paper%20for%20MMF%20conference%20Feb%202023.pdf

for funds below Aus$1bn (about £0.5bn). Analysis by CEM Benchmarking[440] shows that pension funds with more than US$10bn (about £8bn) in assets have consistently delivered returns significantly higher than smaller funds with under US$1bn (about £0.8bn).

Scale benefits at a medium level (£25bn-£50bn)

46. However, there is also evidence that scale benefits for pension schemes exist at a higher level of assets. For example, the previously mentioned study by APRA[441] also finds pension funds between Aus$32bn and Aus$100bn (about £16bn to £50bn) are still achieving scale benefits. Similarly, another APRA research report[442] found funds with assets of more than Aus$50bn (about £25bn) can more easily spread their costs over a wider membership base to keep their fees lower.
47. The Pensions and Lifetime Savings Association (PLSA)[443] reported larger schemes, those with £25-£50 billion of assets, have considerable governance capability and find it easier to invest directly, or alongside others, in productive finance. In the recent Pensions Review Call for Evidence[444], the PLSA also said that: *"Based on PLSA member feedback, as AUM reach c.£20 billion schemes can start to co-invest in private markets; above this, schemes can invest directly and may increasingly use in-house investment. Above c£100 billion benefits of scale increase more slowly. Data from CEM highlights that a typical £1 billion fund invests 11% in private markets; a £20 billion fund invests 20%; and a £100 billion fund invests 23%".*
48. Conexus Institute[445] explored Australian pension schemes of A$50bn-A$100bn (about £25bn-£50bn) and beyond. It concludes there are advantages, disadvantages and significant challenges from such scale, and that ensuring funds are configured to succeed at scale is the key issue. The key advantages they find include:
    - Reduced costs through internal investment management.
    - Scale economies in administration.
    - Greater scope to offer customised member services.
    - Increased ability to invest effectively in private market assets.

Scale benefits at a higher level (£50bn+)

[440] https://hub.cembenchmarking.com/hubfs/PDFs/Research%20Downloads/R-36-A%20Case%20For%20Scale%20February%202022%20Final.pdf
[441] https://www.apra.gov.au/sites/default/files/2023-06/Drivers%20of%20performance%20-%20APRA%20paper%20for%20MMF%20conference%20Feb%202023.pdf
[442] https://www.apra.gov.au/sites/default/files/2022-03/Technical%20paper%20-%202021%20Heatmaps%20-%20Sustainability%20of%20member%20outcomes.pdf
[443] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2023/PLSA-policy-position-on-pensions-and-growth-October-2023.pdf
[444] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2024/Pensions-Review-PLSA-response-to-call-for-evidence-sept-2024.pdf
[445] https://theconexusinstitute.org.au/wp-content/uploads/2023/03/Does-Size-Benefit-Super-Fund-Members-24-March-2023.pdf

49. There are some scale benefits identified for even larger pension schemes. For example, the Conexus Institute report[446] also finds some important advantages for very large funds of A$100bn+ (about £50bn+). These include:
    - An even higher proportion of assets can be managed internally, further reducing costs.
    - Larger mandates with external managers which can attract a lower fee rate.
    - The opportunity to exploit potentially attractive investments not readily accessible at smaller size.
    - Ability to invest directly (rather than through pooled structures).
    - Greater capability (and need) to invest overseas and have an overseas presence. Though a challenge and entailing expensive upfront costs, this can bring advantages such as diversification benefits, building local knowledge, boosting organisational skills and intellectual diversity.
50. New Financial[447] has also argued that a more concentrated market of pension super trusts, with around £50bn of assets each, would be enabled to invest in a broader range of assets in the long-term interest of their members, by economies of scale, wider investment horizons, and increased professionalisation.
51. Analysing Australian superfunds, J.P. Morgan describe[448] how the largest funds are managing more of their portfolios in-house, and that this drives down investment costs. It also notes that two very large funds, Hostplus (which has over £50bn in assets) and Australian Retirement Trust (which has over £100bn in assets) had not yet insourced as they felt their size allowed them to negotiate lower fees with asset managers.

Scale and economic growth

52. The reports summarised above suggest a clear link between scale among pension schemes and the ability to diversify investments. This particularly seems to be the case for investment into private market asset classes. As pension schemes reach £25bn-£50bn some investment starts to be brought in-house, with the scale also allowing more funds to be allocated to these asset classes. As pension schemes reach £50bn or more, the scale can also help with direct investment and negotiating lower investment fees.
53. There are also examples from the UK where very large pension schemes have used their scale to negotiate lower investment fees, to invest in private markets and to invest directly

446 https://theconexusinstitute.org.au/wp-content/uploads/2023/03/Does-Size-Benefit-Super-Fund-Members-24-March-2023.pdf
447 https://9075c432-8d38-4fcf-8025-d4433c9ea618.usrfiles.com/ugd/9075c4_22f4e62752ea4c3caa411ab4b66285c7.pdf
448 https://www.jpmorgan.com/content/dam/jpm/cib/complex/content/markets/futue-of-superannuation/How_Australian_Asset_Owners_Became_Asset_Managers.pdf

(rather than through pooled structures). For example, Nest[449] advanced investments in private markets as they reached £30bn. Nest[450] have also made the case for scale leading to "stronger negotiating conditions" when making these investments.

In DWP analysis of UK pension fund investment[451], there is evidence that private market asset classes may have a positive impact on economic growth. Therefore, greater scale among UK pension schemes could, through greater investment in these asset classes, lead to higher economic growth. In addition to this, there is evidence that if scale can reduce costs and improve member outcomes, that this could lead to increases in the amount that pension scheme members have available to spend upon retiring. Some international evidence[452] points to this leading to higher economic growth.

449 https://www.ipe.com/nest-advances-into-private-markets-as-aum-reach-30bn/10066861.article

450 https://www.ipe.com/analysis/viewpoint-opportunities-for-investing-in-uk-economic-growth-is-aligned-with-trustees-fiduciary-duty/10075588.article?adredir=1

451 https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy#executive-summary

452 https://www.calpers.ca.gov/about/organization/facts-at-a-glance/economic-impacts-pensions-california-fy-2022-23

Summary of evidence

54. Table 2 summarises the potential benefits from scale, as well as the AUM size the evidence points towards to achieve this. Although there is not one single estimated optimal size, the evidence does point towards £25-50bn as a level where many benefits could be achieved.

Table 2: Summarising the emerging evidence against asset size required to achieve different benefits relating to scale

Aspect of Scale	AUM size required to achieve scale benefit	References
Governance	£100m's	TPR 2019[453] TPR 2023[454]
Economies of scale	£100m's	APRA 2023[455] Pension Charges survey 2020[456] PPI 2021[457]
Better Governance	£25bn-£50bn	Conexus Institute 2023[458] PLSA 2023[459]
Further scale benefits	£25bn-£50bn	APRA 2022[460] APRA 2023**Error! Bookmark not defined.** Conexus Institute 2023**Error! Bookmark not defined.**
In-house investment	£25bn-£50bn	Conexus Institute 2023**Error! Bookmark not defined.**
Access to wider range of assets (enabling diversification)	£25bn-£50bn	Conexus Institute 2023**Error! Bookmark not defined.** PLSA 2023**Error! Bookmark not defined.**
Even broader range of assets, including direct investment	£50bn+	Conexus Institute 2023**Error! Bookmark not defined.** New Financial 2023[461] NMG Consulting 2021[462]
Improved bargaining power	£50bn+	Conexus Institute 2023**Error! Bookmark not defined.** J.P. Morgan 2022[463] NMG Consulting 2021**Error! Bookmark not defined.**
Even more in-house capacity	£50bn+	Conexus Institute 2023**Error! Bookmark not defined.** J.P. Morgan 2022**Error! Bookmark not defined.** NMG Consulting 2021**Error! Bookmark not defined.**

[453] https://webarchive.nationalarchives.gov.uk/ukgwa/20200102111009mp_/https:/www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-research-summary-report-2019.ashx

[454] https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/dc-trust-based-pension-schemes-research-report-2022.ashx

[455] https://www.apra.gov.au/sites/default/files/2023-06/Drivers%20of%20performance%20-%20APRA%20paper%20for%20MMF%20conference%20Feb%202023.pdf

[456] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

[457] https://www.pensionspolicyinstitute.org.uk/media/o52aoucb/20211118-value-for-money-final.pdf

[458] https://theconexusinstitute.org.au/wp-content/uploads/2023/03/Does-Size-Benefit-Super-Fund-Members-24-March-2023.pdf

[459] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2023/PLSA-policy-position-on-pensions-and-growth-October-2023.pdf

[460] https://www.apra.gov.au/sites/default/files/2022-03/Technical%20paper%20-%202021%20Heatmaps%20-%20Sustainability%20of%20member%20outcomes.pdf

[461] https://9075c432-8d38-4fcf-8025-d4433c9ea618.usrfiles.com/ugd/9075c4_22f4e62752ea4c3caa411ab4b66285c7.pdf

[462] https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf

[463] https://www.jpmorgan.com/content/dam/jpm/cib/complex/content/markets/futue-of-superannuation/How_Australian_Asset_Owners_Became_Asset_Managers.pdf

Justification for the level of analysis used in the IA (proportionality approach)

55. The scale measures are a significant policy intervention, which may result in tens of billions of market assets, and millions of savers, being moved between schemes. Therefore, as has already been discussed, DWP and HMT have engaged closely with industry, launching a Call for Evidence[464] on 4 September 2024, as well as receiving over 100 responses to the subsequent policy consultation[465] which was launched on 14 November 2024.
56. Within the research and analysis into "Pension fund investment and the UK economy"[466], and subsequently also within this IA, a wide range of data sources have been utilised, providing evidence which has been supplemented by the industry engagement. These data sources include:
    - **Industry performance** data from important and highly reputable sources such as Corporate Adviser.
    - **International evidence** and engagement, particularly from Australia and Canada, to understand the potential impacts of scale following their robust assessment and analysis.
    - **Provider survey data** on costs/charges faced by members externally commissioned by DWP. Given the significance of the reforms, a follow-up has been commissioned to better understand the landscape and impacts, with results informing the Bill and secondary legislation.
    - **Consultation responses and industry engagement.** In particular, DWP conducted a data gather from industry via the consultation and call for evidence responses to understand the scale of the challenge and intervention. There has also been continuous engagement with industry, with workshops held to better understand industry views.
    - **ONS surveys** including the Annual Survey of Hours and Earnings (ASHE) and Wealth and Assets Survey (WAS) to understand the pension landscape.
    - **Industry data** from information published by schemes, such as Chair Statements, to understand costs/charges, investment performance and asset allocations.
57. Despite the extensive information gathered, there remains significant risks around the analysis. In particular:

[464] https://www.gov.uk/government/calls-for-evidence/pensions-investment-review-call-for-evidence

[465] https://www.gov.uk/government/consultations/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth/pensions-investment-review-unlocking-the-uk-pensions-market-for-growth

[466] https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy#executive-summary

- **Commercial sensitivity –** A large amount of the information relevant to understand the potential impacts of the scale measures on the market is commercially sensitive, especially given that business can be won or lost on a few basis points in the pension market[467]. This impacts the willingness of some schemes to share information, while also meaning that detailed discussions of individual schemes cannot be covered within the IA. As a result, some evidence of the impacts is presented at a high-level in recognition that it would not be appropriate to talk about a very small number of schemes (there are only 60 across the entire multi-employer landscape), as doing this would potentially risk their identification and consequently have a serious detrimental market impact. However, as much information as deemed sensible is presented to outline the evidence and impacts.
- **A lack of consistent data –** As captured in the summary Impact Assessment and the VfM Impact Assessment, there is a lack of consistent data across the pension landscape. This is also impacted as the multi-employer market stretches across two regulatory regimes (FCA and TPR); albeit there are very close similarities on the whole. This means information can be hard to find on a consistent basis (an aspect the Bill aims to improve on through the introduction of the VfM framework).

58. Nevertheless, the IA uses the best available evidence to outline the most appropriate assumptions and data, enabling the costs and benefits of the proposals to be balanced. Consequently, the level of analysis utilised is considered proportionate. It is also important to note that the policy details will be further finalised and refined in secondary legislation. Therefore, more information and the impacts will be considered as the policy detail is finalised and further industry engagement takes place. This will also be informed by the investment that DWP and TPR have already made in further quantitative surveys across the industry, enabling understanding of views on consolidation and performance across a wide range of different sized schemes.

Description of options considered

Policy Option 0: Do nothing

59. Under a 'do nothing' scenario, consolidation would continue to occur naturally, with a forecast provided in Figure 1 earlier. However, as was illustrated in Figure 2, this consolidation is concentrated within smaller single employer trusts, rather than the multi-employer trusts at which the scale legislation is aimed.

[467] https://corporate-adviser.com/master-trust-and-gpp-defaults-roundtable-competing-in-a-fast-maturing-dc-pensions-sector/

60. Given the far smaller volume of assets they manage, consolidation of these smaller schemes into larger schemes is insufficient to drive the level of pension scheme scale at which evidence supports the existence of benefits. As a result, there would continue to be a range of multi-employer schemes, from very small to very large, across the pension landscape.

Policy Option 1: Primary legislation (preferred option)

61. The driving of meaningful consolidation across multi-employer DC workplace pension schemes requires primary legislation, with existing powers insufficient and statutory guidance ineffective.

62. The specific measures proposed have been carefully designed, utilising the available evidence, stakeholder meetings, and industry responses to the joint policy consultation. The measures seek to drive scale in the DC workplace pensions market, while considering disruption to industry and its capacity to implement the measures. The measures apply only to multi-employer DC workplace pension schemes and are as follows:

- Schemes must have (at least) one default arrangement with £25bn AUM by 2030 to continue operating in the Automatic Enrolment (AE) market (i.e. to be able to continue to receive AE contributions). Therefore, the proposed measures would not force schemes below the threshold to consolidate, but it is expected that they will elect to do this given the removal of their contributions inflow which would impact their business model.
- If a scheme holds at least £10bn AUM in (at least) one default arrangement by 2030, then the scheme can apply to be on a 'transition pathway'. This would allow them to continue operating in the AE market providing they meet certain requirements, including a credible plan to grow that arrangement to at least £25bn AUM by 2035.
- Alongside the minimum scale requirements, there must also be demonstration of in-house investment capability in order to continue operating in the AE market. Approval regarding the satisfaction of this requirement would be subject to the discretion of regulators, with this required to be met by both the schemes exceeding the £25bn AUM threshold in 2030 and the schemes applying to be on the 'transition pathway'. It is expected that regulators would develop and provide guidance in advance of the requirements being implemented, ensuring business certainty, with a consistency in approach implemented across the trust-based and contract-based markets.
- To continue to encourage innovation in the market, new entrants (including multi-employer Collective Defined Contribution schemes, or CDCs) will be able to enter the market provided they can also demonstrate a credible plan of how they can grow their

default arrangement to meet the required minimum scale of £25bn, though there would be no initial requirement for minimum scale as with existing schemes.

- Schemes will be prevented from creating any new default arrangements, except in limited circumstances, and if they wish to do so will have to seek approval from the relevant regulator.
- Certain schemes are out of scope for the legislation. Firstly, any schemes that provide solely for protected characteristics, including religious funds. Secondly, hybrid DB-DC schemes, which are only open to a closed group of related, but not legally connected, employers.
- There will also be a backstop in place to give regulators limited discretion to consider an extraordinary event which may impact scheme AUM levels, such as a market shock. If such events occurred shortly before the minimum thresholds became active, this could significantly impact the number of schemes able to meet the thresholds, hence the need for such discretion.

63. Many different policy options have been considered, including (i) the implementation of AUM thresholds of different values, (ii) different starting years for the minimum AUM requirements, and (iii) stricter rules on exemptions. The final policy details build-upon and listen to industry feedback (for example, £50bn AUM was considered in the consultation but has been lowered to £25bn, with a 'transition pathway' for schemes with AUM exceeding £10bn).

64. The policy aims to:

a) **Build a market of fewer, but larger, pension schemes** with around 15-20 multi-employer schemes estimated to be operating by 2035.

b) **Support members** by ensuring the vast majority of savers are benefiting from the advantages of saving into a scheme which is operating at scale.

c) **Support the UK economy** by creating pension schemes which have a greater level of assets and investment capability. Evidence shows investments in productive assets are more likely to have a greater level of home bias than assets such as listed equities.

d) **Still encourage competition and innovation** through applying exemptions and encouraging innovative initiatives (such as CDCs) by enabling new starters to enter the market.

Policy option 2: Absence of legislation – utilising statutory guidance

65. In the absence of legislation, statutory guidance could be utilised. For example, guidance could be developed encouraging schemes to consider if they are making best use of economies of scale, pointing to the evidence presented above regarding scale benefits for schemes with around £25-50bn AUM, thus encouraging consolidation into larger schemes.

66. However, such guidance would only be advisory and not mandatory. Therefore, any guidance encouraging consolidation among multi-employer schemes would likely have an extremely limited impact. It could potentially encourage larger schemes to engage smaller schemes with a view to consolidating assets into their own scheme. However, this would require sufficiently attractive offers to encourage the smaller schemes to elect to leave the market, which would be determined by their own business interests.
67. Alternatively, guidance could encourage schemes to adjust their investment strategies, increasing their exposure to productive finance assets. Such a reweighting of portfolios would be more consistent with the investment strategy of larger schemes, as was evidenced earlier in the IA. However, evidence suggests smaller schemes are less able to invest in such assets efficiently, generally possessing less governance capability and lacking sufficient scale to invest in assets directly, often requiring use of a pooled fund.
68. There are recent examples demonstrating that non-legislative approaches to transforming the DC pensions market are ineffective. There has already been encouragement from government and regulators on scale, for example a previous Call for Evidence[468] on scale and consolidation, and communications from TPR including a blog by the Chief Executive[469]. This however has not led to a noticeable change in behaviour, particularly among the smaller multi-employer pension schemes.
69. Alongside this, though not specifically relating to pension scheme scale, the statutory guidance forming the Value for Members Assessment[470] became effective in October 2021. This encouraged trustees of schemes with under £100 million of assets to carry out an assessment of the value their scheme delivers, including comparing charges and investment performance against three other schemes. However, there has been no noticeable behavioural change, with many trustees not engaging with this. This therefore highlights the need for legislation with a strong compliance regime to drive the change, with guidance alone being ineffective.

Scope of the scale measures

The size of the multi-employer DC workplace pension market

[468] https://www.gov.uk/government/consultations/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation
[469] https://webarchive.nationalarchives.gov.uk/ukgwa/20240123000230/https://blog.thepensionsregulator.gov.uk/2023/11/24/change-is-coming-we-must-grasp-this-opportunity-in-savers-interests/
[470] https://www.gov.uk/government/publications/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns/completing-the-annual-value-for-members-assessment-and-reporting-of-net-investment-returns

70. The proposed scale legislation will apply to all multi-employer DC workplace pension schemes. As shown by Table 1 earlier, there are around 60 such schemes, with around 30 Master Trusts and around 30 GPPs.
71. Across these schemes there are 15m active members, being members who are actively contributing to their pension pots. Alongside this there are also many deferred members, being members of schemes who are no longer making additional contributions to their pension pots, which will be the case if they have moved to a different employer. Data regarding total membership, so including both active and deferred members, is not readily available. However, the scale legislation will impact both active and deferred members, with all members of schemes that leave the market requiring their pots to be transferred to an alternative scheme. Note that it is possible for people to simultaneously be members of multiple schemes.
72. There is a very high concentration of the DC workplace market in these multi-employer schemes. For example, looking at just the trust-based side of the market, the around 30 Master Trusts hold 81% of the assets, and over 90% of total and active members.

Schemes out of scope

73. As has already been discussed, certain schemes are out of scope for the legislation:
    - **Protected characteristics –** Any scheme operating solely for protected characteristics, including religious funds, will be able to continue to operate. This reflects the uniqueness of these schemes and ensures there is no discrimination against certain religions or faiths.
    - **Hybrid DB-DC schemes** – Some schemes, such as USS and Railpen, operate a Master Trust and Defined Benefit pension. These are out of scope for the scale measures, which are specific to workplace DC pensions, given that the large DB schemes should allow scale to be achieved for the benefit of the DC scheme. Also, these schemes are only available to a closed group of related, but not legally connected, employers.
    - It is estimated there are around 10 of these exempt schemes, meaning the remaining 50 schemes are in scope for the legislation.

Projections of the number of schemes impacted

74. Accounting for the £25bn minimum AUM threshold in 2030, as well as the 'transition pathway' enabling schemes with over £10bn AUM to continue operating in the AE market, providing they have a credible plan to grow that arrangement to at least £25bn AUM by 2035, it is projected that around 15-20 schemes will have sufficient AUM to meet the thresholds.

Alongside the 10 schemes out of scope, it is therefore projected that 25-30 schemes will remain in the market.

75. Across the 30-35 schemes that are modelled to be both in scope for the legislation and to have insufficient scale to comply with the minimum AUM thresholds, there is projected to be around £70bn of AUM in 2030, with this requiring consolidation into larger schemes. Therefore, the schemes leaving the market are projected to have an average (mean) AUM of around £2bn. In a 'do nothing' scenario, it is possible that some multi-employer DC schemes may have consolidated by 2030, meaning fewer schemes will be in scope for the legislation.
76. Table 3 categorises schemes given AUM projections at different points in time. Ranges are provided, rather than exact values, reflecting the existence of both imperfect data and uncertain projections. By enabling schemes with at least £10bn AUM in an arrangement by 2030 to continue operating in the AE market, providing they have a credible plan to grow that arrangement to at least £25bn AUM by 2035, it is estimated that around 5 additional schemes will be able to continue operating in the market (alongside the 10-15 schemes that are expected to have AUM exceeding £25bn in 2030).

Table 3: Counts of schemes projected to meet different AUM thresholds over time

	Estimated Number of Schemes
Exceeding £25bn AUM at year end 2023	5-10
Exceeding £25bn AUM in 2030	10-15
Exceeding £25bn AUM in 2035	15-20

77. Table 4 summarises the projected impacts of the scale measures on the size of the market.

Table 4: Counts of schemes projected to leave and remain in the market as a result of the scale measures

	Estimated Number of Schemes
Out of scope (and will remain in the market)	10
In scope, and projected to have sufficient AUM to remain in the market	15-20
Projected to be leaving the market	30-35

AUM thresholds at default arrangement level

78. The scale measures require multi-employer DC workplace pension schemes to have an above-threshold level of AUM in at least one default arrangement. As explained earlier, this is the level at which contributions are collected, with investment expertise utilised to set the strategy for how these contributions are invested. However, for the reasons explained in more detail in the later "Projections of necessary consolidation" section, analysis in this IA is conducted at scheme-level.

Interactions with other Pension Schemes Bill measures

79. There may be other pension reforms which interact with the scale measures. These include the proposed VfM framework, where underperforming schemes would be removed from the market, further reducing the number of schemes. At this point, the interactions across the measures cannot be known and are highly dependent on pension scheme behaviour, as well as the sequencing and timings with which the measures are implemented. Estimates of such interactions have not been produced here but are considered in the Summary Impact Assessment.

80. Therefore, this IA assumes the scale measures are implemented in isolation from other measures, with the only exception being the proposed contractual override measures. These will enable pension providers to override a member's contract within a contract-based pension arrangement, either updating the terms or transferring members to a new arrangement, consequently allowing GPPs to more easily consolidate their default arrangements. Therefore, it has been assumed these measures will be implemented alongside the scale measures, with them potentially allowing some schemes to surpass the minimum AUM thresholds within a single default arrangement by consolidating multiple arrangements. Given the significant implications of not meeting the scale test, it is a

reasonable assumption any scheme which has the total AUM sufficient to meet the requirement will merge arrangements, via this mechanism, in an attempt to meet the scale level.

81. However, consultation responses also illustrated that, across most schemes, there is a large concentration of AUM within one or two default arrangements. Alongside this, total scheme AUM is projected to be far higher than the minimum AUM thresholds for many schemes. Consequently, it is considered a reasonable assumption that the use of the contractual override measures will not be necessary for most contract-based schemes to achieve scale. Therefore, the implementation of these measures is not materially expected to impact the projections in this IA.

Summary of costs and benefits

82. Given commercial sensitivities, with numerous schemes projected to be leaving the market following introduction of the scale measures, individual scheme anonymity has been ensured throughout this IA. Alongside the naming of individual schemes being inappropriate for commercial reasons, it would also be inappropriate given the uncertainties present. For example, some schemes, which are currently projected to have insufficient scale to remain in the market, may already be implementing detailed business plans to ensure they do achieve scale, with these plans not publicly available.

83. Consequently, although aggregate AUM figures and scheme counts have at times been provided, more granular breakdowns have been avoided, meaning that the analysis presented is likely at a higher level than within a typical Impact Assessment.

84. It should be noted that the choice of appraisal period has an impact on the net present value for the proposed measures. Once the market has reached its new consolidated state, with fewer, larger schemes, there should be no further costs. Therefore, unlike other policies, the scale measures should cause zero ongoing costs, with every year beyond the end of the appraisal period only resulting in benefits. Therefore, the longer the appraisal period utilised, the larger the net present social benefit that the scale measures would be estimated to provide.

85. Considering only direct costs and direct benefits to business, the scale measures are estimated to provide an equivalised annual net benefit across the ten-year appraisal period of £26m. Given there are around 60 multi-employer DC schemes, this results in an average equivalised annual net benefit per scheme of around £400k-£450k.

86. The key costs and benefits, covered across the IA, are summarised in Table 5.

Table 5: Summary of costs and benefits of the proposed scale measures

Impact	Summary	Direct or Indirect Cost/Benefit?	Net Present Value (over the 10-year appraisal period)[471]
Costs			
Familiarisation Costs (for Pension Schemes)	*The costs required to understand and ensure compliance with the legislation*	*Direct*	*£4m*
Search Costs (for Pension Schemes)	*For the schemes leaving the market, the costs of selecting and engaging a scheme to consolidate their funds into.*	*Direct*	*£8m*
Consolidation Costs (for Pension Schemes)	*The costs required to transfer assets between schemes, including the selling and buying of funds plus necessary supporting activity including legal, consultancy and communication.*	*Direct*	*£103m*
Costs to Members	*Consolidation costs could be passed on to members in the form of higher charges, though market competition makes this unlikely.*	*-*	*Non-monetised*
Costs to Employers	*There are expected to be no additional costs to employers.*	*-*	*Non-monetised*
Costs to Regulators	*Processing of exemption requests and enforcing the legislation, though this is assumed to form part of existing budgets.*	*-*	*Non-monetised*
Benefits			
Lower Investment Fees (for Pension Schemes)	*Due to additional scale, schemes can access lower investment fees, increasing their profits.*	*Direct*	*£339m*
Increased Net Returns via Lower Charges for existing members in schemes which gain greater scale (for Members)	*For the schemes which gain greater scale following consolidation, the lower investment fees are assumed to be partially passed on to members in the form of lower charges, increasing their net returns.*	*Indirect*	*£339m*
Increased Net Returns via Lower Charges for members transferred into larger schemes (for Members)	*The members who are transferred into a larger scheme gain access to the lower charges offered by their new scheme, with this increasing their net returns.*	*Direct*	*£402m*

Increased Returns through Diversification (for Members)	*Members can also benefit from larger schemes being more readily able to access the full range of available asset classes, including private markets, which leads to diversification and return benefits, thus allowing their pots to grow larger.*	*Indirect*	*£939m*
Increased Charge Revenue (for Pension Schemes)	*As scale can be expected to increase net returns for members, and hence enable them to build larger pension pots, schemes can benefit from higher charge revenue as a percentage of these pots.*	*Indirect*	*£7m*
Benefits to Employers	*Selecting a pension scheme for their employees will be easier, with fewer schemes to consider the merits of.*	*-*	*Non-monetised*
Benefits to Regulators	*Lower costs of monitoring and enforcement, with fewer schemes to oversee and better compliance due to improved governance.*	*-*	*Non-monetised*

EANDCB

87. Table 5 identified **three direct costs to business** and **one direct benefit to business**, with these direct costs and benefits **all for pension schemes**.
88. Table 6 below highlights those specific direct costs and benefits, explaining why each is 'direct'.

[471] The aggregated monetised impacts are calculated for a ten-year appraisal period and all costs are given in 2024 prices and use 2025 as the base year for the present value calculation, as given in the RPC/DBT Impact Assessment Calculator

Table 6: Direct costs and benefits to business (all of which are for pension schemes)

Direct Cost / Direct Benefit	Summary	Why is this direct?
Familiarisation Costs	The costs required to understand and ensure compliance with the legislation.	Pension schemes are the first step in the logic chain - these are immediate and unavoidable costs for all multi-employer DC schemes.
Search Costs	For the schemes leaving the market, the costs of selecting and engaging a scheme to consolidate their funds into.	For all schemes leaving the market, necessitated by the scale measures, these are again unavoidable costs.
Consolidation Costs	The costs required to transfer assets between schemes, including the selling and buying of funds plus necessary supporting activity including legal, consultancy and communication.	For the schemes leaving the market, their assets must be transferred into an alternative scheme to allow their members to continue to save, with these costs again unavoidable.
Lower Investment Fees (Benefit)	Due to additional scale, schemes can access lower investment fees, increasing their profits.	This is the first consequence of building scale, with pension schemes achieving greater economies of scale and being able to deliver a wider range of investments for lower costs.

89. Table 7 below presents the annual calculated value of these direct costs and benefits, with the calculation methodology explained later in the IA. These values are used to calculate the Equivalent Annual Net Direct Cost to Business (EANDCB). The results of the calculations are:

- Equivalent Annual Direct Cost to Business = **£13m**
- Equivalent Annual Direct Benefit to Business = **£39m**
- Equivalent Annual Net Direct Cost to Business (EANDCB) = **-£26m**

This shows the measure is estimated to result in an estimated annual direct saving of £26m per year to businesses.

Table 7: Annual estimated direct costs and direct benefits to *business (2024 prices)*

Direct Cost / Direct Benefit	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Familiarisation Costs	£4m									
Search Costs			£3m	£3m	£3m					
Consolidation Costs			£34m	£38m	£42m					
Lower Investment Fees (Benefit)						£68m	£76m	£86m	£96m	£108m

Projections of necessary consolidation

Why future scheme AUM must be projected

90. Due to AUM growth, utilisation of current AUM values will be inappropriate to determine likely consolidation activity. By the point which the thresholds become active in 2030, several schemes will have crossed these. Growth in scheme AUM is determined by the following factors:
    a) Contributions, where employers and employees pay into a pension scheme.
    b) Investment returns, which increase the stock of assets.
    c) Withdrawals, as people withdraw from their pension or transfer assets to alternative schemes.
    d) Mergers and acquisitions, with the AUM in different schemes combined in a single larger scheme.
91. For schemes with known AUM at the end of 2023, their future AUM must be projected up to 2035, at which point all schemes in scope for the legislation must have £25bn AUM to continue operating in the AE market. From this, it can be projected which schemes will have sufficient AUM to remain in the market, which schemes will leave the market, and how much AUM will be required to be consolidated into other schemes.

Assumptions utilised to project scheme AUM

92. A single consistent data source is not available. Consequently, AUM statistics have been sought from two key sources, being the Go Pensions "DC Master Trust League Tables"[472] and CAPA[473], with these providing significant market coverage. This has then been supplemented with additional information from Chair Statements and individual scheme documentation.
93. Given the imperfect availability of data, alongside the large uncertainties present, several assumptions have had to be utilised:

[472] https://go-group.co.uk/dc-master-trust-league-table-2024-h1/

[473] https://capa-data.com/younger-saver-30-years-to-retirement-5-year-annualised-line/

Discounting ‘natural consolidation’ between schemes

94. In a ‘do nothing’ scenario, it is possible that some multi-employer DC schemes may have consolidated by 2030. Only the consolidation prompted by the implementation of the scale measures should be monetised, with this ‘natural consolidation’ discounted.
95. However, such consolidation between multi-employer DC schemes has been extremely rare, with limited examples of schemes either merging or leaving the market. It is therefore expected there will be minimal amounts of such activity before 2030, and if there was, the specific schemes and their AUM who exit the market cannot be known.
96. Consequently, given the limited history of consolidation among multi-employer schemes, as well as the uncertainties present, it is assumed no existing schemes would leave the market unless necessitated by the scale measures. Therefore, monetisation is carried out for all the consolidation modelled to occur.

Analysis at scheme level rather than arrangement level

97. The preferred option requires multi-employer DC workplace pension schemes to have at least one default arrangement with £25bn AUM by 2030. However, analysis has been carried out at scheme level, despite consultation responses confirming many schemes contain multiple default arrangements. Therefore, even though it is projected that a scheme’s AUM may reach £25bn by 2030, additional work may be required to ensure that at least one of their default arrangements contains sufficient AUM. For example, they may be required to combine existing arrangements, with this activity having costs. However, for several reasons, scheme-level analysis is considered appropriate:
    a) There is a lack of available data on the breakdown of AUM at arrangement level within schemes. The consultation did ask providers for information on their existing defaults, including the number of default arrangements and the number of default funds that they have, as well as the total AUM across these defaults. However, given that responses were only provided by a subsection of the market, with the structures of defaults described being extremely varied, it has been decided that any assumptions regarding the proportion of funds in default arrangements could be inaccurate.
    b) As well as arrangement-level data being less readily available, utilisation of it would require additional assumptions regarding merging activity, with the pattern that this would take extremely uncertain,
    c) Given the time lag between the proposed legislation being announced and the minimum AUM thresholds coming into effect, schemes will have time to adjust, allowing them to direct funds into their largest default(s). Consequently, it is less likely they will be required to

carry-out a significant restructuring close to 2030, whereby they would have to move funds from smaller arrangements into their largest arrangement(s). Therefore, it is assumed any costs accrued from the consolidating of arrangements will be minimal.

d) Given the level that the minimum AUM thresholds have been set at, many schemes are projected to have far higher AUM levels. Consequently, it is considered extremely unlikely that at least one of their arrangements would not have AUM higher than the proposed thresholds. Consultation responses also illustrated that, across most schemes, there is a large concentration of AUM within one or two default arrangements.

Missing and imperfect AUM data

98. Given the sources available, of the around 60 multi-employer DC workplace pension schemes, AUM data at year-end 2023 is available for 45 schemes. Of the remaining 15 schemes, there is no consistent and time-series data available. However, these are largely small MT/GPPs where active membership is low. Consequently, the future AUM values of these schemes have been unable to be projected, with it unknown how much AUM will consequently need to be consolidated into other schemes. This is a risk, as the modelled benefits and costs of the legislation would be higher if these schemes were included, given that additional scale would be achieved following consolidation with additional costs required to carry-out the necessary consolidation activity. However, industry engagement and older data sources confirm that the AUM in these schemes is of very low value relative to the rest of the market, for which a more accurate AUM picture is known. Consequently, it is projected that all 15 of these schemes will leave the market following implementation of the minimum AUM thresholds.

99. For some of the GPPs, the AUM figures utilised include personal pensions. Given that the policy is restricted to workplace pensions, the AUM in personal pensions would be discounted when considering if an arrangement has sufficient scale. Therefore, it is possible that the modelling projects some schemes to meet the thresholds that won't. However, the assets in these personal pensions are relatively small, with the schemes in question generally expected to far exceed the thresholds regardless.

Assumed AUM growth rates

100. For the 45 schemes for which AUM values are known, it is required to assume AUM growth rates, with this being necessary to project future scheme AUM values.

101. For Master Trusts, historic AUM data is available from the Go Pensions "DC Master Trust League Tables"[474]. From this, annual AUM growth rates over the prior two years have been calculated for each scheme, though the industry average has been utilised for the individual schemes whose AUM growth rates were deemed to be a significant outlier. A two-year period was chosen to not overlap with the Covid-19 pandemic, with this not considered a representative period suitable to be used for forecasting.
102. However, to project future Master Trust AUM values, these growth rates have been halved, with a 13% average (mean) growth rate across schemes. This accounts for the fact that longer-term Master Trust AUM growth rates are highly likely to be lower, with this supported by a couple of factors. Firstly, given that Master Trusts are a relatively recent phenomenon, having only been in existence for around a decade[475], a higher proportion of members will soon be entering retirement. This should lead to a slowing of AUM growth, with these members ceasing to make additional contributions and instead beginning to withdraw funds. Alongside this, there has been a strong stock market rebound since the Covid-19 pandemic, which may not necessarily hold in the long-term. Adjusting growth rates downwards is also a conservative assumption, accounting for the nature of compounding, whereby outcomes can be extremely sensitive to growth rates. Therefore, a small error in assumed growth rates would have a significant impact, negatively influencing the accuracy of the projections.
103. For GPPs, annual AUM growth of 10% has been assumed across all schemes. Given that less time-series data exists than for Master Trusts, this reflects sensible assumptions on investment returns and contributions. This was also validated by comparing to the growth amongst GPPs for which data does exist, with data sources including the Chair Statements published by schemes, with this also showing around 10% annual growth over recent years.
104. The resulting AUM projections calculated are broadly consistent with other sources, including the PPI's 'DC Future Book'[476] and DWP's own stock-flow model of DC assets supporting the appropriateness of the growth rate assumptions utilised. Also, despite projected AUM values being very sensitive to these growth rates, there was found to be a relatively limited impact on the number of schemes projected to be leaving the market when varying these, with schemes generally projected to have AUM levels either far higher or far lower than the thresholds.

474 https://go-group.co.uk/dc-master-trust-league-table-2024-h2/
475 https://www.thepensionsregulator.gov.uk/en/media-hub/speeches-and-speakers/the-evolution-of-master-trust-supervision
476 https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf

Accounting for the lower £10bn threshold in 2030

105. Alongside the main £25bn AUM threshold for 2030, there is also the lower scale test whereby schemes must hold at least £10bn AUM in one default arrangement by 2030, with this enabling them to apply to be on the 'transition pathway' and continue operating in the AE market. Access to the 'transition pathway' should be granted providing schemes meet certain requirements, including having a credible plan to grow their arrangement to at least £25bn AUM by 2035. Consequently, it is assumed that schemes will remain in the market if they are projected to have both (1) at least £10bn AUM in 2030 and (2) at least £25bn AUM in 2035.

Results and usage of the projections

106. Having established these conditions, it is projected that around 15-20 schemes will have sufficient AUM to meet the minimum AUM thresholds, alongside the 10 schemes out of scope, with 25-30 schemes therefore projected to remain in the market. Therefore, it is projected that 30-35 schemes will leave the market. These projected impacts on the size of the market are summarised in Table 8.

Table 8: Counts of schemes projected to leave and remain in the market as a result of the scale measures

	Estimated Number of Schemes
Out of scope (and will remain in the market)	10
In scope, and projected to have sufficient AUM to remain in the market	15-20
Projected to be leaving the market	30-35

107. Across the remaining 30-35 schemes modelled to be in scope for the legislation but to have insufficient scale to comply with the minimum AUM thresholds, there is projected to be around £70bn of AUM in 2030, with this requiring consolidation into larger schemes. It has been modelled that this AUM is equally likely to be consolidated into each of the 15-20 schemes of scale that remain in the market, with the AUM shared equally across them. Therefore, of the £70bn AUM to be consolidated, each of the schemes is modelled to receive around £4bn on average. Given that the exact market reaction to the scale measures is unknown, this is adopted as a simplifying assumption. In practice, the actual AUM values consolidated into each scheme will be higher or lower than this.

108. It was considered whether the AUM should be modelled as being consolidated in proportion to the sizes of the remaining schemes in the market, so that the larger schemes would receive more AUM, though this is once again uncertain. Compared to the

assumptions which are varied in the later “Sensitivity Analysis” section, including the size of the reduction in investment fees that can be accessed through additional pension scheme scale, modelling results were relatively insensitive to this assumption.

109. Also, the proposed measures do not actually force schemes below the thresholds to consolidate, so it is possible that some of them will not. However, it is expected that they will elect to do this given the removal of their contributions’ inflow. The potential exception is for schemes which only have deferred members, which is the case for a small number of GPPs. Given that none of their members are actively making contributions, the removal of the contributions’ inflow will not impact them. Despite this, it is expected that the requirements imposed by other Pension Schemes Bill measures will necessitate their closure, even if the scale measures in isolation will not. Within this IA, given the small amounts of AUM which are held by these schemes, the potential for these schemes to remain in the market rather than consolidating is not considered materially impactful.

Costs of the scale measures

110. All monetised costs, specifically familiarisation costs, search costs and consolidation costs, are for pension schemes. These are also all direct costs.

111. Considering just the costs rather than the benefits provided by the scale measures, the equivalised annual cost across the ten-year appraisal period is £13m. Given there are around 60 multi-employer DC schemes, this results in an average equivalised annual cost per scheme of around £200k-£250k.

Familiarisation costs

112. Familiarisation costs are estimated using an FCA survey of the contract-based market. The survey related to the impacts of implementing the proposed Value for Money (VfM) framework, with this seeking to build evidence on the potential costs of the policy. For several reasons, VfM is considered a similar policy to the scale measures. Firstly, like the scale measures, it applies to both the trust-based and contract-based markets. Also, similar extensive engagement is expected to be required by schemes to ensure compliance with the legislation. Finally, the policies may have similar impacts, with both including mechanisms by which schemes can be removed from the market.

113. However, there is a risk that familiarisation costs will be different for the VfM measures and the scale measures. Steps have been taken to limit this risk, including the weighting of costs by scheme size, accounting for the scale measures being limited to the larger multi-employer DC schemes.

114. Also, given that the survey was restricted to the contract-based market, there are risks present in applying results to Master Trusts. However, it is assumed that the contract-

based market is representative of the entire multi-employer DC market, with trust-based schemes facing similar costs. This does not seem unreasonable given evidence that many providers operate in both markets, particularly the largest providers with whom most DC assets are held, meaning business models in the trust-based and contract-based markets are often comparable.

115. By AUM band, Table 9 shows the average familiarisation cost from the survey, with the values shown being the estimated costs reported by schemes of different AUM level. Consistent with the Impact Assessment for the VfM measures, 'Optimism Bias' has been applied in line with Green Book standards, estimated at around 25%. This reflects the uncertainty on the final policy details, that providers may underestimate some of the costs, and because survey estimates are based on a non-final policy position.

Table 9: Average familiarisation cost with the Value for Money (VfM) framework from the FCA survey of the contract-based market.

AUM band (£)	Average familiarisation cost (per scheme)	Adjusted Average (with 25% optimism bias)
0-100m	£14,000	£17,000
100 - 1bn	£16,000	£20,000
1b - 25bn	£30,000	£37,000
25bn+	£258,000	£323,000

116. It has been modelled that familiarisation costs will be incurred in the year that the legislation is announced. For the purposes of this IA, 2025 has been used as the reference year, as this was the year the equivalent DWP legislation was announced. It is assumed that the same measures will apply across the UK, making 2025 an appropriate basis for estimating costs. Consequently, given projected scheme AUM values in 2025, costs have been estimated using the 'Adjusted Average' values in Table 9. Having modelled these costs to be incurred by all schemes, the total cost is calculated at £4m, being an average of around £70,000 per scheme. This is shown in Table 10.

Table 10: Projected familiarisation costs due to the scale measures (*2024 prices*)

	2025
Familiarisation costs	£4m

Search costs

117. Search costs, like familiarisation costs, have been taken from analysis relating to other planned private pensions legislation. Specifically, that legislation intends to place duties on DC occupational pension schemes to provide each member of their scheme support at the point of decumulation. Through industry engagement, including roundtables and one-to-one meetings with pension schemes, 'partnering costs' were estimated by scheme size, being the costs that would be incurred by smaller schemes when partnering with Master Trusts to provide decumulation solutions for their members. Such partnering activity appears analogous to the search activity that must be carried out by smaller schemes following implementation of the scale measures, with them also being required to select and engage larger schemes. Consequently, it is assumed that the costs will be similar, with Trustees seeking to find the best alternative arrangement for their members and likely to assess multiple schemes in detail before making a decision.

118. From the results of industry engagement, partnering costs were estimated, taking an average of the responses. 'Central', 'high' and 'low' estimates were produced by scheme size, with larger schemes modelled to have higher costs. For the search costs within this IA, the 'central' estimate has been utilised for the largest scheme size. This accounts for the scale measures being restricted to multi-employer schemes, with the smaller single employer trusts excluded.

119. Search costs have been applied for all schemes that are projected to be required to leave the market. It is assumed that all these multi-employer schemes are "large schemes", with the central estimate of £250,000 therefore applied for each scheme. Across the approximately 30-35 schemes, the total cost is therefore around £9m, with this split equally across the three years where consolidation is modelled to occur. Therefore, search costs are estimated as £3m in each of 2027, 2028 and 2029. These costs are shown in Table 11 below.

Table 11: Projected search costs due to the scale measures, being the costs incurred by schemes leaving the market to select and engage a scheme to consolidate their funds into (*2024 prices*)

	2027	**2028**	**2029**
Search costs	£3m	£3m	£3m

Consolidation costs

120. As outlined in the prior "Projections of necessary consolidation" section, it is estimated that around 30-35 schemes are both in scope for the legislation and projected to have

insufficient scale to comply with the minimum AUM thresholds. Across these, there is projected to be around £70bn of AUM in 2030, with this requiring consolidation into larger schemes.

121. Following introduction of the Westminster Pension Schemes Bill in 2025, the market response to the proposed scale measures is ultimately unknown. It has been assumed that consolidation activity will be shared equally across the three years preceding the minimum AUM thresholds becoming active. Therefore, this is modelled to be split between 2027, 2028 and 2029. Despite the minimum AUM thresholds only becoming active in 2030, this modelling approach reflects that many schemes will know far in advance whether it is achievable to meet the thresholds or not. Consequently, the schemes leaving the market are unlikely to all wait until the final year to do this, with them instead producing business plans to meet their individual needs. Also, these schemes are likely to lose business, with employee benefit consultants identifying that they are unlikely to meet minimum scale, likely accelerating their decision to leave the market. Alongside this, mergers and transfers can take time, particularly when considering the large value of assets being transferred, meaning they may take place earlier.

122. The consolidation is modelled such that, given the value of AUM that is projected to require consolidation in 2030, that one third of its projected value is assumed to be consolidated in each of these years. Given projected AUM growth, the value of the AUM that must have been consolidated in 2030 is £70bn. The AUM across these same schemes is projected to be £51bn in 2027, with one third of this (£17bn) therefore modelled to be consolidated in 2027. Consequently, the amount modelled to be consolidated in 2027 is lower than the amount consolidated in 2028 (£19bn), and even lower than the amount consolidated in 2029 (£21bn).

123. Evidence from consultation responses found that the transferring of assets is not costless. Consequently, a cost has been applied to the consolidation necessitated by implementation of the scale measures. To assign a value to this cost, consultation responses have been utilised relating to scheme experiences of combining default funds and arrangements together within the same organisation. This does pose a risk, given that the question used related to the internal consolidation of assets by an individual pension scheme, rather than the consolidation of assets between schemes.

124. Responses gave an indication of the costs of consolidation, with transaction costs being noted as the main cost. Though a range of estimates were provided for these costs, the average response was determined to be 0.15% to 0.2% of the value of assets being transferred. Alongside transaction costs, various other costs were noted including legal,

consultancy and communication costs, though the scale of these costs was less readily provided. Given these 'other costs' are harder to monetise, the overall cost of consolidation is assumed to be 0.2% of the value of assets transferred, being at the higher end of the estimated value of transaction costs. Utilising the upper limit of the range is a conservative approach, taken due to the amount of uncertainty present while also attempting to account for the 'other costs'.

125. Given the assumed 0.2% consolidation cost, Table 12 shows the estimated yearly consolidation costs given the value of AUM to be consolidated.

Table 12: Estimated consolidation costs due to the implementation of the scale measures (*2024 prices*)

	2027	**2028**	**2029**
Yearly consolidated amount	£17bn	£19bn	£21bn
Yearly consolidation cost	**£34m**	**£38m**	**£42m**

Other non-monetised costs to schemes

126. The consolidation necessitated by the introduction of the minimum AUM thresholds will result in the closing down of schemes who may have remained operational in the counterfactual scenario (where no minimum AUM thresholds are implemented). Based on this IA's projections, it is estimated around 30-35 schemes may be closed following this policy. These schemes will incur closing costs and foregone revenues. It will also mean disruption in the form of job losses, or job moves, for the staff at these firms.

127. However, as outlined in the "Benefits of the scale measures" section, the closing of these 30-35 schemes results in a transfer of assets into the remaining schemes with whom the closing scheme consolidates. Therefore, assets are transferred rather than 'removed' from the market. Alongside the transfer of assets, additional jobs could become available in the remaining schemes as teams expand, likely seeking to hire those with existing market expertise who may have lost their jobs.

128. There is significant uncertainty in projecting the impacts of scheme closures, with this consequently not monetised. It is unclear exactly how many schemes will leave the market, the specific schemes these will be, the point in time at which this will occur, the cost, the job ramifications, and whether these are first-, second-, or even third- order policy impacts.

129. It also seems possible that some closures will have smaller impacts than others. For example, a provider who offers both a Master Trust and a GPP could decide to consolidate their assets into a single scheme, enabling them to achieve sufficient scale to remain in the market. Such an outcome appears very possible, especially given the confirmation in

consultation responses that, for providers who offer both a Master Trust and GPP, default arrangements and default funds are generally the same across both offerings. In this scenario, it seems likely that the impacts would be smaller than if a firm ceased its involvement in the DC workplace pensions market entirely.

130. Also, the impacts likely vary across firms, with this dependent on how central pension provision is to their business model. If their workplace pensions service is one of many functions, this may just mean the closure of that individual function while the firm continues operations, with jobs potentially able to be absorbed into the other functions.

Cost to members

131. Members may face indirect costs if the costs incurred by pension schemes are passed on. Member-borne costs could come in the form of increased charges, although this has low likelihood given overall charges are capped at 0.75% of AUM. The potential for higher costs to members has not been monetised, with competition between schemes making the passing-on of costs unlikely. Also, this would ultimately be a transfer of the cost incidence monetised above rather than additional overall costs.

132. Given there will be fewer schemes in the market, there is a risk that innovation lessens as pressure from market competition is eased. This could impact member experience and worsen service levels. Also, for the members that are transferred into larger schemes, it is possible that the investment returns on their contributions may worsen. Such investment returns are volatile, with Figure 5 illustrating the wide range in investment performance across schemes, with many smaller schemes having achieved high gross returns over the last 5 years.

133. The proposed measures have been designed to mitigate against the risk of a loss of innovation, ensuring that innovative new schemes have opportunity to enter the market via the ‘new entrant pathway’. This would allow such new entrants to enter the market provided they can also demonstrate how they can grow their default arrangement to meet the required minimum scale of £25bn, though there is no initial requirement for minimum scale as with existing schemes. For example, multi-employer Collective Defined Contribution (CDC) schemes are a type of new emerging pension scheme which will require a large scale, given the requirement to pool longevity risks. Therefore, the minimum scale requirement will not be applicable for these.

134. It is also estimated the proposed Value for Money (VfM) framework should offset potential member costs from a loss in market competition, should they occur. The publication of

investment returns, enabling easier comparison, should ensure the DC pensions market continues to innovate, be competitive and perform effectively for its members.

135. Alongside considerations of investment returns and charges, members could be transferred into schemes which offer fewer services, impacting member experience, as well as into schemes with higher charges. However, the extent to which their charges could increase is limited by other policies, including the charge cap at 0.75% of AUM. Also, this is considered a low risk, given the benefits that scale can provide in terms of a lowering of costs.

136. Overall, given the uncertainty, including the uncertainty in scheme behaviour, these potential costs to members have not been monetised at this stage. Further discussion on competition and innovation is outlined in the "Wider impacts" section.

Cost to employers

137. Employers are not expected to experience significant direct costs from the scale measures, with a lack of information available regarding any potential indirect costs, meaning these are unable to be monetised at this stage.

138. In the "Benefits for employers" section, the reduction in search costs is highlighted as a potential benefit for employers. Given they will have to consider the merits of fewer schemes, this should simplify the selection of pension scheme for their employees. However, particularly for the most engaged employers, this may come at the expense of choice.

139. Also, some employers pay an administration fee to set-up pension schemes, though many do not. It is possible, due to a reduction in the size of the market, that a removal of competition allows the remaining schemes to newly implement or raise the size of these fees. However, the proposed AUM thresholds should allow a significant number of schemes to remain in the market, ensuring competition on cost is maintained. Schemes are particularly unlikely to increase employer costs due to the risks of losing custom, with current evidence[477] finding that cost and convenience to the employer dominate decision-making when selecting pension schemes.

140. Alongside this, some employers currently have specific arrangements with schemes, with it possible for their employees to be moved to a more general arrangement because of the measures. This may result in the administration processes for employers becoming more difficult, particularly if they previously had a favourable bespoke arrangement in place.

[477] See table 7.3: https://www.gov.uk/government/publications/department-for-work-and-pensions-employer-survey-2022/department-for-work-and-pensions-employer-survey-2022-research-report

Alongside this, for all employers whose employees are transferred to a new scheme, there may be short-term costs to adjust to changes in administrative processes.

141. There is also a possibility, though this is considered unlikely, that some schemes with insufficient AUM to meet the thresholds could remain in the market. This is a consequence of the proposed measures not actually forcing schemes below the thresholds to consolidate. If these schemes were to remain in the market, though being unable to receive AE contributions, this would require employers to find an alternative scheme (that has met the scale requirements) in order to meet their own AE duties[478]. Therefore, there is a risk that additional costs would be required to be incurred by some employers. However, this is considered unlikely, with it expected that these schemes will elect to leave the market given the removal of their contributions' inflow, with this being in their business interest. Consequently, it is expected that they would seek a scheme to transfer their existing members (and the assets of those members) across into, allowing those members to continue to make automatic enrolment (AE) pension contributions. This will be monitored as the policy develops.

Cost to regulators

142. There may be additional costs for regulators, firstly in the processing of exemption requests, then later due to enforcement of the legislation. However, the scale or size of these potential costs cannot be robustly monetised at this stage, and such activity is expected to form part of the existing budgets of regulators.

Benefits of the scale measures

143. As a result of the scale measures, there are monetised benefits to members and pension schemes, with these explored in more detail within this section of the IA. Summarising the sources of monetised benefits:

a) **Lower investment fees (for pension schemes)**: Due to lower fees, attainable as pension scheme scale increases, schemes earn increased profits. These are direct benefits of the scale measures, being benefits immediately attainable given increased scale.

b) **Increased net returns via lower charges (for existing members in schemes which gain more scale following consolidation)**: For the schemes which gain more scale following consolidation, the lower investment fees are assumed to be partially passed-on

[478] Employees must automatically enrol eligible employees into an automatic enrolment pension scheme, also making contributions to their employee's pension. Employer duties are explained in more detail here: https://www.thepensionsregulator.gov.uk/en/document-library/automatic-enrolment-detailed-guidance/resources-employer-duties-and-safeguards

to members in the form of lower charges, increasing their net returns. These are indirect benefits for members, given the requirement for the lower fees to be passed on to them.

c) **Increased net returns via lower charges (for members transferred into larger schemes)**: The members who are transferred into a larger scheme gain access to the lower charges already offered by their new scheme, with this increasing their net returns. These are direct benefits for members, with the lower charges automatically accessed given their necessary transfer to a larger scheme.

d) **Higher net investment returns through diversification (for members)**: A further increase in net investment returns, with scale enabling diversification benefits through investment in a wider range of assets, including in private market assets. These have the potential to outperform traditional portfolios on a risk-adjusted basis. Again, these are indirect benefits of the scale measures, with pension schemes being required to adjust their investment strategies in order for these benefits to accrue for members.

e) **Higher charge revenue (for pension schemes)**: Given that net investment returns increase for members, enabling them to build larger pension pots, this increases the charge revenue received by pension schemes. These are indirect benefits, requiring pension schemes to either pass on lower investment fees as lower charges, or diversify their portfolios to invest in wider asset classes, thus enabling the increases in net investment returns for members that can enable this higher charge revenue.

144. These scale benefits have been modelled to begin from 2030. This is despite consolidation being modelled to occur from 2027, at which point scale benefits should theoretically begin to accrue. However, this assumption has been made to simplify the modelling, but also as a conservative assumption given that scheme behaviour is unknown with many other uncertainties also existing. If the consolidation truly all occurs in 2029 in advance of the minimum AUM thresholds becoming active, then modelling scale benefits from an earlier point would be overstating the benefits.

Scale allows for lower fees, with these partially passed-on as lower charges to improve net returns

145. As was discussed in the “Rationale for intervention and intended effects” section of the IA, there is evidence that scale can enable schemes to access lower investment fees via a number of different mechanisms. It has been modelled that the benefits accruing from these lower fees are shared between schemes and members, with schemes retaining a

portion of the lower fees as profits, with the remainder passed on to members in the form of lower charges to enable higher net investment returns.

146. However, as is explained in more detail below, the size of benefits received, or whether any benefits are received at all, has been modelled as being dependent on the relative increase in scale achieved by schemes and members following consolidation activity.

Size of the reduction in fees

147. The Pension Charges Survey 2020[479] provides the average ongoing charge for schemes of different sizes, breaking these down by scheme type. The scheme sizes are separated by numbers of members, with the largest sizes being "100-999" and "1,000+". The difference in charges between these two largest scheme sizes is calculated for both contract-based schemes (being 0.13%) and Master Trust schemes (0.10%), with the average taken (0.115%) to reflect there being similar numbers of each scheme type. This value is used to estimate the reduction in fees.

148. There is a risk that the scheme sizes in the survey differ to the scheme sizes in the current market, meaning the reduction in charges applied may be inappropriate. However, schemes have grown since the survey was conducted, with there being large variability in scheme membership, with some schemes having membership in the low thousands and some having membership in the millions. Therefore, given this variability in scheme size, which is significantly larger than that shown by the survey, the charge differential applied is considered appropriate.

149. An alternative assumption, which was considered but ultimately not utilised, was to use consultation responses relating to differential pricing. Use of differential pricing was almost universal among respondents, though only for administration charges, rather than for investment charges. Various factors were identified to justify the pricing differences, including some employers requiring higher levels of service and support, hence higher charges are necessary to cover these costs. However, the importance of employer size on costs was also noted, impacting economies of scale given that the marginal cost for each additional employee enrolled is relatively small. Some schemes had wide ranges in charges, including from a minimum of around 0.2% to a maximum of around 0.7%. Across responses, the difference between the 10th decile charge and the median charge tended to be around 0.15%-0.2%, so larger than the assumed reduction in charges applied within this IA (0.115%). However, the alternative assumption was utilised as it was determined to be

[479] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

more relevant, with the difference in charges in the Pension Charges Survey 2020 determined by differences in pension scheme scale, rather than differences in employer scale as with differential pricing. Nevertheless, this finding highlights the assumption is a credible estimate.

Summary of the estimated benefits for different groups

150. Before explaining the estimated benefits in more detail, here is a summary of the different groups that have been modelled to benefit either directly or indirectly from the reduction in investment fees, as well as the sizes of benefits modelled:

a) *Members whose assets are transferred from a smaller scheme (which leaves the market) into a larger scheme (with sufficient scale to remain in the market)*: A reduction in charges and hence increase in net investment returns of 0.115% is modelled, reflecting that their new scheme should have significantly lower charges than their current scheme, enabled by their additional scale.

b) *Existing schemes with under £50bn in AUM*: A reduction in fees of 0.029% is modelled, which they retain as profit, occurring due to their increase in scale as assets are transferred into the scheme from those schemes which leave the market. This reduction is half of the 0.058% reduction in fees they are modelled to receive overall, with the remainder passed on to members in the form of lower charges.

c) *Members of existing schemes with under £50bn in AUM*: A reduction in charges and hence increase in net investment returns of 0.029% is modelled, which is passed on to them by their scheme.

d) *Existing schemes (and members of schemes) with over £50bn in AUM*: Benefits are not monetised, despite these schemes achieving additional scale, with the evidence suggesting there are likely diminishing marginal returns to additional scale. It is recognised that these largest schemes may also receive benefits from scale, with this therefore being a conservative assumption that also simplifies the modelling, rather than implementing a precise tapering of benefits as scale increases when such a relationship is ultimately uncertain.

151. It is acknowledged there will likely be a distribution in the size of benefits received by schemes and members. For example, due to some schemes having a wide range of charges due to differential pricing, it is possible that some members may receive smaller benefits than others (if they happen to be transferred into a scheme and receive high charges). However, those members and schemes receiving smaller benefits are likely to

be offset by those receiving larger benefits, with the averages applied considered appropriate. The Department, along with DWP, will continue to research and monitor the role of differential pricing across the market as the Pension Schemes Bill measures are implemented.

For the assets to be consolidated into larger schemes

152. For the schemes which are to leave the market, it is assumed that members will experience a reduction in charges and hence increase in net investment returns equal to the full 0.115% value calculated from the Pension Charges Survey 2020. This reflects their assets being moved into a scheme with significantly more AUM than their current scheme. Regardless of the exact scheme size that the AUM is consolidated into, all the consolidated AUM is modelled to receive scale benefits, given the significant increases in scale that occur.

153. These benefits are modelled to be received by members only, given that they all join much larger schemes, while the providers for these schemes leave the market and do not receive any benefits.

154. Table 13 shows the AUM that is projected to be consolidated into larger schemes, for which the projected value grows each year as a result of contributions inflow and investment returns, with the annual increase in net investment returns for members calculated.

Table 13: The estimated increase in net investment returns for members whose assets are consolidated into larger schemes, occurring due to them paying lower charges (*2024 prices*)

	2030	**2031**	**2032**	**2033**	**2034**
AUM to be consolidated (where scheme exits the market)	£71bn	£79bn	£88bn	£99bn	£110bn
Increase in net investment returns for members	**£81m**	**£91m**	**£102m**	**£114m**	**£127m**

For the existing assets in larger schemes

155. For the existing assets in larger schemes, which achieve more scale following consolidation, it has also been modelled that lower investment fees will be accessed, though only for schemes that have a level of AUM for which the available evidence suggests an increase in scale can provide benefits. Though this evidence does not suggest one single optimal size, it does point towards £25-50bn as a level where many benefits could be achieved. Consequently, it is only the schemes that will remain in the market and

are projected to have under £50bn AUM in 2030 for which scale benefits are estimated. This is projected to be around half of the schemes which remain in the market, with these being the smallest of those remaining schemes, with an estimated £236bn of assets across these schemes in 2030.

156. The scale benefits are modelled to be half of those attained by the assets being consolidated into the larger schemes, given that the relative increase in scale achieved is smaller. Therefore, the benefit is modelled as 0.058%. The decision to model the benefits at half the size is somewhat arbitrary, with the true size of the benefits being received possibly higher or lower than this, though applying a smaller rate of benefits is appropriate to reflect the smaller increase in scale. Applying a factor of a half is consistent with other parts of the IA, such as the modelling of the share of benefits between pension schemes and members (*as is explained in the next paragraph*) and considered our best estimate.

157. It is assumed that half of these benefits for the existing assets in larger schemes, occurring due to lower investment fees, are retained by schemes in the form of higher profits. The remainder of the benefits have been modelled as being passed on to members in the form of lower charges, enabling increased net investment returns. The exact share of these benefits between members and schemes is ultimately unknown, being dependent on scheme behaviour. For some schemes, who do not operate on a 'for profit' basis, the assumption utilised will overestimate the benefits to pension schemes. However, this may be counterbalanced by some schemes retaining more of the profits. Consequently, on balance, this is viewed as a reasonable assumption in the absence of other evidence at this point.

158. The members and schemes that receive these benefits in 2030 are modelled to continue receiving these until the end of the analysis period (2034), even as scheme AUM grows to higher levels. Therefore, despite benefits only being monetised for the existing assets in schemes with AUM under £50bn in 2030, the same members and schemes are modelled to continue receiving benefits as scheme AUM grows above this £50bn cutoff. 'Uprating' of this cutoff is not carried out, nor are benefits ceased, given the uncertainty existing regarding the accrual of scale benefits, with the £50bn cutoff applied being supported by evidence but also not an exact rule.

159. As outlined earlier, across the evidence there are various AUM levels suggested as providing benefits, with some sources suggesting benefits continue to occur at very high levels of scale. There is not one single estimated optimal size, though the evidence does point towards £25-50bn as a level where many benefits can be achieved. The evidence utilised to produce this range was based on several different years using sources from

multiple different countries, so there was not a fixed time window analysed, with no clear indication that the 'optimal range' would move over time, or the rate at which it would move. Consequently, any uprating would be arbitrary, so has been avoided.

160. Table 14 shows the estimated benefits from lower fees for the schemes that remain in the market, as well as the members in these schemes, given the aggregate projected annual AUM across these schemes. This AUM is aggregated across schemes with under £50bn in projected 2030 AUM, which are the only schemes for which these benefits are modelled.

Table 14: The estimated scale benefits for pension schemes and members, occurring either directly or indirectly because of lower investment fees, across schemes that are projected to remain in the market and have assets consolidated into them (*2024 prices*)

	2030	2031	2032	2033	2034
Existing AUM in schemes, where 2030 AUM < £50bn	£236bn	£265bn	£298bn	£335bn	£377bn
Reduction in fees for schemes	**£68m**	**£76m**	**£86m**	**£96m**	**£108m**
Increase in net investment returns for members	**£68m**	**£76m**	**£86m**	**£96m**	**£108m**

161. As has already been explored, numerous reports support a reduction in investment fees being achievable with additional scale, with the size of the estimated benefits being broadly consistent with those calculated in this IA. For example, Toby Nangle's report[480] for The People's Pension found: "*The cost of externally managing a 10% allocation of total Master Trust assets to private markets would be high. Applying external management costs to the 2030 asset base yields annual fees ranging from £560 million to £1.5 billion depending on the precise form of outsourcing. Developing high-functioning direct internal private market management capabilities could reduce this cost significantly.* ***Reasonable estimates put projected savings to members in the hundreds of millions of pounds each year***."

Scale can further improve net returns through the diversification benefits of investing in a wider range of assets, with the potential for these to outperform traditional portfolios

162. An increase in scale across the multi-employer DC market should enable more schemes to access the full range of available asset classes. This can be expected to deliver further net return benefits for members, in addition to the cost savings outlined above. For example, by accessing a wider range of asset classes, asset allocations at arrangement level are more diversified, so are better shielded from adverse outcomes.

[480] https://peoplespartnership.co.uk/wp-content/uploads/2025/01/Achieving-critical-mass-investing-in-private-markets-report.pdf

- This can be seen in the analytical publication released as part of phase one of the Pensions Investment Review[481]. Stochastic actuarial analysis, commissioned from GAD (Government Actuary's Department) by DWP to support the review, showed a balanced portfolio with private market exposure to outperform a 'baseline' portfolio that was mostly invested in overseas equities. A range of other studies have pointed towards potentially even greater returns[482].
- This can also be seen in international pensions markets, with Australian DC and Canadian open DB schemes investing at scale in private markets and often achieving good average returns from these investments (detailed below).
- In addition to the diversification benefit, which improves risk-adjusted returns, a selection of publicly available institutional capital market assumptions expects private market investments to outperform public markets. This outperformance and 'illiquidity premium'[483] do vary and research can be mixed. However, on balance, it appears reasonable to expect a returns uplift from the addition of private markets at scale into the portfolios of DC pension savers.

163. The increase in investment returns through diversification has been modelled as a benefit purely for members. This is an indirect benefit, as it is dependent on schemes choosing to diversify their investment portfolios and may be dependent on the type and range of assets invested in.

164. In the later "Increased charge revenue for pension schemes" section, a benefit for schemes has been modelled, with this being a further indirect benefit occurring as a result of the overall increase in net investment returns for members as a result of the scale measures.

Size of the increase in investment returns

165. This IA assumes a 0.1% investment return uplift from delivering scale and the corresponding increased allocations to wider ranges of assets, with this informed by:

- **GAD's stochastic, actuarial analysis** referenced above found that a portfolio with 10% private markets allocation outperformed a 'baseline' (public markets) portfolio by 2% on a net, risk-adjusted basis over 30 years. The analysis assumed an annual salary of £30,000 that rises in line with prices and a starting DC pot of £10,000

[481] See table 5 in: https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf

[482] For example: https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2024-02/oliver-wyman-british-business-bank-the-future-of-defined-contribution-pensions.pdf

[483] Illiquidity premium defined as the additional returns an investor receives for holding illiquid (private) assets over and above that received by holding an 'equivalent' public asset.

contributing 8% pension contributions for 30 years. The 2% outperformance is net of fees, accounting for private market assets being more expensive, with fees assumed to be 0.25% for all asset classes except for private markets for which a 1% fee is assumed. The analysis utilised capital market assumptions supplied by Moody's, with these assumptions projecting the level of future returns for different asset classes.

- When subsequently calculating the annual benefit, if taking a simple division (i.e. dividing 2% equally across 30 years) or accounting for compound growth (i.e. calculating the annual growth rate which, when compounded, results in a 2% benefit over 30 years), the result (when rounded) is a 0.07% annual improvement in net investment returns from private markets.
- **Other countries report high net returns on private market investments**, hence their continued exposures to wider asset classes. For example, the Association of Superannuation Funds of Australia have said that *"Every single Australian with a superannuation account has benefitted from the sophisticated approach that super has taken to exposure in private markets …The exposure to private markets has been a great driver of returns for Australians[484]"*. Australia and Canada have been pensions markets that successive governments have closely followed to inform UK pensions policy developments[485].
- **Other institutional capital market assumptions** assume a greater level of return from private market assets that scale should allow access to. For example, each of JP Morgan, Amundi and Blackrock project private markets (including private debt and infrastructure) to outperform public markets in their publicly available assumptions[486]. This outperformance is often by a larger margin than the 0.07% established above given that GAD use a different set of capital market assumptions (supplied by Moody's). Though any estimate in capital market assumptions are volatile and will be dependent on fees.

166. Therefore, a range of estimates are available regarding the potential uplift that diversification can provide. It is also important to recognise that future returns are

484 https://www.superannuation.asn.au/media-release/statement-responding-to-asics-discussion-paper-on-the-dynamics-between-public-and-private-markets/#:~:text=The%20exposure%20to%20private%20markets,accounts%20for%20real%20people%20retiring.

485 For example, the Chancellor's 2024 Mansion House speech "… sets out our plans to create Canadian and Australian style-"megafunds" to power growth in our economy" https://www.gov.uk/government/speeches/mansion-house-2024-speech

486 https://www.blackrock.com/institutions/en-us/insights/charts/capital-market-assumptions ; https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/portfolio-insights/ltcma/noindex/ltcma-full-report.pdf ; https://research-center.amundi.com/article/capital-market-assumptions-2024

uncertain, dependent on scheme behaviour and evidence on private market outperformance can be impacted by survivorship bias[487].

167. Given the available evidence, it is assumed that higher private market allocations delivered through scale provide a **0.1% improvement to investment returns**. This is informed by the 0.07% result calculated from the GAD analysis, as well as other institutional capital market assumptions which often suggest a larger outperformance by private markets. This rate of return could conceivably improve further over time (i.e. beyond the end of the appraisal period) as J-curves[488] are managed and there is a greater supply of and demand for domestic private market opportunities.

168. As with the benefits accruing directly or indirectly as a result of lower fees, the size of benefits received through diversification has been modelled as being dependent on the relative increase in scale achieved following consolidation activity. The methodology adopted is also consistent, with this explained in the following sections.

For the assets to be consolidated into larger schemes

169. For the smallest schemes which are to leave the market, it is assumed that members will experience increases in investment returns through diversification of the full 0.1%.

170. Table 15 shows the AUM that is projected to be consolidated into larger schemes, for which the projected value grows each year as a result of contributions inflow and investment returns, with the annual increase in net investment returns for members calculated.

Table 15: The estimated increase in net investment returns for members whose assets are consolidated into larger schemes, occurring due to investment diversification as pension scheme scale increases (*2024 prices*)

	2030	**2031**	**2032**	**2033**	**2034**
AUM to be consolidated (where scheme exits the market)	£71bn	£79bn	£88bn	£99bn	£110bn
Increase in net investment returns for members	**£71m**	**£79m**	**£88m**	**£99m**	**£110m**

For the existing assets in larger schemes

171. For the existing assets in larger schemes, which achieve more scale following consolidation, diversification benefits have also been modelled, though again only for the members in schemes that are sufficiently small that the available evidence suggests an

[487] "Survivorship bias" is where the assessment of an asset is determined only by the performance of existing assets in the market, discounting those that have previously left the market.

[488] "J-curves" are the pattern that private investments often follow, whereby they initially experience lower returns before outperforming in the long-run, thus a curve plotting their returns may appear similar to the letter "J".

increase in scale can provide benefits. Consistent with the approach applied with lower investment fees, it is only the schemes that will remain in the market and are projected to have under £50bn AUM in 2030 for which scale benefits are estimated.

172. The increase in investment returns is modelled to be half of those attained by the assets being consolidated into the larger schemes (so 0.05%), given that the relative increase in scale is smaller. This is consistent with the benefits modelled to accrue from the reduction in investment fees, where the existing assets in larger schemes were also modelled to receive half the level of benefits.

173. Table 16 shows the estimated benefits from diversification for the members of schemes that remain in the market, given the aggregate projected annual AUM across these schemes.

Table 16: The estimated scale benefits for members, occurring due to investment diversification, across schemes that are projected to remain in the market and have assets consolidated into them (*2024 prices*)

	2030	**2031**	**2032**	**2033**	**2034**
Existing AUM in schemes, where 2030 AUM < £50bn	£236bn	£265bn	£298bn	£335bn	£377bn
Increase in net investment returns for members	**£118m**	**£133m**	**£149m**	**£167m**	**£188m**

Increased charge revenue for pension schemes

174. As a result of pension scheme scale, members are modelled to receive higher net investment returns. As explained previously, this occurs due to a combination of lower charges, passed on by schemes as a result of lower investment fees being paid, and through higher investment returns resulting from diversification. This means that savers can be expected to benefit from larger pension pots.

175. An indirect benefit of these larger pension pots is an increase in charge revenue for pension schemes, given that charges are set as a percentage of pot value. To calculate the scale of these charge revenues, the Pension Charges Survey 2020[489] has been utilised, with this showing average ongoing charges for the largest GPPs and Master Trusts to be around 0.4% of funds under management.

176. Table 17 shows the estimated aggregate annual increase in net returns for members as a result of the scale measures, aggregating the results from Tables 13-16. Below that, Table 18 shows the estimated additional charge revenue for pension schemes, having applied the

[489] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

0.4% charge value to the outputs from Table 17, with the charges applied on an annual basis.

Table 17: A summary of the estimated aggregate annual increase in net returns for members as a result of the scale measures (*2024 prices*)

Source of increase in net investment returns	2030	2031	2032	2033	2034
Lower charges, for members joining larger schemes	£81m	£91m	£102m	£114m	£127m
Lower charges, for existing members in larger scheme	£68m	£76m	£86m	£96m	£108m
Diversification benefits, for members joining larger schemes	£71m	£79m	£88m	£99m	£110m
Diversification benefits, for existing members in large schemes	£118m	£133m	£149m	£167m	£188m
Total	**£339m**	**£379m**	**£425m**	**£476m**	**£534m**

Table 18: The estimated increase in annual charge revenue for pension schemes (*2024 prices*)

	2030	2031	2032	2033	2034
Increases in net investment returns for members	£339m	£379m	£425m	£476m	£534m
Additional charge revenue for pension schemes	**£1m**	**£2m**	**£2m**	**£2m**	**£2m**

Overall benefits for members and pension schemes

177. Table 19 below shows the total scale benefits estimated for members and pension schemes, being the sum of the benefits identified in Tables 13-16 and Table 18.

Table 19: The total estimated scale benefits for members and pension schemes (*2024 prices*)

	2030	2031	2032	2033	2034
Total scale benefits for pension schemes	£69m	£78m	£87m	£98m	£110m
Total scale benefits for members	£339m	£379m	£425m	£476m	£534m
Total	**£408m**	**£457m**	**£512m**	**£574m**	**£644m**

Benefits to employers

178. Given there will be fewer, larger schemes in the market, selecting a pension scheme for their employees will be easier, with less schemes to consider the merits of. However, these benefits of lower search costs are likely small, with current evidence finding that cost and convenience to the employer dominate decision-making when selecting pension schemes. Also, employers actively switching to better performing schemes is rare, with only 5% of

employers offering a DC pension having done so[490]. Therefore, these benefits have not been monetised.

Benefits to regulators

179. Once the market reaches its new consolidated state, costs of regulation will likely fall, with fewer schemes needing to be monitored. Also, given the improved governance that evidence suggests larger schemes can access, there may be a reduction in enforcement activity due to non-compliance with pensions legislation. Consistent with the prior exploration of the "Cost to regulators", these benefits have not been monetised.

Sensitivity Analysis

180. Given the risks that exist regarding many of the assumptions utilised, sensitivity analysis has been conducted, varying the assumptions to observe the impacts on the estimated costs and benefits.

181. As was seen in the summary of costs and benefits in Table 5, the most significant monetised items were (i) 'consolidation costs', (ii) the benefits accruing to providers and members as a result of lower fees (enabling lower charges and higher net investment returns), and (iii) the increases in net investment returns as a result of diversification. Consequently, assumptions relating to these items have been varied.

182. When conducting the sensitivity analysis, 50% adjustments have been utilised, with these adjustments purposely made to be larger than many of the ranges initially suggested by the available data sources, reflecting the uncertainty present. For example, for consolidation costs, the average consultation response was determined to be 0.15% to 0.2% of the value of assets being transferred. However, a wider range of 0.1% to 0.3% has been utilised when varying this assumption. This reflects that some responses did fall outside of the central 0.15% to 0.2% range, with responses also not providing complete market coverage, meaning they could be unrepresentative of the entire market. The 50% adjustment has been utilised across all the assumptions that have been varied, with this providing consistency across the sensitivity analysis. The wide range also reflects the challenges of needing to utilise commercially sensitive information throughout the IA, with this data often being less readily available and with smaller sample sizes than would be preferred.

- **Consolidation costs:** These were assumed to be 0.2% of the value of AUM consolidated. This assumption has been increased/decreased by 50% in the low/high

[490] See table 7.3 and 7.4: https://www.gov.uk/government/publications/department-for-work-and-pensions-employer-survey-2022/department-for-work-and-pensions-employer-survey-2022-research-report

scenarios, with 0.1% and 0.3% the values utilised. This reflects the various ranges suggested from providers in the consultation.

- **Lower fees (enabling lower charges)**: For the AUM consolidated into larger schemes, the increase in net investment returns was assumed to be 0.115% of the AUM consolidated, with all benefits being for members. For the AUM in existing schemes with AUM under £50bn, which achieve additional scale following consolidation, a benefit of 0.058% was assumed, with these benefits modelled to be shared by pension schemes and members. These assumptions have also been adjusted by 50%, being decreased in the low scenario and increased in the high scenario.
- **Higher returns through diversification**: For the AUM consolidated into larger schemes, the increase in investment returns was assumed to be 0.1% of the AUM consolidated. For the AUM in existing schemes with AUM under £50bn, a benefit of 0.05% was assumed. These assumptions have again been adjusted by 50%, being decreased in the low scenario and increased in the high scenario.

183. Table 20 shows the itemised costings in the low, central and high scenarios. Note that, although the assumption was not adjusted regarding the additional charge revenue that pension schemes receive, being 0.4% of the increase in net investment returns for members, this charge revenue does vary across scenarios due to the net investment returns of members varying.

184. The overall net present values range from +£847m to +£2,976m, with the wide range indicating the sensitivity of the estimations to the assumptions utilised. However, in all scenarios the policy is modelled to have a net benefit.

Table 20: Results of sensitivity analysis. Costings show net present value over the 10-year appraisal period. The "Low Estimate" combines the higher estimate of costs and lower estimate of benefits, while the "High Estimate" combines the lower estimate of costs and higher estimate of benefits.

Impact	Low Estimate	Central Estimate	High Estimate
Familiarisation Costs (for Pension Schemes)	*£4m*	*£4m*	*£4m*
Search Costs (for Pension Schemes)	*£8m*	*£8m*	*£8m*
Consolidation Costs (for Pension Schemes)	*£154m*	*£103m*	*£51m*
Lower Investment Fees (for Pension Schemes)	*£170m*	*£339m*	*£509m*
Increased Net Investment Returns via Lower Charges (for Members)	*£371m*	*£741m*	*£1,112m*
Increased Returns through Diversification (for Members)	*£470m*	*£939m*	*£1,409m*
Increased Charge Revenue (for Pension Schemes)	*£3m*	*£7m*	*£10m*
Net Benefit	***£847m***	***£1,911m***	***£2,976m***

Risks and assumptions

185. Key risks and assumptions have been covered throughout the IA. The main areas of risk are listed and RAG-rated below (Red = significant analytical/policy risk or significant driver of Impact Assessment modelling; Green = low impact risk or assumption and/or unlikely to significantly impact Impact Assessment modelling):

Analytical risks/assumptions:

186. **AUM growth rates (Red):** To project future scheme AUM values, AUM growth rates must be assumed:

- For Master Trusts, historic AUM data is available from the Go Pensions "DC Master Trust League Tables"[491]. From this, annual AUM growth rates over the prior two years have been calculated for each scheme, though the industry average has been utilised for the individual schemes whose AUM growth rates were deemed to be a significant outlier. A two-year period was chosen to avoid overlapping with the Covid-19 pandemic, with this not considered a representative period suitable to be used for forecasting.
- However, to project future Master Trust AUM values, these growth rates have been halved, with a 13% average (mean) growth rate across schemes. This accounts for the fact that longer-term Master Trust AUM growth rates are highly likely to be lower, with this supported by a couple of factors. Firstly, given that Master Trusts are a relatively recent phenomenon, having only been in existence for around a decade, a higher proportion of members will soon be entering retirement. This should lead to a slowing of AUM growth, with these members ceasing making additional contributions and instead beginning to withdraw funds. Alongside this, there has been a strong stock market rebound since the Covid-19 pandemic, which may not necessarily hold in the long-term. Adjusting growth rates downwards is also a conservative assumption, accounting for the nature of compounding, whereby outcomes are extremely sensitive to growth rates. Therefore, a small error in assumed growth rates would have a significant impact, negatively influencing the accuracy of the projections.
- For GPPs, annual AUM growth of 10% has been assumed across all schemes. Given that less time-series data exists than for Master Trusts, this reflects sensible assumptions on investment returns and contributions. This was also validated by comparing to the growth amongst GPPs for which data does exist, with data sources including the Chair Statements published by schemes, with this also showing around 10% annual growth over recent years.

187. Given the length of the time period analysed, the growth rates are sensitive assumptions, with small changes having a large impact on results in the later years. There is an additional risk that, particularly for GPPs, there is limited evidence to inform these growth rates. However, the approach adopted is considered robust given the available information.

[491] https://go-group.co.uk/dc-master-trust-league-table-2024-h2/

188. As a means of validation, the resulting AUM projections calculated were found to be broadly consistent with other sources, including the PPI's 'DC Future Book'[492], supporting the appropriateness of the growth rate assumptions utilised. Also, despite projected AUM values being very sensitive to these growth rates, there was found to be a relatively limited impact on the number of schemes projected to be leaving the market when varying these, with schemes generally projected to have AUM levels either far higher or far lower than the thresholds.

189. **Consolidation costs (Red):** To assign a value to the cost of consolidating assets, consultation responses have been utilised relating to provider experiences of combining default funds and arrangements together within the same organisation. This does pose a risk, given that the question used related to the internal consolidation of assets by an individual pension scheme, rather than the consolidation of assets between schemes.

190. Responses gave an indication of the costs of consolidation, with transaction costs being noted as the main cost. Though a range of estimates were provided for these costs, the average response was determined to be 0.15% to 0.2% of the value of assets being transferred. Alongside transaction costs, various other costs were noted including legal, consultancy and communication costs, though the scale of these costs was less readily provided. Given these 'other costs' are harder to monetise, the overall cost of consolidation is assumed to be 0.2% of the value of assets transferred, being at the higher end of the estimated value of transaction costs. Utilising the upper limit of the range is a conservative approach, taken due to the amount of uncertainty present while also attempting to account for the other costs.

191. **Size of the reduction in investment fees (Red):** The Pension Charges Survey 2020[493] provides the average ongoing charge for schemes of different sizes, breaking these down by scheme type. The scheme sizes are separated by numbers of members, with the largest sizes being "100-999" and "1,000+". The difference in charges between these two largest scheme sizes is calculated for both contract-based schemes (being 0.13%) and Master Trust schemes (0.10%), with the average taken and used to estimate scale benefits.

192. There is a risk that the scheme sizes in the survey differ to the scheme sizes in the current market, meaning the reduction in charges applied may be inappropriate. However, schemes have grown since the survey was conducted, with there being large variability in scheme membership, with some schemes having membership in the low thousands and

[492] https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf

[493] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

some having membership in the millions. Therefore, given this variability in scheme size, which is significantly larger than that shown by the survey, the charge differential applied is considered appropriate.

193. For the smallest schemes which are to leave the market, it is assumed that members will experience a reduction in charges equal to this value (0.115%).

194. For the existing assets in larger schemes, which achieve more scale following consolidation, it has also been modelled that lower investment fees will be accessed, though only for schemes that are sufficiently small that the available evidence suggests an increase in scale can provide benefits. Though this evidence does not suggest one single estimated optimal size, it does point towards £25-50bn as a level where many benefits could be achieved. Consequently, it is only the schemes that will remain in the market and are projected to have under £50bn AUM in 2030 for which scale benefits are estimated. These scale benefits are modelled to be half of those attained by the assets being consolidated into the larger schemes (so 0.058%), given that the relative increase in scale is smaller.

195. These are sensitive assumptions, with small changes having a large impact upon monetisation. It is assumed that half of these benefits are retained by schemes, due to the lower investment fees, with the remainder of the benefits passed on to members in the form of lower charges, enabling increased net investment returns. The exact share of these benefits between members and schemes is ultimately unknown, being dependent on scheme behaviour. For some schemes, who do not operate on a 'for profit' basis, the assumption utilised will overestimate the benefits to pension schemes. However, this may be counterbalanced by some schemes retaining more of the profits. Consequently, on balance, this is viewed as a reasonable assumption.

196. **Size of the diversification benefits (Red)**: A range of estimates are available regarding the potential uplift that diversification can provide. Alongside there being a range of estimates, it is also important to recognise that future returns are uncertain, being dependent on scheme behaviour, with evidence on private market outperformance impacted by survivorship bias[494]. The key insights utilised to inform the size of the estimated benefits are:

- Stochastic, actuarial analysis, commissioned from GAD (Government Actuary's Department) by DWP to support phase one of the Pensions Investment Review[495].

[494] "Survivorship bias" is where the assessment of an asset is determined only by the performance of existing assets in the market, discounting those that have previously left the market.

[495] See table 5 in: https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf

This found a portfolio with 10% private markets allocation to outperform a 'baseline' (public markets) portfolio by 2% on a net, risk-adjusted basis over 30 years. When subsequently calculating the annual benefit, if taking a simple division (i.e. dividing 2% equally across 30 years) or accounting for compound growth (i.e. calculating the annual growth rate which, when compounded, results in a 2% benefit over 30 years), the result (when rounded) is a 0.07% annual improvement in net investment returns from private markets.

- Many institutional capital market assumptions expect a long-term premium for holding the wider alternative asset types that scale should allow access to. For example, each of JP Morgan, Amundi and Blackrock project private markets (including private debt and infrastructure) to outperform public markets in their publicly available assumptions. This outperformance is often by a larger margin than the 0.07% established by GAD, given that GAD use a different set of capital market assumptions (supplied by Moody's).

197. Given the available evidence, and taking into account the uncertainty present, a conservative assumption is adopted that higher private market allocations delivered through scale provide a 0.1% improvement to investment returns. This rate of return could conceivably improve further over time (i.e. beyond the end of the appraisal period) as J-curves[496] are managed and there is a greater supply of and demand for domestic private market opportunities.

198. As with the benefits accruing directly or indirectly as a result of lower fees, the size of benefits received through diversification has been modelled as being dependent on the relative increase in scale achieved following consolidation activity. For the AUM consolidated into larger schemes, the increase in investment returns is assumed to be 0.1% of the AUM consolidated. For the AUM in existing schemes with AUM under £50bn, a benefit of 0.05% is assumed, being half the benefit assumed for the assets consolidated into larger schemes. This is consistent with the assumption utilised for the increase in net investment returns achieved through a lowering of charges.

199. **AUM data (Amber):** For schemes with known AUM at the end of 2023, their future AUM is projected up to 2035. From this, it is projected which schemes will have sufficient scale to remain in the market, which schemes will leave the market, and how much AUM will be required to be consolidated into other schemes. For smaller MT/GPPs, generally those where members are not actively contributing into their pension pots, their current AUM values

[496] "J-curves" are the pattern that private investments often follow, whereby they initially experience lower returns before outperforming in the long-run, thus a curve plotting their returns may appear similar to the letter "J".

are less certain, though information suggests this is low and therefore does not materially impact the projections.

200. This is a risk, as the modelled benefits and costs of the legislation would be higher if these schemes were included, given that additional scale would be achieved following consolidation with additional costs required to carry-out the necessary consolidation activity. However, it is estimated that the AUM in these schemes is of very low value relative to the rest of the market, for which a more accurate AUM picture is known.

201. **Consolidation at arrangement level (Amber):** The preferred option requires multi-employer DC workplace pension schemes to have (at least) one default arrangement with at least £25bn AUM by 2030. However, analysis has been carried out at the scheme level, despite consultation responses confirming that many schemes contain multiple default arrangements. Therefore, even though it is projected that a scheme's AUM may reach £25bn by 2030, additional work may be required to ensure that at least one of their default arrangements contains sufficient AUM. For example, they may be required to combine existing arrangements, with this activity having costs. However, scheme-level analysis is considered appropriate for several reasons:

a) There is a lack of available data on the breakdown of AUM at arrangement level within schemes. The consultation did ask providers for information on their existing defaults, including the number of default arrangements and default funds that they have, as well as the total AUM across their defaults. However, given that responses were only provided by a subsection of the market, with the structures of defaults described being extremely varied, it has been decided that any assumptions regarding the proportion of funds in default arrangements could be extremely inaccurate.

b) As well as arrangement-level data being less readily available, utilisation of it would require additional assumptions regarding merging activity, with the pattern that this would take extremely uncertain.

c) Given the time lag between the proposed legislation being announced and the minimum AUM thresholds coming into effect, schemes will have time to adjust, allowing them to direct funds into their largest default(s). Consequently, it is less likely that they will be required to carry-out a significant restructuring close to 2030, moving funds from smaller arrangements into their largest arrangement(s). Therefore, it is assumed that any costs accrued from the consolidating of arrangements will be minimal.

d) Given the level at which the minimum AUM thresholds have been set, many schemes are projected to have far higher AUM levels. Consequently, it is considered extremely unlikely that at least one of their arrangements would not have AUM higher than the proposed

thresholds. Consultation responses also illustrated that, across most schemes, there is a large concentration of AUM within one or two default arrangements.

202. **Determining the schemes that funds are consolidated into (Amber)**: For the schemes that have been modelled to leave the market, it is assumed that their AUM is equally likely to be consolidated into each of the 15-20 schemes of scale that remain in the market, with the AUM shared equally across them. Therefore, of the £70bn AUM to be consolidated, each of the 15-20 schemes is modelled to receive around £4bn.

203. It is expected that the actual market reaction will differ to this, with each scheme leaving the market being consolidated into a single other scheme, meaning the AUM consolidated into some schemes will be higher than the £4bn average (for example, where a scheme leaving the market is projected to have £10bn of AUM). However, given the uncertainties already explained regarding the AUM projections, as well as the uncertainties regarding the exact consolidation patterns that will occur, equal consolidation across schemes is adopted as a simplifying assumption. It was considered whether the AUM should be consolidated in proportion to the sizes of the remaining schemes in the market, so with the larger schemes receiving more AUM, though this is once again uncertain.

204. **Years of costs and benefits (Amber):** It is uncertain which years the monetised costs and benefits will truly occur in, with this determined by the behaviour of pension schemes. It has been assumed that:

- Familiarisation costs will occur in the first year following introduction of the legislation.
- Consolidation costs will be shared equally across the three years preceding the minimum AUM thresholds becoming active. Therefore, these are split between 2027, 2028 and 2029. The consolidation is modelled such that, given the value of AUM that is projected to require consolidation in 2030, that one third of its projected value is assumed to be consolidated in each of these years. Given projected AUM growth, the value of the AUM that must have been consolidated in 2030 is £70bn. The AUM across these same schemes is projected to be £51bn in 2027, with one third of this (£17bn) therefore modelled to be consolidated in 2027. Consequently, the amount modelled to be consolidated in 2027 is lower than the amount consolidated in 2028 (£19bn), and even lower than the amount consolidated in 2029 (£21bn).
- Search costs will occur in the same years as the consolidation costs. However, these costs are assumed to be equal across 2027, 2028 and 2029 (i.e. they do not vary to account for AUM growth as the consolidation costs do).
- Scale benefits have been modelled to begin from 2030. This is despite consolidation being modelled to occur from 2027, at which point scale benefits should theoretically

begin to accrue. However, this assumption has been made not only to simplify the modelling, but also as a conservative assumption given that scheme behaviour is unknown with many other uncertainties also existing. If all the consolidation truly occurs in 2029 in advance of the minimum AUM thresholds becoming active, then modelling scale benefits from an earlier point would be overstating the benefits.

205. **Pension scheme charges data (Amber):** The benefits of consolidation, occurring in the form of lower investment fees, are estimated using the Pension Charges Survey 2020[497]. The age of the data results in some risk. However, given this is the highest quality data source available and robustness of the methodology implemented and the sample size achieved, it has been preferred to alternative data sources.

206. **Duration of scale benefits (Amber)**: The members and schemes that receive scale benefits in 2030 are modelled to continue receiving these until the end of the analysis period (2034), even as scheme AUM grows to higher levels. Therefore, despite benefits only being monetised for the existing assets in schemes with AUM under £50bn in 2030, the same members and schemes are modelled to continue receiving benefits as scheme AUM grows above this £50bn cutoff. 'Uprating' of this cutoff is not carried out, nor are benefits ceased, given the uncertainty existing regarding the accrual of scale benefits.

207. As explained earlier, across the evidence there are various AUM levels suggested as providing benefits, with some sources suggesting benefits continue to occur at very high levels of scale. There is not one single estimated optimal size, though the evidence does point towards £25-50bn as a level where many benefits can be achieved. The evidence utilised to produce this range was based on several different years using sources from multiple different countries, so there was not a fixed time window analysed, with no clear indication that the 'optimal range' would move over time, or the rate at which it would move. Consequently, any uprating would be arbitrary and has been avoided.

208. **Accounting for consolidation that would have occurred anyway (Green)**: In a 'do nothing' scenario, it is possible that some multi-employer DC schemes may have consolidated by 2030. Only the consolidation that is prompted by the implementation of the scale legislation should be monetised, with this 'natural consolidation' discounted. However, given such consolidation is rare, it is assumed that no existing schemes would have left the market unless necessitated by the scale measures. Consequently, all consolidation that is modelled to occur is monetised.

[497] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

209. **Familiarisation costs data (Green):** Familiarisation costs are estimated using an FCA survey of the contract-based market. The survey related to the impacts of implementing the proposed Value for Money (VfM) framework. It is assumed that the contract-based market is representative of the entire multi-employer DC market, with trust-based schemes facing similar costs. This does not seem unreasonable given evidence that many providers operate in both markets, particularly the largest providers with whom most DC assets are held, meaning business models in the trust-based and contract-based markets are often comparable. There is a risk that familiarisation costs will be different for the VfM legislation and the scale legislation. However, steps have been taken to limit this risk, including the weighting of costs by scheme size, accounting for the scale measures being limited to the larger multi-employer DC schemes. Overall, the familiarisation costs are estimated to be of far smaller value than other costs and benefits, resulting in this assumption having a relatively low impact.
210. **Search costs data (Green):** Search costs, like familiarisation costs, have been appropriated from analysis relating to alternative proposed private pensions measures. Specifically, those measures intended to place duties on DC occupational pension schemes to provide each member of their scheme support at the point of decumulation. Through industry engagement, including roundtables and one-to-one meetings with pension schemes, 'partnering costs' were estimated by scheme size, being the costs that would be incurred by smaller schemes when partnering with Master Trusts to provide decumulation solutions for their members.
211. Such partnering activity appears analogous to the search activity that must be carried out by smaller schemes following implementation of the scale legislation, with them also being required to select and engage larger schemes. Consequently, it is assumed that the costs will be similar. Overall, like the familiarisation costs, the search costs are estimated at far lower value than other costs and benefits, likewise resulting in this assumption having a relatively low impact.

Policy risks/assumptions:

212. **Reduction in market competition (Amber):** There is a risk that excessive consolidation reduces competition in the market, removing the pressure on schemes to innovate to lower charges and improve investment performance or product offerings.
213. This risk could be amplified by the schemes with AUM currently under the proposed thresholds becoming less attractive to employers, reducing their inflows of additional members and making it less likely that they can grow their AUM to meet the thresholds.

Consequently, they may be more likely to be required to leave the market, with the result again being a loss of market competition.

214. However, the AUM thresholds are set at a level that, at least initially, is projected to enable a significant number of schemes to remain in the market. If considering longer time horizons, the risk does increase, though there will be opportunities to review the policy over such time horizons. Consequently, this is not considered a material risk, with this detailed further in the "Wider impacts" section.

Small and Micro Business assessment

Exemptions

215. The scale measures are focused on pension schemes, rather than on businesses in the wider economy. Pension schemes are different to many other businesses as they may hold significant assets but do not necessarily employ a large number of employees.

216. To be consistent with the Pensions Dashboard Impact Assessment[498], as well as with other Pension Schemes Bill Measures, small and micro businesses are defined as DC schemes having fewer than 1,000 members. This is an imperfect definition of a small/micro business, given that scheme size and employer size do not perfectly correlate, though it is a best attempt to estimate the impact on smaller schemes.

217. Given the scale measures are limited to multi-employer DC schemes, **there are estimated to be zero pension schemes that meet the definition of being a small or micro business that are also impacted by the measures**. Data on scheme membership is not readily available for GPPs, though it is more widely available for Master Trusts, with all such schemes for which membership is known being larger than the 1,000-member cutoff. Given Master Trusts are a more recent phenomenon, having only been in existence for around a decade, it seems likely that all GPPs will also be of such a scheme size, having had longer to accrue members and assets.

218. Therefore, even though small and micro businesses are not exempt, the scale measures will not impact them given the policy is restricted to multi-employer schemes. This differs to some of the other measures within the Pension Schemes Bill, which unlike the scale measures do impact the smaller single employer trusts.

Proportionality

219. Given no small or micro pension schemes are impacted by the scale measures, there is also no disproportionate impact upon them.

[498] Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

220. Considering businesses in the wider economy, smaller employers do more commonly enrol their employees into multi-employer pension schemes, particularly Master Trusts. It is larger employers who are more likely to operate a single employer trust, with these out of scope for the legislation.

221. Therefore, given the large, monetised benefits of the scale measures for members of multi-employer pension schemes, employees of smaller employers could be expected to disproportionately experience these benefits. Consequently, given that they are modelled to receive higher net investment returns, they should be able to accumulate larger pension pots, enabling improvements in retirement income adequacy.

222. The scale measures also have potential benefits and costs for businesses in the wider economy, impacting businesses other than pension schemes. For the reasons explained earlier in the IA, including the uncertainty present, these have not been monetised. Again, it could be expected that smaller employers would disproportionately be impacted (in terms of both benefits and costs) as a result.

Mitigations

223. There are no existing small or micro pension schemes that are impacted, with mitigations therefore not being required for them.

224. However, it is possible for new schemes to enter the market, with these meeting the definition of a small or micro scheme given they will have zero members at inception. As has already been explained, the scale measures account for the need for new entrants to be able to enter the market. They can enter the market provided they demonstrate that they have a credible plan to grow their default arrangement to meet the minimum scale of £25bn. Unlike for existing schemes, who must have at least £10bn of AUM to be able to apply to be on this 'transition pathway', there is no initial requirement for minimum scale for new entrants.

Potential wider benefits for small and micro businesses

225. For small and micro businesses in the wider economy, the scale measures provide several potential benefits. As was explained earlier in the IA, these have not been monetised.

226. Firstly, for the businesses themselves, selecting a pension scheme for their employees will be easier, given there will be fewer, larger schemes in the market. Alongside this, given evidence that larger pension funds are more readily able to access private market asset classes, including venture capital, the legislation could promote additional investment in smaller businesses.

227. Alongside these potential benefits to smaller business, as has already been discussed, there are also the more tangential benefits to the employees of these businesses.

Potential wider costs for small and micro businesses

228. The scale measures also provide several potential costs for small and micro businesses in the wider economy, though like the potential wider benefits, these have also not been monetised.

229. Firstly, though a market with fewer, larger schemes should simplify the selection of pension scheme for employers, this may come at the expense of choice. Also, though this is considered extremely unlikely, it is possible that a reduction in the size of the market allows the remaining schemes to newly implement or raise administration fees paid by employers to set-up schemes (with many schemes not currently charging such fees).

230. Alongside this, administration processes for employers could become more difficult, particularly if they previously had a favourable bespoke arrangement with a scheme, with their employees instead moved to a more general arrangement because of the measures. In addition, for all employers whose employees are transferred to a new scheme, there may be short-term costs to adjust to changes in administrative processes.

231. Also, given that the proposed measures do not actually force schemes below the thresholds to consolidate, some schemes may remain in the market despite being unable to receive AE contributions. Though this is considered unlikely, this may require additional costs to be incurred by some employers, with them needing to find an alternative scheme for their employees to meet their own AE duties[499].

Wider impacts

232. The policy is expected to have a material impact on the DC workplace pension market, while also supporting the UK Government's aims of accelerating economic growth and increasing investment in the UK. These impacts are discussed in more detail below.

Competition and innovation

233. While there is no empirical estimate for the 'optimal' number of pension schemes within a market, a large amount of consolidation could decrease competition by limiting the number of participants in the market to significantly fewer numbers. There is a risk that such a market could limit innovation more so than if the current range of market participants and barriers to

[499] Employees must automatically enrol eligible employees into an automatic enrolment pension scheme, also making contributions to their employee's pension. Employer duties are explained in more detail here: https://www.thepensionsregulator.gov.uk/en/document-library/automatic-enrolment-detailed-guidance/resources-employer-duties-and-safeguards

entry were maintained. This might impact member outcomes, for example, if innovative solutions to improve service quality or new investment strategies are not pursued. This may be the case if schemes who are already at scale are confident of their continued place in the market, so feel no pressure to innovate. The few remaining schemes may therefore be less incentivised to improve and be less exposed to competitive pressure from below from new, innovative or creative 'disruptor' smaller schemes.

234. However, the AUM thresholds to be met are set at a level that, at least initially, is projected to allow a significant number of schemes to remain in the market. Therefore, it is not expected to be monopolistic or oligopolistic under any standard definition of the terms. If competition and innovation risk does materialise, there will be periodic opportunities to review the policy.

235. Moreover, the current DC market is already concentrated - with fierce competition already between the largest 5-10 schemes (with 58% of DC trust assets in the largest 5 Master Trusts and 75% in the top 10, with membership even more concentrated[500]). The incorporation of the 'new entrant pathway' into the scale measures should also help to maintain competitive pressures on incumbents, fostering innovation. Alongside this, the Value for Money (VfM) framework is another Bill measure attempting to ensure competition is maintained between schemes even in a 'megafunds' market.

Diverse investments able to support UK economic growth and capital markets

236. By achieving scale in the DC market, pension funds should be able to access a wider range of productive asset classes, including infrastructure and other private market assets. These assets require more direct, expert investment and have closer links to improved economic growth outcomes.

237. Analysis supporting Phase One of the Pension Investment Review found these wider asset classes to have a 'home bias' when compared to more traditional assets, such as listed equities. Consequently, a market that is better able to access these assets will, provided there is an investible supply of opportunities, also invest more in the UK economy.

238. Alongside these benefits, additional inflows into such asset classes and capital markets could create a virtuous cycle, whereby these markets become deeper, more liquid, and more efficient. This could in turn improve the attractiveness of UK markets, increasing both the supply of and demand for investible opportunities across UK markets.

[500] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market

A DC Market with greater scale can increase 'block ownership' of UK economic assets

239. A market of 'megafunds' could be expected to increase 'block ownership' of UK economic assets, making asset ownership less dispersed and more focussed on long-term performance. Block ownership is where a firm has a shareholder that is able to influence firm decisions through their voting rights.

240. Ownership of UK firms has become increasingly remote and dispersed over time – pension funds owned 32% of UK-listed firms in 1992 but this had fallen to under 2% by 2022 as ownership increasingly became overseas[501]. This means UK-listed firms often lack a 'blockholder owner' that used to be fulfilled by the pension fund. By contrast, Germany has also seen its listed firms become more overseas owned, though family owners continue to be prevalent, meaning its firms still have significant domestic block ownership[502].

241. Achieving scale in the UK DC market means pension funds will have the capacity and expertise to once again take significant equity stakes and become block owners in businesses and large-scale projects, such as infrastructure.

242. By having material stakes in domestic firms and projects, pension fund investment can improve corporate governance, as institutional investors with long-term horizons can engage more actively with management, promoting sustainable business strategies and improved performance over short-term shareholder returns[503]. Owning such large stakes can also give enhanced, or more direct, voting rights to the pension fund, further allowing long-term performance to be prioritised. Given their long-term investment horizon, pension schemes having larger stakes in critical projects such as renewable energy and digital infrastructure may also facilitate strategic investment that aligns with national priorities. Therefore, where this aligns with the interests of members, this would also enable benefits to the wider economy.

Financial stability and systemic risk

243. The corollary risk to increased block ownership, increased direct investment and a 'megafunds market' is systemic, financial risk. For instance, a market of much fewer, but larger, schemes would mean each pension scheme becomes a significant market participant as an institutional investor, both individually and as a collective. The concentration of assets

501 https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2022

502 For example, see https://onlinelibrary.wiley.com/doi/10.1111/jacf.12143

503 For example, https://onlinelibrary.wiley.com/doi/abs/10.1002/smj.2629 and https://www.sciencedirect.com/science/article/abs/pii/S0304405X15001476 show how long-term management orientation can boost investment and that share buybacks are associated with lower investment levels as managers try to game earnings-per-share numbers for short-term gains.

in fewer schemes therefore adds financial stability risk to the system – there may be less diversification between schemes, with outcomes more concentrated and correlated.

244. Moreover, if each of these remaining schemes invest in similar assets – a) the scale of these investments may be so large so as to be 'market-moving', distorting prices; b) this may simply bid-up prices for existing assets over fair value if new investible opportunities do not match this demand and c) if these investments were to decline quickly in value (for example, US technology stocks), large parts of the DC pension system could see their portfolios hit badly, potentially risking a fire-sale of assets, and a vicious cycle that challenges market liquidity.

245. Regulatory, review and monitoring processes seek to minimise this risk at the financial services level. Policy design across this, and other Bill measures (such as VfM) are also seeking to continue to promote diversification and innovative investment strategies. Wider UK Government policy such as the National Wealth Fund, reforms to the planning system, and Great British Energy, are also helping to support the supply-side of new investments to prevent this systemic risk and ensure a diverse pool of opportunity remains.

A market with scale and long-term investment horizons could be well positioned to support the transition to a low-carbon economy

246. With increased scale, pension funds will be better positioned to drive the green transition by investing in large-scale renewable energy projects, sustainable infrastructure and green bonds. Analysis supporting Phase One of the Pension Investment Review found that many of large schemes' current private market productive investments were concentrated in this climate space showing that pension funds are becoming increasingly active in financing the green transition[504].

247. Pension funds have also been found to be countercyclical investors with long-term investment horizons. This supports the capital-intensive requirements of the transition to a low carbon economy where a DC market with scale and expertise can allow pension capital to be deployed effectively to support this.

Monitoring and Evaluation

248. The legislation is likely to cause significant changes and impacts to the multi-employer Defined Contribution market, impacting some schemes and savers who would likely not have been impacted if the legislation were not passed. For example, schemes and savers may be

[504] For example, see paragraph 44 and 47 of https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf

impacted by mergers, acquisitions, market exits, changes to costs and changes to asset allocations.

249. Given these likely impacts, the importance of a robust monitoring and evaluation plan of the scale measures is fully recognised and the Department, working with DWP, is committed to evaluating the impacts of the AUM thresholds and consolidation measures.

- These impacts will be monitored over the lifecycle of the policy. Quantitative impacts will be monitored through interaction with the VfM framework, where time-series data will be available on scheme performance, and that of their default arrangements, over time. This data will be able to show how investment returns, charges, services and asset allocations change over time. Annual data from TPR on the DC landscape will also provide an opportunity to monitor the extent and pace of consolidation and scale being achieved in the multi-employer DC market.
- **TPR conduct annual quantitative surveys with trustees** which can, and already are, being used to understand the potential impacts, barriers and benefits of consolidation.
- **DWP's Provider Survey** can be used to understand the differences across the pension landscape on costs/charges and investment performance. The Pension Charges Survey was conducted in 2020, but DWP have expanded this to include a wider range of variables in 2025 (to support the Westminster Bill passage) and a further survey may be conducted during implementation to understand progress being made.
- **Qualitative research** with schemes and members will be considered to understand how multi-employer schemes are adapting, whether members are aware of changes being made (and whether they have seen any benefits), and to learn from schemes about the likelihood of meeting the requirements.
- **Continued industry engagement**, stakeholder roundtables and qualitative research will be carried out with providers and employers to understand business impacts, market dynamics and whether the policy objectives are being achieved effectively.

250. Alongside the above, a complete evaluation of the policy impacts can be completed at the Post Implementation Review stage, once the AUM threshold deadlines have passed and consolidation activity has been completed.

251. TPR will continue to monitor the performance and regulatory compliance of trust-based DC pension schemes, with the FCA doing the same for contract-based DC pensions schemes. Given the policy's intention to achieve scale in the DC market through schemes that are larger and better governed, this should facilitate a more cost-effective regulatory regime to monitor the remaining schemes.

252. Once the regulatory regime has been implemented, any work conducted will form part of the regulators' 'business as usual'. It is expected that the regulators will seek to take a risk-based and sectoral approach, in addition to scheme level oversight, setting appropriate internal thresholds to target non-compliance of schemes under the framework. This will ensure the TPR and FCA are able to maintain an appropriate level of regulation across their ongoing duties.

Pension Schemes Bill (Northern Ireland) 2027

Guided Retirement Regulatory Impact Assessment

Title:	Regulatory Impact Assessment (RIA)
Guided Retirement for Defined Contribution	**Date: May 2026**
	Type of measure: Primary Legislation
Lead department or agency:	**Stage:** Initial
Department for Communities	**Source of intervention:** Domestic NI
Other departments or agencies:	**Contact details:**
Department for Work and Pensions	

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)
Automatic Enrolment has led to a large increase in the number of workplace pension savers. However, individuals must make complex financial decisions and need to manage investment and longevity risks throughout retirement. Hundreds of pension schemes do not currently provide a decumulation service (a product to access pension savings) to their members. Taken together this is leading individuals to transfer their pension with high charges/costs or potentially making sub-optimal decisions. The **market failures** include: an **information failure**, a **principal-agent problem**, and

What are the policy objectives and the intended effects? (7 lines maximum)
The policy places duties on DC workplace schemes to: i) **Develop and offer a range of decumulation solutions,** products and services, which could be achieved through transferring members to an appropriate scheme; ii) **Develop default solution(s),** based on the general profile of their members which would include a later life income. The member would be placed into the default unless they opt-out. This should ensure all pension savers have access to decumulation services with longevity protection. The policy objectives are to help to reduce

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)
Policy option 0: Do nothing – This would lead to millions of individuals being unable to access a drawdown (or similar) type option and members having high fees/charges from transferring money to another scheme.
Policy option 1: Ensure provision of guidance to members – Although the market is adapting and is increasingly focused on encouraging members to take up guidance, this is not consistent and a large number of schemes are not developing their decumulation offering.
Policy option 2 (preferred): Primary legislation (Bill) - This would provide the necessary powers to ensure all members are provided with a decumulation service which would include a default solution incorporating later life income

Will the policy be reviewed? It will be reviewed	**If applicable, set review date:** May 2030

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m

370	13	N/A

Does Implementation go beyond minimum EU requirements?			**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?			**YES** ☐	**NO** ☒
Are any of these organisations in scope?	**Micro** Yes ☐ No ☒	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Date:

Summary: Analysis and Evidence Policy Option 2

Description: Primary Legislation (Preferred option)

ECONOMIC ASSESSMENT (Option 2)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	**28**		**15**	**154**
High	**91**		**77**	**718**
Best Estimate	**56**		**39**	**370**

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

All initial set up costs and on-going costs are borne by pension schemes including familiarisation costs with the proposed legislation (around £300,000). In addition, there will be training requirements for schemes and their employees (estimated at £7m). There will be further costs to create partnerships to buy-in decumulation services for those not offering a service (estimated at £46m up-front cost) and reviewing partnerships (every 3 years) costing around £4m over 10 years. For Master Trusts who do not currently offer the latest appropriate decumulation products, it is estimated that developing and running a service will cost around £385m over ten years.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

There may be a number of non-monetised costs including reduced innovation (schemes deciding to do the minimum viable product in developing options). There are opportunity costs from pension schemes having to reallocate some of their resource into developing these products which may come at the expense of focusing on other initiatives. For members, there may be a loss of welfare if individuals end up in a default they would prefer not to be in. However, the proposals do not stop people accessing a lump sum and

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	**0**		**129**	**988**
High	**0**		**858**	**6,578**
Best Estimate	**0**		**251**	**1,920**

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

1) Members receive greater investment returns. The benefits increase over time (estimated £480m over 10 years);

2) Members receive greater investment returns in the lead up to retirement (estimated £1,690m over 10 years);

3) Members save through fewer transfer costs (estimated benefit of £10m over 10 years);

4) Schemes benefit from charges by money remaining invested in pension funds (estimated benefit totalling £320m);

5) Schemes benefit from charges by members entering default asset allocation before retirement (around £15m).

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

There are a range of additional benefits for members which are incredibly challenging to monetise. For example, members should face reduced complexity, lower search costs and simplification of decisions (reducing the likelihood of poor financial decisions).

Key Assumptions, Sensitivities, Risks Maximum 5 lines

Estimates are highly uncertain and will need further development at secondary legislation. Costs are drawn from extensive industry engagement with large pension funds (who account for the vast majority of savers) but are harder to obtain for smaller pension funds. Investment returns are a key driver of improved member benefits but are highly sensitive. The results are highly dependent on behaviour change from members who enter a default solution.

BUSINESS ASSESSMENT (Option 2)

Direct Impact on business (Equivalent Annual) £m		

Costs: 43	**Benefits: 30**	**Net: 13**		

Cross Border Issues (Option 2)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

The proposals in this Impact Assessment correspond to proposals in the Impact Assessment for the Westminster Pension Schemes Bill. Under the policy of parity, this option would only be introduced in Northern Ireland if it was introduced in the rest of the UK. The options only apply to members of UK-based pension schemes.

Evidence Base

(Unless stated otherwise, the costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis using 2024 data)

1. Automatic Enrolment (AE) was first introduced in 2012, where employers are required to default eligible workers into a workplace pension. This has led to a huge increase in the number of workplace pension savers with 73% of eligible employees (over 0.8m) in Northern Ireland participating in a pension[505] (compared to 89% of employees in Great Britain[506]). The number of savers saving into a Defined Contribution (DC) pension has increased in that time (in Northern Ireland this has increased from 4% in 2011 to almost 25% in 2024). A DC pension is a pot of money for retirement which depends upon factors including the amount the individual and employer pay in, the fund's investment performance and costs/charges.
2. The UK workplace pensions market is split into three markets:

   Defined Benefit (DB) – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:

   - **Public sector DB,**
   - **Private sector DB** where there were around 5,000 pension schemes in 2024.

   Defined Contribution (DC) – This is a type of pension whereby pension contributions are made by employees/employers and are invested to create a pension pot at retirement. The DC market is further split into:

   - **Trust-based market** - A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2025, there were around 920 pension schemes with 12 or more members[507].
   - **Contract-based market** - A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2023, there were estimated to be around 30 firms with an authorised DC workplace pension business.

   Collective Defined Contribution (CDC) – these schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away

[505] https://www.nisra.gov.uk/statistics/work-pay-and-benefits/ashe-pensions-results
[506] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2024/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2024
[507] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

from the individual (as is the case under Defined Contribution schemes) and away from the employer (as is the case under Defined Benefit schemes). The only CDC arrangement in the UK so far is a scheme by the Royal Mail.

3. The vast majority of AE-eligible employees are saving into a Defined Contribution (DC) workplace pension[508] and this market is the focus of this Impact Assessment given this is where the policy applies.
4. Overall, it is estimated there are around £300bn and 5m active savers in the contract-based DC market[509], and £200bn and 11m active savers in the DC trust-based market[510]. Data is more readily available on the trust side, which has a much greater number of schemes[511]. The DC-trust landscape is growing in scale and maturing quickly with 30.6 million DC memberships[512] in 2025, an increase of 6% since 2024. DC trust workplace pension assets have grown to £205 billion, increasing from only £22 billion in 2012[513].
5. There are three main types of pension schemes in the DC market:
    - **Master Trusts** – an occupational pension scheme that provides DC pensions for two or more unconnected employers (though often a lot more).
    - **Single Employer Trusts (SETs)** – pension schemes which are managed for and on behalf of a single employer.
    - **Group Personal Pensions (GPPs)** – DC contract-based schemes which are regulated by the FCA.
6. The DC market has been consolidating, with the number of pension schemes reducing from around 3,700 in 2012 to around 950 schemes now. Close to 900 of these schemes are single-employer trusts, traditionally set-up by employers to support their workforce. However, as AE resulted in all employers needing to enrol their employees (where eligible) into a workplace pension, there has been a rise in Master Trusts (multi-employer pension schemes). Across around 30 schemes, these now account for 91% total and 90% of active memberships and 81% of assets in the DC trust market. In addition, there are around 30 GPPs, which operate in the DC contract market. Across those two markets, there are now 7 DC schemes managing over £25bn worth of bundled assets, where economies of scale are most apparent enabling schemes to access a wider range of asset classes, negotiate lower fees and improve their governance[514].

[508] https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends
[509] https://www.fca.org.uk/publication/consultation/cp24-16.pdf
[510] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
[511] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market
[512] 'Memberships' is used throughout this IA. This more closely represents the number of DC pots - the number of members/savers is not knowable given an individual may have multiple pots with different providers.
[513] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024
[514] Corporate Adviser 2024 MT GPP Default Report (https://corporate-adviser.com/research/)

7. AE has led to more people saving into a pension. However, inertia is strong and engagement is low. For example, 50% have not reviewed how much their pension is worth in last 12 months[515] and over 94% of pension savers are invested in a pension scheme's default investment strategy[516]. This highlights the importance of government intervention, where appropriate, to deliver outcomes for members who may not otherwise engage with their pension.

Regulation and types of DC pensions

8. DC pension schemes are either personal or stakeholder pensions. They can be workplace pensions arranged by an employer or private pensions arranged by an individual; the legislation focuses on workplace pension schemes. Regulation of the pensions industry in the UK is split between the FCA and TPR:
   - **Financial Conduct Authority (FCA)** regulates personal pensions, including workplace personal pensions (contract-based pension schemes).
   - **The Pension Regulator (TPR)** regulates occupational pensions (trust-based pension schemes).
9. The legislation on guided retirement focuses on schemes regulated by the TPR, looking at the DC Trust market.

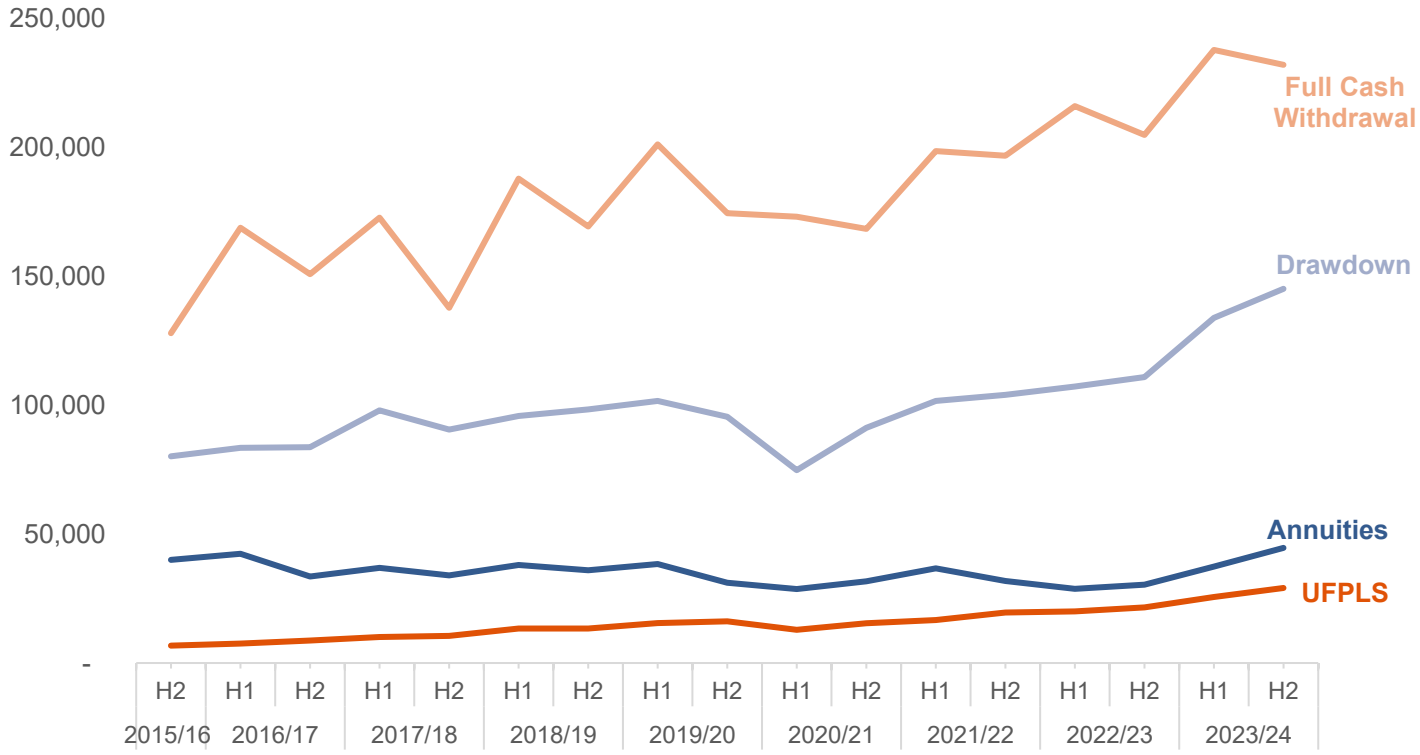
Pension Freedoms

10. In 2015, Pension Freedoms were introduced which enabled consumers to flexibly access their DC pension pots from the age of 55 and use the funds for a wider range of options including full cash withdrawal and drawdown (where a proportion of the pot is accessed on a regular basis). Prior to Pension Freedoms, consumers almost always had to purchase an annuity (which provides you with a regular guaranteed income in retirement, bought from an insurer, for life).
11. As a result, there has been a noticeable shift away from individuals accessing annuities to a greater number of individuals withdrawing their pension in full or accessing drawdown (see figure 1 below). There are 4 common ways of accessing a pension now:
    i) **Full Cash Withdrawal** – Where the pension pot is fully cashed out by the individual.
    ii) **Drawdown** – The individual decides how much to take out and when; a regular income can be chosen. How long it lasts depends on investment performance and withdrawal rate.
    iii) **Annuities** – Buying a guaranteed regular income from an insurer.

[515] https://www.fca.org.uk/publication/financial-lives/fls-2024-pensions.pdf
[516] https://www.thepensionsregulator.gov.uk/en/media-hub/speeches-and-speakers/the-changing-nature-of-trusteeship-2025

iv) **Uncrystallised Funds Pension Lump Sum (UFPLS)** – The individual leaves money in the pension pot and take lump sums from it when needed.

Figure 1: Individuals accessing pension pot for the first time by type of pension product



Source: FCA Retirement Income Market Data 2023/24[517]

12. Through Pension Freedoms and the rise in DC pensions, there are much greater responsibilities on the individual in retirement:
    a) **Investment risk –** The individual carries the investment risk in a DC pension pot, meaning this may increase, or decrease, in retirement depending on market conditions and investment choice.
    b) **Longevity risk –** The individual must consider how long they expect to live for, and therefore how to spread their pension pot out over their lifetimes (if they choose not to take an annuity). This uncertainty may mean individuals exhaust their pots too early or potentially drawdown too little, affecting living standards in retirement while leaving significant assets when they die.
    c) **Greater choice/decisions –** The individual now faces a much greater choice of available products to access; but engagement with pensions is very low and suitability of products will vary across individuals.
13. To address some of these challenges, in 2018, the FCA published its Retirement Outcomes Review (ROR)[518]. It assessed how the DC market was evolving following Pension Freedoms

[517] https://www.fca.org.uk/data/retirement-income-market-data-2023-24
[518] https://www.fca.org.uk/publication/market-studies/ms16-1-3.pdf

to address emerging issues that may cause consumer harm and to put the contract-based market on a good footing for the future. This introduced a number of initiatives in the DC contract-based market including:

- **Wake-up packs** (information sent to consumers before they decide which retirement income product to purchase) are sent from age 50 and with a one-page headline document to support decision-making ahead of retirement.
- **Investment Pathways** – Schemes should offer ready-made drawdown investment solutions within a simple choice architecture. This developed into presenting non-advised savers four options over a 5-year time horizon[519]:
    i) I have no plans to touch my money.
    ii) I plan to use my money to set-up a guaranteed income (annuity).
    iii) I plan to start taking money as a long-term income.
    iv) I plan to take out all of my money.

14. A post-implementation review[520] by FCA found encouraging signs of Investment Pathways, showing:
    - Take-up of around 50% in 2023.
    - Charges on pension pots were generally low, though some firms did charge above the guidelines of 0.75% of assets under management charge cap.
15. The FCA have also recently consulted on the introduction of Targeted Support as part of their wider Advice, Guidance Boundary Review work[521]. Targeted Support is aimed at providing individuals with suggestions based on a 'people like you' principle. Final decisions on the introduction of Targeted Support is being introduced following a consultation on the draft rules.
16. However, in the trust-based market, there has been no regulation imposed on schemes in relation to retirement products since the introduction on Pension Freedoms. This is despite the UK experiencing significant growth in the number of members saving into DC trust-based schemes from 4.7m in 2015 to 30.6m in 2024. As a result, many more people will need to make important decisions about how they want to access their pension savings going forward. Although most members are yet to reach normal minimum pension age (NMPA, currently 55, the age which you can access your private pension)[522], there are currently 7.9m memberships aged over 50, showing a growing need to support those coming up to retirement.

[519] https://www.fca.org.uk/publications/multi-firm-reviews/investment-pathways-post-implementation-review
[520] https://www.fca.org.uk/publications/multi-firm-reviews/investment-pathways-post-implementation-review
[521] https://www.fca.org.uk/news/news-stories/advice-guidance-boundary-review-november-2024-update
[522] The normal minimum age at which consumers can access their pension – currently 55 and rising to 57 in 2028.

17. The decisions pension savers must make when they decide to access their pension assets are complex. This is particularly true for those members who have been brought into pension saving through AE, where inertia during the accumulation phase has led to high participation (73% of eligible employees in Northern Ireland, and 89% in Great Britain, participate in a workplace pension). However, many are disengaged: for example, the Financial Lives Survey 2024 found 25% of people currently contributing to a DC pension do not know how much their pension pot is worth[523]. Many UK adults also have limited financial literacy; 36% of UK adults rated their knowledge of financial matters as low[524]. As pot sizes will continue to grow over time through greater contribution levels (AE was only fully rolled out in 2019 at current contribution levels of 8% of qualifying earning bands), the importance of decision-making and managing larger amounts of money during retirement will become increasingly important.

Rationale for intervention

18. There is a clear rationale for intervention with multiple market failures. In particular:

- Information failure: DWP's Planning and Preparing for Later Life Survey[525] (PPLL) found only 29% of 55–59-year-olds said they had a clear plan for how to take their DC pension, while 13% reported that they did not know they had to make a choice. As a result, there is a clear need to increase awareness, communications, and support to individuals given the challenge of the decision being faced.
- Principal-Agent problem: The employer chooses the pension scheme, but the employee bears the risk (including poor investment performance and whether the scheme has a decumulation offering). Only 8% of employers have ever switched DC scheme[526]. As individuals cannot easily switch pension schemes (the employer does not have to pay the contribution if the employee changes scheme), there is a clear need to ensure all pension schemes offer a decumulation service (or arrange to transfer to one that does) to avoid individuals being at risk of needing to transfer their pension pot which may face additional costs.
- Low take up of guidance and advice: There is a positive correlation with pot size and take-up of advice/guidance. However, many people are accessing DC pots without advice or guidance, despite the introduction of the Stronger Nudge to Pensions Wise guidance legislation[527]. DWP's Planning and Preparing for Later Life Survey (2022)[528] found that

[523] https://www.fca.org.uk/publication/financial-lives/fls-2024-pensions.pdf
[524] https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2024-key-findings.pdf
[525] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/planning-and-preparing-for-later-life-2024
[526] https://www.gov.uk/government/publications/dwp-employer-survey-2024/dwp-employer-survey-2024
[527] Introduced in 2022, requiring all pension scheme providers to refer their members to Pension Wise guidance when they decided to access their pension savings, unless the member actively opted out.
[528] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life

nearly three in ten people (29%) who had accessed a DC pension had not received information, advice or guidance from their pension scheme, Pension Wise or a financial advisor. This suggests greater support is needed from schemes, via legislation, to support individuals in their decision-making.

- **Engagement with pensions remains low across the majority of members, with inertia a significant barrier to member benefits**. The inertia around pensions means many members make uninformed choices with regards to their pension savings, which results in the member suffering detriment in the future. The default nature of automatic enrolment means that many members are unaware they are contributing into a pension and therefore remain disengaged and unaware of the various ways to access their pension savings at retirement. The Financial Lives Survey (2024) found that 29% of DC members in accumulation did not know the approximate size of their pension savings[529]. The Planning and Preparing for Later Life (PPLL) 2024 survey found around one-fifth (21%) of individuals yet to access their pension did not know that they had to make a choice on how to access their savings at decumulation[530]. If members were more engaged with their pension savings, decisions at decumulation may look different, particularly around the decision of a full-cash withdrawal, which most members currently opt for[531]. Instead, the inertia and the current pensions landscape (where there is not a consistent decumulation offering across the market nor a default decumulation option for members saving through inertia) potentially hampers retirement outcomes for members and may prevent them from making the most optimal and sustainable decumulation decision.
- **Inequality:** There is currently very different decumulation offers in place across the DC trust-based market and DC contract-based market. Individuals are highly unlikely to know which type of pension scheme they are enrolled in; but may face very different levels of support and product offerings. The legislation will help narrow the gap on the support and options available at retirement for individuals.

19. Although the market is evolving and adapting with an increasing number of schemes offering decumulation services, there are still many who do not or only offer certain products, and not one provider offers a decumulation product by default. The decumulation call for evidence on the proposed legislation[532] found decumulation products offered in the market differ greatly by scheme (with many smaller schemes offering no retirement income products), leading to a non-equitable market. This inequality is not just restricted to smaller schemes. The Corporate Advisor report[533] found in their survey of 20 Master Trusts that two schemes did not offer

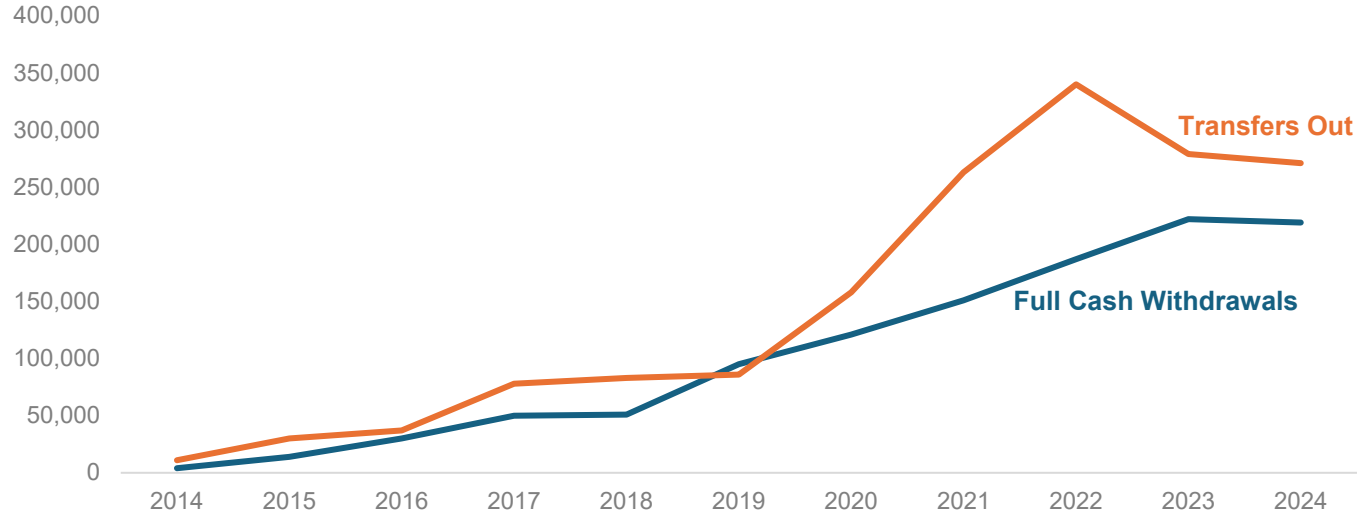
[529] https://www.fca.org.uk/publication/financial-lives/fls-2024-pensions.pdf
[530] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/summary-planning-and-preparing-for-later-life-2024
[531] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life; https://www.fca.org.uk/data/retirement-income-market-data-2023-24
[532] https://www.plsa.co.uk/Policy-and-Research/Document-library/DC-Decumulation-Call-for-Evidence
[533] https://corporate-adviser.com/16pc-difference-between-post-retirement-master-trust-performance-ca-retirement-report/

partial withdrawals from the age of 55, three schemes did not allow flexi-access drawdown and three did not offer partial uncrystallised funds pension lump sum (UFPLS) withdrawals. A substantial group of schemes did not offer drip-feed drawdown[534].

20. Around two-in-five schemes (42%) reported offering a different set of decumulation options depending on pot size, with £10,000 being the most common threshold for allowing drawdown[535]. If a member has several pots each below the value of £10,000, this may result in them cashing their pots out and not optimising their pension savings.
21. Due to lack of availability, there is a risk members may either transfer their pension pot to another scheme or fully withdraw their pot as cash. Data from TPR (see Figure 2) shows a growing number of scheme leavers (members who exit from the scheme they have accumulated in) who are retiring and are taking full cash withdrawals. The number of retired scheme leavers has increased on average by 24% each year from 95,000 in 2019 to 222,000 in 2023, albeit there was a slight reduction between 2023 and 2024 to 219,000. In 2024, DC pots withdrawn at retirement had an average value of £5,500[536]; this is expected to grow over time.
22. Although the average value per pot is low, it is likely many members could see better returns on the value of their pension by remaining invested. In addition, greater numbers are also transferring out of the DC trust-based market – likely due to a combination of reasons, including consolidating multiple pots into one scheme (partly influenced by flagship marketing from certain schemes on the ease of transfers) or perhaps in anticipation of retirement and the decumulation offer available.
23. This trend is supported by ONS data which shows a growing number of members who are unable to access drawdown (or similar, UFPLS) products in the trust-market. This is currently around 3m memberships, and growing[537], highlighting the large numbers currently at risk of poorer outcomes and increased charges in the market.

[534] That is, the ability to withdraw tax-free cash and taxable income in ratios other than 25-75.
[535] https://www.gov.uk/government/consultations/helping-savers-understand-their-pension-choices-supporting-individuals-at-the-point-of-access/helping-savers-understand-their-pension-choices
[536] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex
[537] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/fundedoccupationalpensionschemesintheuk

Figure 2: Membership count of full cash withdrawals and transfers out of trust-based schemes per calendar year



Source: TPR Occupational defined contribution landscape in the UK 2024[538]

24. In June 2022, the Department for Work and Pensions (DWP) launched a call for evidence, '*Helping savers understand their pension choices: supporting individuals at the point of access*', to gather evidence regarding member communications, guidance and decumulation products for the trust-based market. In July 2023, DWP published its response to the product and services element of the call for evidence as well as a public consultation on a policy framework to support individuals on how they use their pension savings in decumulation.
25. In DWP's response, the decision was taken to align with the FCA's Investment Pathways. However, DWP signalled its intent, where appropriate, to go further in order to reflect the developments in the pensions landscape since the FCA's Investment Pathways were introduced in 2021 to facilitate a smooth transition from accumulation to decumulation for all pension savers with an occupational pension.
26. To achieve this, action is required to ensure DC trust-based schemes take on a level of responsibility for the decision making on behalf of their members through acting as an informed customer on behalf of the membership. The introduction of a requirement for schemes to offer guided retirement products and services aims to address the problems outlined above. It will ensure savers are able to access retirement products irrespective of the scheme they save in, reducing the cost to the member (the trustee will act as an informed consumer and purchase solutions wholesale at the best price from the market for members of the scheme) and the risks of sub-optimal decision-making.

[538] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

27. The policy proposals also support the wider government agenda for greater investment by pension funds. This will likely be achieved through a greater proportion of assets remaining invested in return-seeking assets for longer, which should benefit members through investment growth and may help increase available investments for the UK. The policy should lead to a reduction in *lifestyling*, that is, where their funds are invested in less riskier assets that tend to have lower but stable returns (in anticipation of members withdrawing their funds). DWP's iPEN case study estimates a reduction in lifestyling from ten to five years would improve the pension pot of an average earner saving over a career at retirement by £6,300.

28. To address the issues identified, the Pension Schemes Bill will place duties on DC Occupational Pension Schemes to provide each member of their scheme support at the point of decumulation. These duties would require DC occupational pension schemes to:

- **Develop and provide a default solution or solutions** based on the options available through pension freedoms and member aspirations for how to use their assets in later life. The solution can either be delivered in-house or through an arrangement to transfer the member to a scheme providing an appropriate default solution.
- **Pay due regard to the make-up of the membership** and their needs when developing suitable communications and information strategies and partnership arrangements for their members, including those entering the default.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

29. A wide-range of sources and evidence has been used to build a strong evidence-base to identify the problem and impacts of the solutions. This has included:

- **Consultations and Call for Evidence responses** to hear from the pension industry, interested parties and representatives, and consumer bodies (around 100 responses were received in both).
- **Number of roundtables** with industry bodies to help develop the proposals and identify further challenges to maximise the understanding of the impacts.
- **Direct discussions with pension schemes** to test Impact Assessment assumptions and costings and **a scheme data gather** to estimate potential costs (with 12 large schemes responding), with results tested back with schemes to sense check results.
- **Lessons from FCA's Investment Pathways** which provides the foundation for DWP's changes along with the FCA's cost-benefit analysis.

- **Analysing a number of key data sources** from TPR and FCA, alongside DWP's quantitative surveys (such as Preparing and Planning for Later Life) and qualitative surveys (such as Low Earners and Pensions)[539].
- **Corporate Adviser's Annual Retirement Report**, a key industry source, which provides a comprehensive overview of the retirement market offering.
- **Maximising use of HMRC's RTI data** to understand trends and patterns of people accessing their pension pot for the first time.

30. Recognising the scale of the potential impacts, DWP has also invested in gathering greater insights and data for the medium-term and to support Secondary Legislation. For example, a second wave of PPLL undertaken in 2024 has enhanced our evidence on peoples' understanding of and preferences for a default retirement solution. Early findings are presented in this IA. In addition, DWP and TPR have been collaborating to improve DC scheme returns provided to the regulator to understand members in retirement and the schemes' current offering.
31. It is recognised at Primary Legislation stage that policy details are still to be fully developed and worked through. Consequently, there will be further engagement with industry ahead of secondary legislation stage, to enhance the understanding on costs and benefits of the proposals and develop the evidence and impacts.

Description of options considered

Policy Option 0: Do nothing

32. This is the status quo, where the government leaves the provision of pension products and service at retirement to the market without intervention. Although the market is adapting and schemes may be creating decumulation offers for their members, this is inconsistent across the market and risks putting millions of pension savers at a disadvantage in accessing decumulation products, resulting in inequalities in member outcomes. In addition, it would continue to present disparities between the FCA-related part of the market (DC Contract, where Investment Pathways exists) and the Government/TPR-related part of the market (DC Trust, where no decumulation requirements are in place).
33. It is possible all master trusts (which cover over 90% of trust-based savers) will eventually offer a wide-range of decumulation products, and that several smaller schemes who do not offer products in-house will either transfer their members in order for them to access guided retirement solutions or consolidate with the Master Trusts that do. However, without a clear

[539] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life; https://www.gov.uk/government/publications/low-earners-and-workplace-pension-saving-a-qualitative-study; https://webarchive.nationalarchives.gov.uk/ukgwa/20240605050724/https:/www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023/occupational-defined-contribution-landscape-2023-annex ; https://www.fca.org.uk/data/retirement-income-market-data-2023-24

legislative framework in place, market failure and poor outcomes for members is likely to remain. Without legislation, a default solution is highly unlikely to materialise.

34. As a result, members may need to continue transferring out of trust-based schemes to other trust-based schemes or the contact-based market to access decumulation products. This risks individuals withdrawing their pension pot in full. This may have significant costs, such as tax implications, lower investment returns, and money being exhausted quicker. In addition, it still leaves individuals having to make complex financial decisions for decades during retirement, increasing the risk of sub-optimal decisions.

Option 1: Non-regulatory option

35. An alternative option, without legislation, might be to put guidance in place that recommends schemes offer a decumulation service, or promote industry charters encouraging pension schemes to develop decumulation services. This would be non-mandatory and would rely on all trust-based pension scheme schemes committing to deliver those services.

36. However, many trust-based schemes (particularly smaller single-employer trusts) are less likely to offer decumulation services as they have historically not done this, and this is unlikely to change without legislation. A key finding from responses received to the July 2023 Consultation was that not all trust-based pension schemes are prepared, or able, to provide decumulation services to their members. Not placing in legislation would also risk decumulation support and coverage being inconsistent across trust-based schemes, placing individuals at risk. Responses indicated that without legislation, industry compliance to voluntary measures would be limited, with many trust-based pension schemes continuing to focus on the accumulation phase (as reflected in their own rules). This would still leave many pension members in a position similar to the ‘do nothing’ option.

Option 2: Legislation (preferred option)

37. The preferred way forward is legislation, building on stakeholder feedback to ensure fairness across the pensions landscape. Legislation will provide each member of a trust-based occupational pension scheme with a minimum expectation that their scheme will provide them a default solution at the point of decumulation. Primary legislation is necessary to achieve this for all members saving into a trust-based DC occupational pension.

38. These duties would require DC occupational pension schemes to:

- **Develop a default solution or solutions, which provide a later-life income based on the general profile of their members**. The member will be placed into this solution if they do not opt-out.
- **Pay due regard to the make-up of the membership** and their needs when developing and implementing appropriate communication strategies.
- **Pay due regard to longevity protection** when developing the default solution(s).

39. This is the only way identified to help resolve the market failure, ensure consistency across the market, and help members achieve greater outcomes. This is the preferred option.

Policy objective

40. The overarching policy objective is to support and protect member retirement outcomes for all savers in the trust-based market. This is through ensuring and establishing a broad duty on trustees of all schemes in the market to provide a default guided retirement solution for their members. This should lead to no member having to make decumulation decisions, unless they want to and exercise their choices.

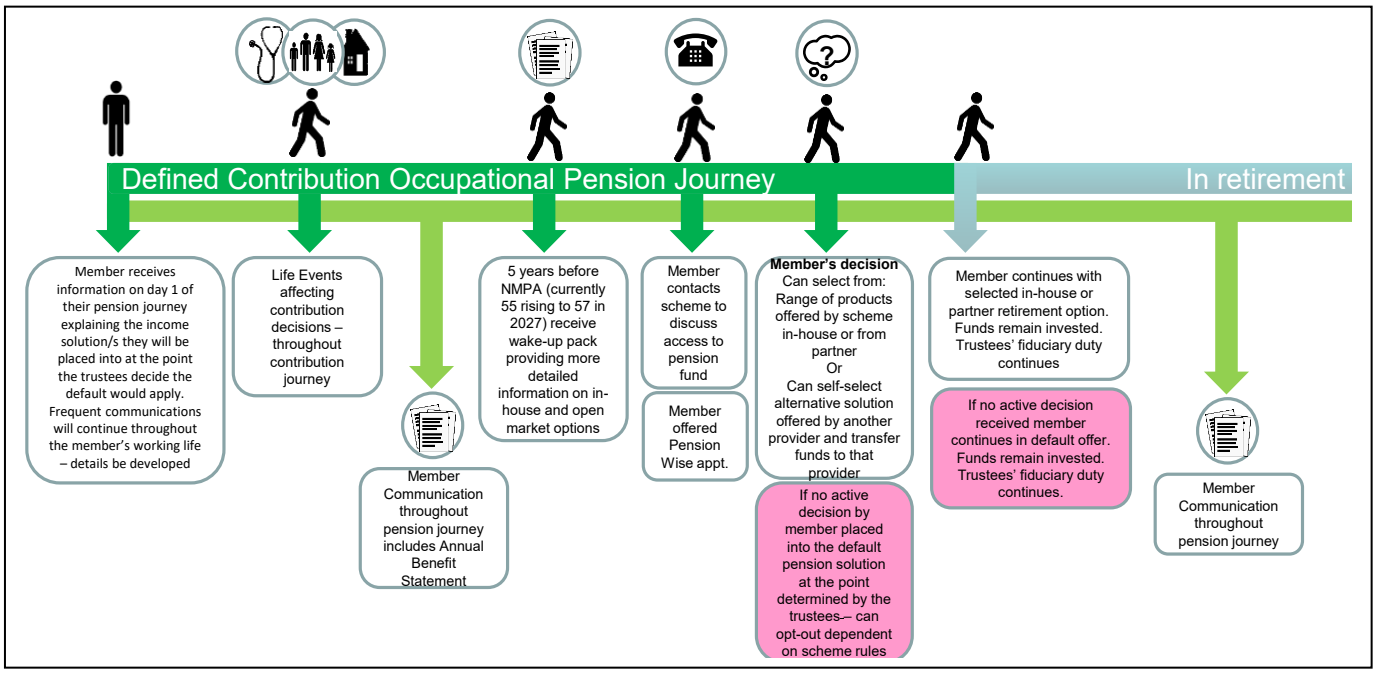
41. However, there is a recognition of the diverse nature of the trust-based market, and as such, the Department is not proposing a prescriptive decumulation default solution for all schemes to follow. Instead, schemes should adapt their solution or solutions based on their understanding of their membership.

42. Members of an occupational pension scheme will have access to a suitable guided retirement solution for their retirement which would include later life income, based on the goals of the majority, all while retaining the freedom to use their pension pot as they wish and as provided for under current legislation.

43. Figure 3 outlines the member journey and potential pathways at retirement.

Figure 3: Member guided retirement journey and potential pathways outlined

Key: Pink boxes represent changes to the member journey under the proposed legislation



Summary and preferred option with description of implementation plan

44. The preferred option will be enacted with primary legislation with a further consultation at the secondary legislation stage. Therefore, the policy details will continue to be finalised and the Impact Assessment presents the best possible estimates at this point in time.

45. The intention is to place a duty on trustees to provide decumulation solutions for their members through a default. A default option is where the pension scheme places a member into a solution that they have determined meets the aspirations of the majority of the membership, following engagement with their members. Members placed into the default option will be able to opt-out, should they wish, and be able to access other products and services available under pension freedoms if they wish to.
46. As part of these duties, trustees will need to offer these services in-house, either through provision of the solution directly or by 'buying-in' solution(s) on behalf of the members or have an arrangement in place where the member is transferred to a scheme where an appropriate default is in place.
47. The Department is content if the range of services are wrapped up within one overall package; for example, in their 'DC Decumulation: Evolving the Pension Freedoms – Final Recommendations' report[540], Pensions and Lifetime Savings Association (PLSA) suggest that products and services should provide:
    - Access to cash and/or flexibility,
    - Sustainable income, and
    - Secure income in later life.
48. As part of this framework approach described above, the policy requires schemes to develop the products and services they offer to provide a later-life income and guide their members towards them. While schemes may develop any decumulation product to provide an income for their members, it is likely that a blended solution, including an element of drawdown, followed by a level of guarantee, will be the most common product developed, because it provides an element of flexible income, which is reversible unlike an annuity (members can decide to switch to another product at a later stage). Therefore, this impact assessment assumes schemes will develop and primarily offer drawdown to their members post-legislation. However, this is an assumption for the purposes of the Impact Assessment and not a departmental recommendation. It will be for schemes and Trustees to decide on the most appropriate default(s) to offer to their membership.
49. The decumulation policies are designed to shift the industry's focus towards providing members with a pension, including solutions for later-life income. If schemes do not have the scale or expertise to provide decumulation solutions that meet the member needs, then they should consider transferring members into a partner scheme that can where this is in members' best interests.
50. The Department acknowledges there is a challenge for trustees in having a clear sight of cohort or individual aspirations. However, the Department wants user insight and user-

[540] https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/DC-Decumulation-Final-Recommendations-Oct-2020.pdf

centric design to be much more at the forefront of all trustees thinking. The intention is to rely on the trustee's fiduciary duty to act in the members' best interests when developing the suite of products and services. However, the Department will keep this under review and may introduce further requirements. With these considerations in mind, the Department will at the earliest opportunity place duties on all trustees of occupational pension schemes to offer a range of different decumulation products and services to members at the point of access.

51. The Department will also work closely with the Regulator (TPR) to ensure compliance and act appropriately if schemes are not meeting the new requirements. The delivery timetable around the decumulation legislation is yet to be finalised but considering the other Bill measures announced and the potential chronology of introducing these legislations, it is estimated that schemes will begin to ensure compliance around 2027. However, given the uncertainty and that this is subject to change, the ten-year appraisal period of analysis for the costs and benefits begins in 2028 in the impact assessment, with costs being accrued from the onset. Benefits, meanwhile, begin to accrue in 2030 once the new decumulation products and default retirement solutions are up and running and once the first cohort of members can enter into them.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

Summary of costs and benefits

52. The proposed legislation aims to cover all non-micro schemes (those with 12 or more members) in the trust-based market. There are currently 1,080 non-micro schemes. Although it is expected the market will continue to consolidate over time (see section on consolidation below), the costs and benefits are still expected to be large given the scale of the change being offered. The equivalent annual net cost to businesses (EANDCB) is outlined in Table 1, while the overall costs and benefits (for both members and schemes) considered are outlined in Table 2 below:

Table 1: Summary of EANDCB

Discounted direct costs and benefits to businesses over ten-year appraisal period (2028-2037)

Direct Impact	Overview	Cost / Benefit (discounted, 2024 prices)
Direct Costs to business		
One-off costs	*Familiarisation, Partnering, Training, In-house decumulation development*	£56.3m
Ongoing costs	*In-house decumulation development, Reviewing transfer arrangements with schemes for decumulation*	£314.0m

Direct Benefits to business		
Benefits to Pension Schemes	*Charges from reduced full-cash withdrawals*	£250.4m
Benefits to Pension Schemes	*Charges from members entering default asset allocation prior to retirement*	£11.2m
	EANCB	12.6m

Table 2: Summary Table

Discounted costs and benefits over ten-year appraisal period (2028-2037)

Impact	Overview	Cost/Benefit (2024 prices)
Costs to business		
One-off costs	*Familiarisation, Partnering, Training, In-house decumulation development*	£56.3m
Ongoing costs	*In-house decumulation development, Reviewing transfer arrangements with schemes for decumulation*	£314.0m
Costs to members	*Not expected to be passed on given the competitive DC workplace market.*	-
Benefits to business		
Benefits to Pension Schemes	*Charges from reduced full-cash withdrawals*	£250.4m
Benefits to Pension Schemes	*Charges from members entering default asset allocation prior to retirement*	£11.2m
Benefits to savers		
Benefits to Savers – investment returns	*Investment returns from reduced full-cash withdrawals*	£371.0m
Benefits to Savers – reduced transfers	*Savings in transfer costs*	£8.2m
Benefits to Savers – investment returns	*Greater investment returns pre-access by staying in higher-returning assets*	£1,279.2m

Costs to businesses – one-off and ongoing costs

53. As outlined above, the IA has used a number of key sources to estimate the costs of the legislation on schemes, including direct surveys to schemes, working with industry bodies, and working with the regulator to address key data gaps. Where information has been harder to identify, evidence has been drawn from the FCA's cost-benefit analysis on

Investment Pathways as a proxy for the guided retirement legislation. Although the policies are not identical, there are many similarities, and the policy intention is the same (to enhance member retirement outcomes). This therefore acts as a reasonable estimation of industry costs for this IA.

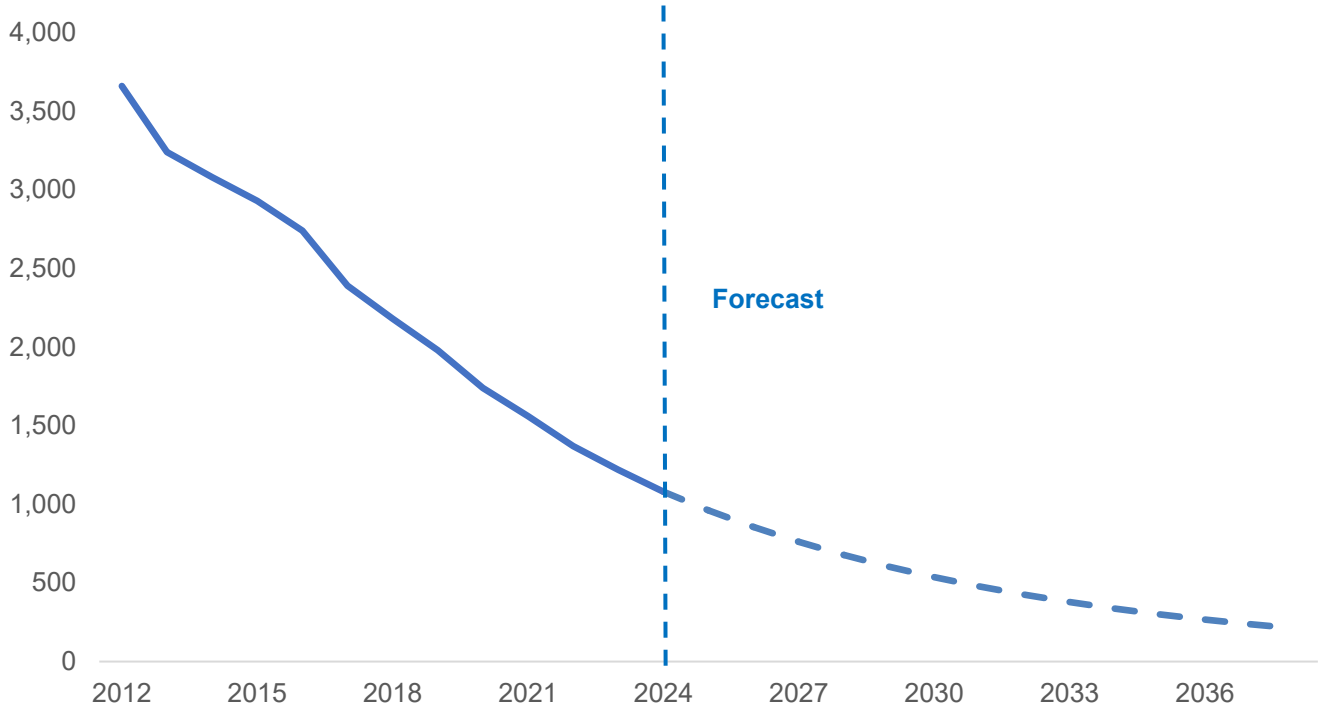
54. Costs are then grossed up to the whole market based on the scheme size. This recognises costs may differ depending on the size (measured by member size) given the economies of scale which could arise. The proposed methodology ensures the different scheme structures are better reflected in the estimates. Two important adjustments are made to the costs:

a) ***Consolidation*** - It is expected the DC market will continue to consolidate. As shown below, it has been doing so at a consistent rate of 10% to 12% per year over the past decade and it can be reasonably expected this will continue. Using the trend from the past few years, it is estimated the DC market could have under 350 schemes by the end of the 10-year appraisal period (2037). It is acknowledged this measure and other Pension Schemes Bill measures (particularly the Value for Money framework) may speed up or interact with further consolidation. At this point, the interactions across the measures cannot be known and is highly dependent on pension scheme behaviour, timings of implementation, and final policy details (at secondary legislation) are still needed. Therefore, at this point, no estimate is made of the interactions within each individual IA or on the additional consolidation rates these decumulation measures may cause. This is covered within the overarching summary IA for the Bill.

b) ***Optimism Bias*** in line with Green Book standards[541] has been applied; this is estimated at around 25% (and is consistent with other impact assessments for the Pension Scheme Bill). Optimism bias is applied to costs where there is little or no scheme input, and it reflects the uncertainty on the final policy details and the potential underestimating of some costs. As for costs which rely heavily on scheme input, this is not adjusted for optimism bias as it is assumed schemes may have a natural tendency to overstate their potential costs from the proposed legislation to highlight the high costs of change involved.

[541] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government/the-green-book-2020

Figure 4: Consolidation of schemes in the DC trust market at the current rate[542]



Source: Trends in the Defined Contribution trust-based pensions market, DWP[543]

One-off costs

Familiarisation costs

55. Familiarisation costs refer to the expenses incurred by businesses to understand and comply with the new regulations. The estimate of familiarisation costs for the proposed legislation covers the time and cost for staff of schemes to familiarise themselves with the new guided retirement legislation, including reading the legislation and undertaking a gap analysis (to recognise what is required to comply with the legislation).

56. The assumptions for costs are taken from the FCA's cost-benefit analysis on Investment Pathways with some adaptions to the trust-based market[544]. This was based on a survey of around 70 pension schemes and supplemented with the FCA's wider evidence base on costs of compliance, therefore giving confidence in the estimates and wide-spread market coverage. This estimated:

- The policy documentation to be 40 pages which would take around 2 hours to read. Given similarities in the proposals, it is assumed the proposed guided retirement legislation is similar in length.
- Based on TPR input, the average number of trustees at schemes is assumed to be around 3 and the average hourly wage of trustees, using ONS ASHE data, to be around £36.51.

[542] DWP analysis of TPR data. More details available in: https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market
[543] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market
[544] https://www.fca.org.uk/publication/consultation/cp19-05.pdf

- This is scaled up across the whole market (1,080 schemes) to get a total familiarisation cost of around £296,000, after the 25% optimism bias is applied. This is a direct cost to pension schemes, as all schemes will need to immediately familiarise themselves with the policy details to understand what actions are required to comply with the legislation.

In-house decumulation product development costs and partnering

57. All schemes under the proposal will either need to offer a decumulation solution in-house (including buying-in solutions through a partnership arrangement) or organise an arrangement where they can transfer their members to a scheme which provides an appropriate default solution(s). TPR analysis from a selected 580 schemes shows around 160 single-employer trusts (30% of sample) currently offer a decumulation service[545], while around 30 Master Trusts offer a decumulation service. This leaves hundreds of schemes who would be required to develop a decumulation offer or develop an arrangement with another scheme. Based on industry engagement, it is assumed:
    - **Only Master Trusts will develop an in-house decumulation product** (where they are not currently doing so)
    - **All single-employer trusts will look to establish an arrangement to transfer** their members to another scheme.
58. Discussions with industry highlighted the costs and risks of setting up an in-house service were likely to be disproportionate for non-Master Trusts given their size and scope. The greater level of assets Master Trusts hold offers economies of scale in producing in-house default solutions and greater ability to spread risk and offer longevity pooling. Therefore, it is assumed these schemes will opt for this route in order to capitalise on increased charges from their members who will enter drawdown.
59. For Master Trusts developing a decumulation offer, the Corporate Advisor Retirement Report and desk research was used to estimate that 5 to 10 Master Trusts will need to develop a decumulation product[546]. Based on the various engagement with industry, it is estimated the up-front cost of developing a drawdown solution to be £1m (the Corporate Advisor report highlights the majority of products not offered among Master Trusts is drawdown). Since most schemes currently offer UFPLS to their members, it is estimated the upfront cost per Master Trust will in fact be half this cost at £500,000. This is because UPFLS is not too dissimilar a product from drawdown, and thus, schemes will not have to engage in as much product development to now offer drawdown to their members as opposed to developing the product

[545] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/use-of-decumulation-products-within-occupational-dc-schemes
[546] For the purposes of the analysis, a midpoint of 7 Master Trusts as a midpoint which also reflects the best available information whilst recognising commercial sensitivity.

from scratch. The total up-front costs of product development are estimated to be £3.5m. This is a direct cost to pension schemes who currently do not offer decumulation products and decide to develop an offering in-house, as this will be a necessary cost to comply with the legislation.

60. For non-Master Trusts, it is assumed those not currently offering a decumulation product will partner with another scheme. This is due to the large differential between the cost of developing an in-house decumulation product versus partnering with a scheme offering decumulation products to transfer members to access these products; single-employer trusts tend to be significantly smaller in size than Master Trusts and thus would likely lack the economies of scale necessary to develop in-house products profitably. Using TPR scheme returns and coverage of decumulation estimates, this puts around 620 schemes in scope.

- 510 small schemes (12 to 999 members)
- 80 medium schemes (1,000 to 4,999 members)
- 30 large schemes (5,000+ members)

61. Based on industry engagement, larger schemes will be able to conduct a wider and more complex market search to find the most suitable partnerships and will be able to secure the services of employer benefit consultants (EBCs) to support this. Whereas it may be expected for smaller schemes to reach out to those with high brand recognition rather than conducting significant searches. Partnership costs may comprise of the potential use of innovation firms, such as fin-techs, to develop interfaces and solutions to share data across schemes, legal fees in producing partnership contracts, and the use of EBCs to search the market. Industry engagement and discussions estimated the cost of partnering for small schemes will be around £50,000, for medium schemes £150,000, and £250,000 for large schemes. In total, the industry-wide up-front cost of partnering is expected to be £45m. This is a direct cost to pension schemes who currently do not offer decumulation products and decide to secure transfer arrangements for their members at decumulation, as this will be a necessary cost to comply with the legislation.

Table 3: Estimated schemes in scope of partnering and costs to partner

Scheme Size	Number of schemes to partner	Cost per scheme to partner	Total Costs
Small	510	£50,000	£25.6m
Medium	80	£150,000	£12.0m
Large	30	£250,000	£7.9m
Total	**620**		**£45.5m**

Source: DWP roundtables and one-to-one meetings with pension schemes. Schemes rounded to the nearest 10

Training

62. Training costs are incurred as schemes will need to train their employees on the new legislation, including its implications and the necessary adjustments required to take members through their guided retirement journey. The estimated training cost is derived from assumptions gathered through consultations with industry experts on their implementation plans and the FCA's cost-benefit analysis for Investment Pathways (which drew on survey responses from pension schemes). Key assumptions include:
    - Large schemes (including Master Trusts) will need to train 75 staff. This has been pro-rata adjusted for medium schemes (17 staff) and small schemes (3 staff, where the number is assumed to be the same as that of trustees).
    - All large schemes (including Master Trusts) will train their staff internally, 50% of medium schemes will provide internal training, while 25% of small schemes will do so.
    - The cost of external training is assumed to be £910 per person[547], while for internal training, the hourly wage for a trainer and trainee is assumed to be £27.42 and £21.81 respectively[548].
    - Staff at Master Trusts will require bespoke training. This is estimated at around 6 hours of classroom training and 40 hours preparation.
    - All non-Master Trusts are expected to do basic training (as they are expected to partner with a MT). This is estimated at around 6 hours of classroom training and 8 hours preparation.
63. Overall, total industry-wide training costs are estimated to be £7m. This is a direct, unavoidable cost to pension schemes, as it will be necessary to ensure staff are aware of the legislation and what it entails with regards to member correspondence and taking members through their retirement options and journeys.

Ongoing costs

[547] This is based on the FCA's assumptions on the cost of external training in their cost-benefit analysis and uprated by CPI since their publication. https://www.fca.org.uk/publication/consultation/cp19-05.pdf

[548] Wage data is sourced by ONS Annual Survey of Hours and Earnings 2022 data (https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2) and uplifted by 27% as per the archived Green Book guidance.

In-house decumulation solution costs

64. While schemes may offer alternative default solutions (and are free to do so), it is assumed drawdown will be the most likely option being offered as a default in-house solution. This is due to it being the most popular income product (as seen in Figure 1) and because of the flexibility it offers – members entering drawdown can change their mind and switch to a different retirement product whereas this is not the case for, say, annuities. It is important to note this is just an assumption for the IA and not a departmental recommendation. Trustees should decide which is the most appropriate default solution(s) for their membership.

65. In DWP's engagement with industry, it was highlighted by a number of schemes that developing decumulation products in-house will result in running costs. Running costs for pension schemes can be commercially sensitive, and therefore information can be challenging to obtain, and any disclosed information needs to be handled sensitively. This impacts some of the estimates and assumptions across the IA, especially for Master Trusts, where the number of schemes is relatively low and it is important not to disclose commercial information in a competitive market.

66. Nevertheless, from discussions with schemes, it is understood an approximate running cost for a drawdown product is around £50 per member per year. This seems a largely appropriate cost given many drawdown products are not offered on pension pots below £10,000, which at an average industry price of 0.5% of assets under management, would suggest at least a breakeven point of around £50 per member.

67. Throughout this impact assessment, FCA Retirement Market Income data from the contract-based market is utilised when TPR data for the trust-based market is not sufficient to draw an assumption. Since Automatic Enrolment, the two markets have been converging over time and are becoming more similar in nature (in relation to the duration members are saving for, their pension contributions and thus pot sizes). While differences do still exist (where possible, this is accounted for and adjusted), it is on balance a good proxy to use for modelling behavioural change.

68. The FCA's Retirement Income data estimates 31% of savers access drawdown and TPR data estimates 90% of the trust-based membership are based in Master Trusts. Using this information together with TPR's DC landscape data, it is estimated how many members across the assessment period will enter drawdown within Master Trusts.

69. The ongoing costs of developing a drawdown solution for Master Trusts is estimated as follows:

- **Growth rate:** TPR's DC landscape shows the growth in membership for age cohorts able to access their pension (those aged 55+) has been, on average, 8% per annum

over the past few years. This growth is applied across the ten-year assessment period[549].

- **Master Trust coverage:** Of those members able to access their pension, around 90% are pots with Master Trusts.
- **Drawdown take-up:** The FCA's Retirement Income data estimates 31% of savers access drawdown; this is used to derive an estimate for new entrants into drawdown within Master Trusts each year.[550]
- **New drawdown savers:** Based on membership data, the 5-10 Masters Trusts assumed to develop an in-house drawdown are estimated to account for around 60% of total membership across all Master Trusts.

70. From the cost perspective, the above indicates the assumed counterfactual trend in the absence of the legislation:

- **Decumulation coverage:** In the counterfactual, it is assumed that the Master Trusts currently offering decumulation solutions continue to do so, while the 5-10 Master Trusts that currently don't offer decumulation solutions do not develop an offering in the future. Automatic Enrolment was launched in 2012, which has given schemes desiring to offer their members decumulation products ample time to do so.
- **Drawdown take-up:** The FCA's Retirement Income Market data estimates that 31% of savers currently access drawdown in the contract-based market. This is assumed to be the take-up rate of drawdown in the trust-based market once the legislation is introduced and is assumed to remain constant throughout the appraisal period.
- **Growth rate:** TPR's DC landscape shows the growth in membership for age cohorts able to access their pension (those aged 55+) has been, on average, 8% per annum over the past few years. This growth is applied across the ten-year assessment period[551].

71. Thus, the difference between the counterfactual and post-legislation is that the 5-10 Master Trusts will now develop a decumulation offering to their members, including a default pathway. The costs of in-house product development thus fall on these 5-10 Master Trusts.

[549] Although the NMPA rises to 57 in 2028; there are some protections in place which means not all members may be impacted and, as the growth rate is uncertain, it is assumed to still be appropriate for the purposes of this Impact Assessment.
[550] https://www.fca.org.uk/data/retirement-income-market-data-2023-24
[551] Although the NMPA rises to 57 in 2028; there are some protections in place which means not all members may be impacted and, as the growth rate is uncertain, it is assumed to still be appropriate for the purposes of this Impact Assessment.

Table 4: Estimated ongoing in-house decumulation solution costs to schemes

Year	Projected new entrants into drawdown (nearest 100)	Projected new entrants into drawdown in Master Trusts that require product development (nearest 100)	Cumulative entrants in drawdown at Master Trusts which develop products (nearest 100)	Running costs for these members (£50 per member per annum) (nearest £0.1m)
2029	163,300	96,100	343,300[552]	£17.2m
2030	176,500	103,800	447,100	£22.4m
2031	190,700	112,200	559,300	£28.0m
2032	206,100	121,300	680,700	£34.0m
2033	222,800	131,100	811,800	£40.6m
2034	240,800	141,700	953,500	£47.7m
2035	260,200	153,100	1,106,600	£55.3m
2036	281,300	165,500	1,272,100	£63.6m
2037	304,000	178,900	1,451,000	£72.6m

Source: TPR DC landscape, FCA Retirement income market data, industry engagement

Notes: In calculating the ongoing costs, the cumulative entrants into drawdown in Master Trusts that develop drawdown due to the legislation is calculated. For example, in 2033, there are 131,100 new drawdown entrants into these Master Trusts alongside the 433,500 from previous years (2029-2032), bringing the total number of drawdown members in these schemes to 564,600. The running costs of drawdown are £50 per member per year, bringing the ongoing costs in 2033 to £40.6m (564,600 multiplied by £50).

72. Accounting for the cumulative increase in pensioner membership in these schemes and the £50 annual per member cost to schemes to administer the pension pot, it is estimated to cost around £17m in ongoing costs in 2029, steadily rising to £73m in 2037. This is a direct cost to pension schemes who currently do not offer decumulation products and decide to develop

[552] This consists of 247,200 entrants into drawdown at these Master Trusts prior to 2029, and 96,100 entrants in 2029. This is because it is estimated that Master Trusts required to develop decumulation products may begin to do so in 2025 in anticipation of the legislation, such that by the start of 2029, there are around 247,200 entrants into drawdown at Master Trusts which develop products.

an offering in-house, as this will be a necessary cost to comply with the legislation. It is important to note, schemes would only provide this service where it is beneficial to do so (otherwise they could partner to arrange the transfer of membership at a much lower cost). Therefore (as discussed in the benefits section), the benefit of offering drawdown via greater charges should offset the costs of running the service.

Reviewing partnerships

73. Scheme feedback (within the consultation responses and in industry discussions) was that transfer arrangements would likely be reviewed at regular intervals. This would allow schemes seeking these types of arrangements to hold Master Trusts (or other third-party partners) accountable in terms of performance (such as investment returns) and ensuring trustees' fiduciary duty to continue to act in the members' best interests. Consequently, it is assumed partnerships will be reviewed every three years. The period of review will give schemes an opportunity to conduct a market search to ensure they are getting the best partnership deal; however, this is an assumption and not a requirement. Based on scheme feedback, it is estimated for the cost of such a review will be £5,000 for small schemes, £15,000 for medium schemes, and £25,000 for large schemes. After accounting for consolidation in the DC trust-based market, this will result in ongoing costs of £2.0m, £1.4m and £1.0m respectively on three separate occasions across the assessment period. This is a direct cost to pension schemes who currently do not offer decumulation products and decide to secure transfer arrangements for their members at decumulation, as this will be a necessary cost to comply with the legislation.

Cost to The Pensions Regulator

74. Any related costs to the Regulator from developing, implementing, and undertaking ongoing regulatory activity under the VFM framework would be drawn from TPR's existing budget. Further detail will be provided once the compliance regime and policy position has been finalised.

Table 5: Estimated itemised ongoing costs over the appraisal period (£m)

	2028	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
In-house decumulation solution	0	17.2	22.4	28.0	34.0	40.6	47.7	55.3	63.6	72.6
Reviewing partnerships	0	0	0	2.0	0	0	1.4	0	0	1.0
Total ongoing costs	**0**	**17.2**	**22.4**	**30.0**	**34.0**	**40.6**	**49.1**	**55.3**	**63.6**	**73.6**

75. Accounting for both one-off and ongoing costs, as well as the consolidation rate estimated above (see Figure 4), the average cost per scheme across the appraisal period is estimated

to be £130,000. Some schemes, such as Master Trusts in need of developing decumulation products, are likely to accrue higher costs than this, while many smaller schemes will accrue costs lower than this, either due to comparatively lower transfer arrangement costs, or even because they may consolidate as costs become disproportionate to their scheme.

Non-monetised costs:

76. There is significant uncertainty around the behavioural responses that may be observed from the policy, and how schemes may develop their defaults. In addition, data is not always readily available or easy to measure. As a result, there are a wider range of costs that could arise from the legislation but are hard to monetise at this point in time. These include:

- **Reduced innovation**: although the suite of decumulation products is broad and the legislation is designed to promote innovation by not being prescriptive on the type of default to implement, it is possible schemes decide to focus on complying with duties rather than creating new and more innovative solutions. This may be particularly the case given the risks of introducing a default option members may not like or understand. Costs of introducing may also mean schemes invest less in innovation. However, it is not easy to know nor monetise the impacts.
- **Opportunity Cost**: pension schemes may be required to reallocate some of their resources into developing these products which comes at an opportunity cost of focusing on other initiatives. Segments of the market are already adapting and recognising the need for decumulation products, the opportunity cost may be low but is an important consideration.
- **Designing and reviewing the default:** schemes will have the flexibility to develop a default solution according to the general profile of their members. As member demographic changes, as well as further developments and evolution in decumulation products, schemes may need to update their default solution, which may come at an additional cost. However, schemes are only likely to enhance their offering if this is a net business benefit.

Non-monetised costs to savers:

77. The main costs are estimated to be placed on the pension schemes. However, there are 2 implications (non-monetised) for the saver:

- **Schemes' costs passed on:** there is a possibility schemes may pass the costs of complying with the legislation onto their members through higher fees and charges. Costs have the potential to be particularly large for some schemes that engage in product development, and it is reasonable to assume they may attempt to recoup some of this through higher charges. At the same time, competition in the trust-based market is high, there is a strong focus on costs, and there has been a noticeable fall in charges

over time (now less than 0.5%). Given the fall in costs, the continued competition, and that there is a charge cap in place (set at 0.75% of the pension pot), it is expected schemes will not pass on costs to members in order to retain market share.

- **Loss of welfare:** people draw utility from accessing a lump sum in their pension, with nearly everyone (92%) who had taken a lump sum since 2015 saying they were happy with this decision, including 66% who were very satisfied[553]. Evidence also found a wide range of uses for lump sums being withdrawn. For example, the most common use, mentioned for 43% of pensions, was for people to save or invest the cash, while it is relatively common for people to use the cash lump sum to cover living costs (38% of pensions) and pay off debts (31%)[554]. However, the PPLL survey also shows how a significant proportion of individuals plan to take some of their pension as an income; 39% planned to take an annuity while 37% planned to purchase an income drawdown[555]. The proposals do not stop people accessing a lump sum and individuals can still continue to access their pension in full. Nevertheless, it may encourage individuals to keep their pension invested and not withdraw this to spend on a large expense, which they may have otherwise found to be welfare-enhancing. The potential welfare gains, or losses, from the proposals are not monetised but it is recognised there may be implications.

Benefits

78. There are significant benefits some schemes and members will gain from the proposals, particularly through increased investment returns and supporting individuals in making complex financial decisions.

Benefits to Members

79. Many schemes in the trust-based market are currently accumulation-only (possibly due to scheme rules)[556] and do not offer decumulation services. As a result, members may be obliged to fully withdraw or transfer their pension at retirement. This risks two key costs:

a) **Members losing out on investment returns** by having their savings in cash or spending the money when it otherwise could be invested in a pension, resulting in investment returns and being within a tax-free wrapper. Investment returns may also offset any tax implications on pension withdrawals, which would not be the case if the member withdraws

b) **Members facing higher fees or transfer costs** by having to transfer their pension to another pension scheme as a result of not being able to access appropriate products within their own scheme.

[553] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life
[554] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life
[555] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life
[556] That is, the rules of a pension scheme may have been established to consider the accumulation phase as pre-automatic enrolment, DC pensions were then used to purchase an annuity.

The legislation should help reduce both of those impacts, compared to the counterfactual, generating significant benefits to members over time.

Greater returns from reduced full-cash withdrawals

80. It may be in some members' best interest to fully withdraw their pension into cash, and individuals can continue to do so under the proposed legislation. However, this may not be appropriate for all as pensions can offer greater investment returns compared to saving accounts and be a more tax-efficient way of saving. Nevertheless, full cash withdrawals are the most common way of accessing a pension pot – likely influenced by the fact that many pots are still small due to Automatic Enrolment being a relatively recent introduction. In 2024, DC pots withdrawn in the trust-based market at retirement had an average value of £5,500.[557] This point is further supported by the FCA's Retirement Income Market Data, which found that 86% of accessed pension pots worth less than £10,000 are taken as cash.[558]
81. Automatic Enrolment has shown the power of defaults and inertia, with opt-out rates being around 8-10% and pension participation for those eligible being close to 9-in-10 workers. This is largely consistent across all income and age groups. Evidence also shows individuals do not shop around for pension products, and 38% of UK adults rated their knowledge of financial matters as low[559]. Therefore, it is reasonable to assume a default decumulation product is likely to shift behaviour for many individuals. The Planning and Preparing for Later Life (PPLL) 2024 survey found that while around a third (32%) of individuals below normal minimum pension age (55) wanted to decide for themselves on how to access their pension, nearly half (43%) of respondents between age 40-75 said that they wanted their pension scheme to provide the option of a default pathway.[560]
82. However, estimating behavioural change is incredibly challenging, especially as the default offer by schemes may be different across—and within—schemes depending on their member demographics. A number of highly uncertain assumptions have been applied based on the best available evidence. These include:
    - **Drawdown –** It is assumed most schemes will offer drawdown as a default product. This is based on industry engagement and that drawdown offers the most flexibility to members (for example, allowing members to access different levels while not being an irreversible decision, unlike an annuity). However, the legislation allows schemes to design any appropriate default they consider best for their members; this assumption is just used for the purpose of the impact assessment.

[557] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024/occupational-defined-contribution-landscape-2024-annex
[558] https://www.fca.org.uk/data/retirement-income-market-data-2023-24
[559] https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2022-key-findings.pdf
[560] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/summary-planning-and-preparing-for-later-life-2024

- **No pots with a value of £10,000 or less are offered drawdown –** Based on current offerings in the market and industry engagement (via roundtables and consultations), an approximate breakeven point for offering drawdown is a pot size of around £10,000[561]. As a result, all pots below this are unlikely to be offered drawdown to avoid industry facing losses (though it is recognised there may be variance in the market regarding this). FCA retirement market data illustrates that 90% of pots below £10,000 are withdrawn in full as cash, further supporting this point. Therefore, only pots above £10,000 are estimated to be impacted. Using trends of average pot size from TPR/FCA and pension engagement on potential trends, it is expected the percentage of pots over £10,000 will grow by around 2-3ppts each year reflecting contributions and investment returns which continue to be made (see table 6 below). In estimating the post-legislation full-cash withdrawals, it is adjusted year-on-year from the counterfactual trend. Some pots over £10,000 will continue to be fully withdrawn as the subsequent behavioural points capture. In other words, as per table 6, 60% of pots are assumed to be below £10,000 in 2030 and thus are fully withdrawn, while in 2031, this is adjusted down to 59%.

Table 6: Estimated proportion of pots above and below £10,000

Year	Proportion of pots below £10,000	Proportion of pots above £10,000
2024	71%	29%
2025	68%	32%
2026	66%	34%
2027	65%	35%
2028	63%	37%
2029	62%	38%
2030	60%	40%
2031	58%	42%
2032	57%	43%
2033	56%	44%
2034	54%	46%
2035	53%	47%
2036	51%	49%
2037	49%	51%

Source: DWP estimates based on Helping savers understand their pension choices (2023), roundtables and discussions with pension schemes

[561] https://www.gov.uk/government/consultations/helping-savers-understand-their-pension-choices-supporting-individuals-at-the-point-of-access/helping-savers-understand-their-pension-choices

- **Proportion receiving advice/guidance –** A proportion (32%) of people receive financial advice or guidance ahead of accessing a pension[562]. Given this group have shown greater levels of engagement and are receiving additional support/help, it is unlikely this group would consequently take a different approach when accessing their pension. Therefore, it is conservatively assumed only those not receiving advice/guidance may change their behaviour around access. This is likely to be highly dependent on how strong the default is. For example, if schemes put in place multiple steps and communication ahead of placing an individual into a default, there may be greater numbers who choose an alternative approach. Nevertheless, it seems reasonable to assume those individuals aware of their choices and receiving support/help in making a decision are likely to continue making the same decision going forward (especially the case for those with a financial adviser).
- **Behavioural assumptions –** The FCA introduced Investment Pathways in 2019 and have estimated that around 50% of people take-up the Investment Pathways approach when accessing their pension. This is used to split behaviour into two groups for the Impact Assessment:
    - The 50% of individuals who don't make an active decision are assumed to enter a default solution. This is assumed to be drawdown.
    - The 50% who take up Investment Pathways is used as a proxy for those who will engage in decision-making with their pension at decumulation. In order to determine what individuals choose to do the PPI report the following decisions from engaging with Investment Pathways:
        - Around one-third (34%) of individuals select to fully withdraw their pension even after going through investment pathways,
        - A small proportion of individuals (5%) opt for annuities[563],
        - A quarter (25%) of individuals opt for drawdown,
        - The rest (37%) of the individuals have no plans to access their pension.[564]
    - From those who have no plans to access their pension, it is assumed two-thirds of these individuals will opt for drawdown when they decide to access (while the remaining third will fully withdraw their pension). While there is no available data underpinning this assumption, it captures the likelihood of most of these members remaining invested and being less inclined to fully withdraw their pension. It also reflects that defaults can be strong. However, there is still likely

[562] https://www.fca.org.uk/data/retirement-income-market-data-2023-24
[563] For sake of simplicity, it is assumed the same returns for the small proportion of individuals who select annuities as they would receive in drawdown.
[564] https://www.pensionspolicyinstitute.org.uk/media/xfybvxtq/20230926-the-dc-future-book-9-2023.pdf

to be a minority of members who choose to withdraw in full, reflecting circumstances or they have other pots which are larger.

83. As a result, it is assumed around three-quarters (77%) will change their behaviour as a result of the default being available/offered. This comprises of the individuals who do not engage with their pension (50%) and around half of the individuals who do engage in active decision making (27% of total). This assumption is made in order to not overestimate the benefit; some members who initially do not have plans to touch their pension may decide to later fully withdraw their pension. This is a highly uncertain assumption but is the best available estimate given the highly limited evidence available on how individuals may respond, learning from similar initiatives.

84. Table 7 outlines this assumption in tabular form, and Figure 5 maps out this assumption together with the other behavioural assumptions mentioned in this section.

Table 7: Estimated behavioural change from a default decumulation offering

Behavioural choice		Subset behavioural choice	Second order subset behavioural choice	Change behaviour	Proportion of total that change behaviour
Enter default	50%			Yes	50%
Don't enter default, of which	50%			-	
Fully withdraw pension		34%		No	
Purchase annuity		5%		Yes	2.5%
Enter drawdown		25%		Yes	12.5%
No plans to access pension, of which		37%		-	
Enter drawdown later			67%	Yes	12%
Fully withdraw pension			33%	No	
Total					**77%**

As Table 7 outlines:

- 50% enter the default
- From the remaining 50% that do not enter the default:
  - 5% opt for annuities – that is, 2.5% of the total
  - 25% opt for drawdown – that is, 12.5% of the total
  - 37% have no plans to access, for which we estimate:
    - 67% will enter drawdown – that is, 12% of the total

Therefore, in total, 77% of members are estimated to change their behaviour once there is a default offering across the market.

- **Average pot size in 2029[565] (£15,400) –** This is derived from the FCA full cash withdrawals data in 2023/24. The data shows average full cash withdrawals including all pot sizes in the contract-based market to be £14,400 (Table 8, below), while TPR data shows it to be £5,600 in the trust-based market, which is 39% of the contract-based market value. Since only pots above £10,000 are estimated to be impacted, the average full cash withdrawals over £10,000 from the FCA data (£32,400) is adjusted accordingly by 39% to reflect the trust-based market (£12,600). This value is then uprated by average real investment returns (around 4%)[566] until when the legislation is expected to come into force and schemes are compliant (2029), which gives an estimated average pot size of £15,400.

Table 8: Number of plans fully withdrawn at first time of access - by pot size (contract market, 2023/24)[567]

Pot size	**Mid-point**	**Number of plans** (nearest 100)	**Sum** (nearest £0.1 billion)
Less than £10,000	£5,000	309,000	£1.5bn
£10,000 - £29,000	£19,500	113,300	£2.2bn
£30,000 - £49,000	£39,500	27,700	£1.1bn
£50,000 - £99,000	£74,500	15,600	£1.2bn
£100,000 - £249,000	£174,500	3,500	£0.6bn
£250,000 and above	£250,000	600	£0.1bn
Average full withdrawal pot size			**£14,400**
Average full withdrawal over £10,000 pot size			**£32,400**

Source: FCA Retirement income market data 2023/24

85. To estimate the projected number of full-cash withdrawals into the future, a number of trends are considered and projected forward (which considers demographic shifts too, such as increasing contributions to pension and growth in pot sizes):

- **TPR data** shows the number of people withdrawing their pension in the trust-based market has been growing at around 22% year-on-year for three years prior to 2023, with around 222,000 accessing (retired) in 2023.

[565] Benefits are estimated to start accruing after 2029, once schemes are compliant with the legislation, and decumulation default solutions are put in place.
[566] The value of £12,600 (estimated average full cash withdrawal over £10,000 in 2023/24) is uprated by returns of 3.96% (see Table 11 below) to reflect further pension contributions and investment returns.
[567] https://www.fca.org.uk/data/retirement-income-market-data-2023-24

- **FCA data** on full cash withdrawals shows the equivalent year-on-year growth figure for the past three years to 2023 is 6%.
- **HMRC data** on people making their first pension cash withdrawal in 13 months[568] shows that over the past three years to March 2023 the year-on-year growth figure is 13%.
- **TPR data** also shows a growing number of savers aged 50+ (around 16% year-on-year since 2019), and who are therefore approaching the age at which they may access their pension.
- **PPLL** research found the average age of accessing a DC pension was around 60 years old.
- **Scheme discussions** on the projection of the volume of pension pots outlined decreasing growth to a 'steady state' of 5% by the mid-2030s.

86. Using a combination of the various sources, a growth rate is applied (see table 9) which:
    - Starts at 10%, which is the midpoint between the growth rate seen from the HMRC data (13%) and the FCA data (6%).
    - Slowly declines by around half a percentage point per year (0.5ppt) given the maturing of the market (as shown from the FCA data which indicates a slowdown in the growth rate in the contract-based market).
    - Reaches a steady state of 5% growth in the mid-2030s reflecting scheme discussions and projections.

    This growth rate recognises growth in withdrawals in the trust-based market is unlikely to continue to be as strong over time and that FCA and HMRC data also shows slower but still positive growth in withdrawals in more recent years. The average growth across the period is estimated at 7%, with the distribution around this mean outlining the maturing of the trust-based market.

[568] HMRC define first pension cash withdrawal as someone accessing a pension amount where there has not been a withdrawal in the last 13 months.

Table 9: Growth in counterfactual full-cash withdrawals

Year	Growth from previous year
2024	10%
2025	10%
2026	9%
2027	8%
2028	8%
2029	7%
2030	7%
2031	6%
2032	6%
2033	6%
2034	5%
2035	5%
2036	5%
2037	5%

87. Table 10 shows the counterfactual versus post-legislation full-cash withdrawals, after adjusting to include the behavioural assumptions discussed above:

- **30% of individuals receive advice or guidance before fully withdrawing and thus do not change their behaviour**; 70% of individuals who fully withdraw are in scope to change their behaviour.
- From these 70% of individuals, **50% of individuals do not engage with any decision-making and enter the default** (and thus no longer fully withdraw).
- From the remaining 50% of individuals who engage with making a decumulation decision, **over half (54%) now remain invested with their scheme**, while 46% from this group continue to fully withdraw.

Table 10: Estimated counterfactual and post change full cash withdrawals

Year	Full Cash Withdrawals (Counterfactual) (nearest 100)	Full Cash Withdrawals (post change) (nearest 100)	Difference (nearest 100)
2029	249,800	249,800	-
2030	267,300	185,100	82,200
2031	283,300	192,900	90,400
2032	300,300	201,000	99,300
2033	318,300	209,400	108,900
2034	334,300	216,000	118,200
2035	351,000	222,800	128,200
2036	368,500	229,700	138,900
2037	386,900	236,700	150,300

88. Once considering the numbers who may fully withdraw their pension, it is important to consider what the individual may subsequently do with their pension pot. The FCA's Financial Lives Survey[569] found of those fully encashing their pension:
    - 38% put their funds in a savings product.
    - 14% invest their funds.
    - 29% make a large expense with the funds.
    - 20% pay off their debts using the funds.
89. Withdrawals are a personal decision, and it is incredibly challenging to know what an optimal (and sub-optimal) outcome may look like. This will be dependent on personal preferences, satisfaction from the decision, and how the money was used. Nevertheless, there are some individuals who are having to withdraw their pension who may benefit from a default offering. This is particularly the case given large percentages report wanting an income from their pension pot; much greater than the proportion who currently access their pension as an income (PPLL found *"similar proportions planned to take an annuity (39%) or to purchase an income drawdown product (37%)"*[570]. To approach this, a very simplistic design of member benefits is derived from the Financial Lives Survey (2022) which, in the absence of alternative evidence, is likely to be a significant underestimate of the benefit. See table 11.

Table 11: Assumptions of the impacts of reducing full cash withdrawals

[569] https://www.fca.org.uk/financial-lives/financial-lives-2022-survey
[570] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life/planning-and-preparing-for-later-life#private-pension-provision

Individuals who…	The potential benefit	Monetised or Non-Monetised
Put their funds into a savings product	Saving into a pension (which tend to be invested in higher risk, and therefore higher returns in the long-run) should deliver greater returns compared to average saving accounts. The difference between the average returns for those around State Pension Age from large pension schemes (3.96% from Corporate Adviser[571]) and the average savings account (assumed to be lower at around 3%[572]) is used to monetise the potential gains. There are tax advantages too (which is not monetised here): some individuals may have to pay tax on interest returns, whereas capital gains are tax-free in a pension wrapper. Drawing from the Financial Lives Survey (2022), it is assumed 38% of members who fully withdraw put their funds into a savings product.	Monetised
Invest their funds	Although "invest" could account for a wide range of types of savings, such as ISAs to high-risk investments, the Financial Lives Survey does not ask for further details. As a result, it is assumed investing funds will deliver similar returns/benefits compared to remaining in a pension fund. Although a simplistic assumption, it can be reasonably assumed someone deciding to invest their fund may have a greater level of financial capability and therefore would have considered the financial implications of their decision, so is unlikely to be facing higher or lower financial returns. Drawing from the Financial Lives Survey (2022), it is assumed 14% of members who fully withdraw invest their savings.	Non-Monetised
Make a large expense	It could be considered someone spending their pension pot might be "better off" by keeping their money invested due to the investment returns they would receive. However, this is difficult to monetise the benefits as an individual may derive significant utility from making a large expense, such as a new car or holiday, offsetting any financial gains. Equally, a large expense could include buying an asset, such as a second home, which could be used to derive an income. As a result, no attempt is made to monetise this but recognise there are potential costs/benefits to this group. Drawing from the Financial Lives Survey (2022), it is assumed 29% of members who fully withdraw use their funds to make a large expense.	Non-Monetised

[571] The Corporate Advisor Master Trusts and GPP Report gives a five-year average return of 3.96% for an investor in a workplace default fund one day before State Pension age. It is assumed that members who opt to remain invested with their pension scheme will receive returns on this scale (subtract the 0.5% providers tend to charge on investment returns).
[572] https://www.statista.com/statistics/1455355/interest-rate-of-instant-access-deposits-uk/

Pay off debts	For some individuals, they may pay off their mortgage or a loan with their pension pot. Although this would result in missing out on financial returns, it equally could save money through avoiding paying high interest rates. This is a highly complex financial decision with significant trade-offs for which there is insufficient evidence to explore this in more detail. Therefore, this benefit is not monetised. Drawing from the Financial Lives Survey (2022), it is assumed 20% of members who fully withdraw put their funds use it to pay off outstanding debts.	Non-Monetised

90. Using the assumptions outlined above, of those who save into a pension, the investment returns between a cash savings account (3% annual returns) and remaining invested in a pension (4% annual returns) can be compared. The average wealth in year zero is estimated to be £15,400 as derived in paragraph 84 above, but this is then adjusted to account for the growth in the proportion of pots over £10,000. Projecting future pension pot sizes is challenging due to the very limited data and the counteracting drivers at play. For example, greater contributions will continue to push up average pot values, with the Workplace Pension Participation publication showing that the average private sector saver contributed £2,840 to their pot in 2023.[573] Greater investment returns will also push up the average pot value. As more pots cross the £10,000 threshold however, this will push down the average pot value of all pots over £10,000.

91. To account for these unknowns and opposing impacts, the average pot size over £10,000 is adjusted by half of the growth in the proportion of pension pots over £10,000. Table 12 below illustrates the impact of this:

[573] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023

Table 12: Adjustment to average pension pot value over £10,000

Year	Year-on year growth in proportion of pots over £10,000	Year-on-year downward adjustment to average pot value over £10,000 (rounded to the nearest ppt)	Pre-adjustment average pot size over £10,000 for remaining invested (nearest £100)	Post-adjustment average pot size over £10,000 for remaining invested (nearest £100)
2029	4.1%	2.0%	£15,400	£15,000
2030	3.9%	1.9%	£16,000	£15,700
2031	3.8%	1.9%	£16,600	£16,300
2032	3.6%	1.8%	£17,300	£16,900
2033	3.5%	1.7%	£17,900	£17,600
2034	3.4%	1.7%	£18,600	£18,300
2035	3.3%	1.6%	£19,400	£19,100
2036	3.2%	1.6%	£20,200	£19,800
2037	3.1%	1.5%	£21,000	£20,600

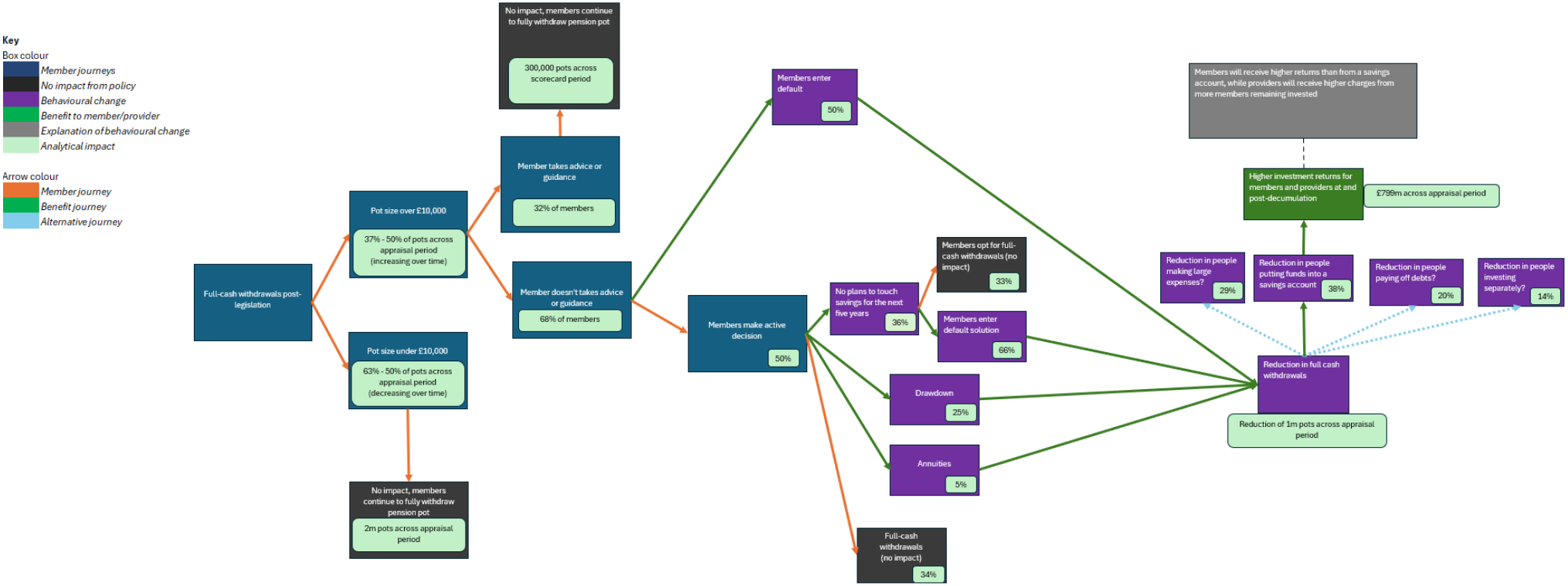
Source: DWP calculations based on industry engagement

92. The estimates above on the counterfactual and post-legislation full-cash withdrawals are multiplied by 38% to restrict to those who would have put their pension funds into a savings account (see Table 13 below). Those who no longer withdraw to put their funds into a savings account will now earn an extra 1 percentage point in returns (3.96% as opposed to 3% – see Table 11). As Table 13 below demonstrates, it is estimated that 31,000 more individuals remain invested in 2030, earning £145 more by 2031 than if they had withdrawn their funds into a savings account – this results in £5m benefits to members in 2031. An individual remaining invested in 2029 as opposed to withdrawing into a savings account would earn on average around £1,500 more by 2037 (the end of the ten-year period of analysis). The benefits gradually increase from around £5m in 2031 to £173m in 2037 as returns accumulate and further cohorts of members enter retirement. This is a direct benefit to pensioner members, as they are realised as a direct consequence of the estimated reduction in full cash withdrawals.

Table 13: Estimated numbers of counterfactual and post change full cash withdrawals into a savings account (with no financial advice or guidance)

Year	**Full Cash Withdrawals (Counterfactual)** (nearest 100)	**Full Cash Withdrawals (post change)** (nearest 100)	**Difference** (nearest 100)
2029	94,300	94,300	-
2030	100,900	69,900	31,000
2031	106,900	72,800	34,100
2032	113,300	75,900	37,500
2033	120,100	79,000	41,100
2034	126,200	81,500	44,600
2035	132,500	84,100	48,300
2036	139,100	86,700	52,400
2037	146,000	89,300	56,700

Figure 5: Flowchart demonstrating the behavioural change assumed for reduced full-cash withdrawals



Savings in transfer costs

93. Many schemes in the trust-based market are currently accumulation-only and do not offer decumulation services. This results in members being obliged to fully withdraw or transfer their pension at retirement. This creates a significant risk as members who wish to access a decumulation product, such as a drawdown, have to transfer their money. HSBC analysis[574] suggested this could create significant costs to members, for example:
    - **Moving to a retail pension platform** could lead to greater annual management costs (potentially 2% compared to around 0.5% in trust-based market and transfer fees (around 0.8% of assets).
    - **Moving to an existing Master Trust** which offers drawdown could lead to similar annual management charges but still result in a transfer fee cost (around 0.8% of assets).
94. Nest Insight evidence[575] shows 11% of transfers out of Nest are by those aged 55+; a group most likely to be entering the decumulation phase. Nest do not represent all schemes, and the demographic of their members may differ from the rest of the schemes in the market; thus, the proportion of their transfers for age 55+ may not represent the entire market. Nevertheless, it is the largest scheme by membership size, and in the absence of any other data, this assumption is adopted for the entire market.
95. To estimate the number of transfers into the future, a number of trends are projected forward:
    - **TPR data** shows the number of people in the trust-based market transferring has increased across the past couple of years, but at varying rates. This includes transfers across all ages. Based on Nest evidence (see paragraph 94), it is assumed 11% of all transfers are by those aged 55 or above and restrict the analysis to this subset.
    - **TPR data** also shows a growing number of savers aged 50-59 – an average of 11% per annum between 2021-2023 – and who are therefore approaching the age at which they may access their pension. **HMRC data** on people making their first pension cash withdrawal in 13 months[576] shows that over the past three years to March 2023 the year-on-year growth figure is 13%.
    - **PPLL** research found the average age of accessing a DC pension was around 60 years old.
    - **Scheme discussions** on the estimated projection of the number of pension pots, outlined a trend of decreasing growth to a 'steady state' of 5% by the mid-2030s.

[574] https://online.email.hsbc.co.uk/HSBC_Tomorrow_Report_Converting_pension_pots_into_incomes.pdf
[575] https://www.nestinsight.org.uk/research-projects/retirement-saving-in-the-uk/
[576] HMRC define first pension cash withdrawal as someone accessing a pension amount where there has not been a withdrawal in the last 13 months.

- It is assumed the growth rate in transfers for age 55+ members across the next five years matches the trend estimated for the growth in full-cash withdrawals (Table 9), as these are both based on the projected growth of 55+ membership. Higher growth in the initial period is also consistent with the above findings.

96. Using a combination of the various sources, a growth rate akin to the growth in full-cash withdrawals (see Table 9 above) is applied which:
    - Starts at 10%, which acknowledges recent trends in the growth of 50-59 membership (11%), but accounts for a slightly more mature market since 2023.
    - Slowly declines by around half a percentage point per year given further maturing of the market (as shown from the FCA data which indicates a slowdown in the growth rate in the contract-based market).
    - Reaches a steady state of 5% growth in the mid-2030s, reflecting scheme discussions and projections.
    - This growth rate recognises growth in transfers in the trust-based market is unlikely to continue to be as strong over time. The average growth across the period is estimated at 7%, with the distribution around this mean showing the maturing of the trust-based market (see Table 14 below).

Table 14: Growth in counterfactual transfers (in the absence of a policy change)

Year	Growth from previous year
2024	10%
2025	10%
2026	9%
2027	8%
2028	8%
2029	7%
2030	7%
2031	6%
2032	6%
2033	6%
2034	5%
2035	5%
2036	5%
2037	5%

97. The above steps allow us to reach a counterfactual estimate of transfers for members who are aged 55 or above and able to access their pension. To estimate the effect of the proposed

legislation, it is assumed around 50% of transfers at retirement are to access a decumulation product from another scheme; therefore, the legislation is expected to reduce transfers by 50% compared to the counterfactual. As outlined previously, this is highly uncertain but recognises the existing challenge in the market. A range is computed on this assumption (and this benefit as a whole) based on other available data (see sensitivity analysis section).

98. To estimate the benefits of having decumulation products available, it is estimated by the reduction in the number of transfers being made as a consequence of having decumulation available and multiplied by the average pension pot size (£15,400, which is uprated by 3.96% a year) and by the average transfer fee (estimated at 0.8% of the fund value).
99. Not all pension funds will charge exit and entrance fees for transferring, such as contract-based schemes which also operate in the trust-based market. Around a quarter of contract-based schemes also operate in the trust-based market and have approximately 13% of the trust-based membership. Large master trusts like Nest and The People's Pension – who have a combined market share of 67% – also do not charge transfer fees[577]. It is therefore assumed three-quarters (75%) of transfers will not accrue fees.
100. Transfer fees are estimated as some funds may have greater fund charges (though this hugely varies and would be dependent on scheme chosen) and is a similar saving estimated by the FCA on Investment Pathways (adding validity to the estimate). Nevertheless, this is likely to underestimate the benefit to members. While some schemes will lose out on revenue from transfer fees, other schemes will stand to benefit from retained membership, leading to a greater pool available for investment, and thus higher returns and charges.
101. In summary, it is expected members may benefit by £1m in 2030, slowly rising to £2m in 2037 reflecting the growth in DC trust-based membership. For example, in 2030, there is an estimated 27,700 reduction in transfers, from which 25% were estimated to accrue transfer fees in the counterfactual (6,900 individuals). The average pot size is estimated to be £16,000, and by applying the average transfer fee (estimated at 0.8% of the fund value) to this, the transfer cost saved would be £130. Applying this to the 6,900 individuals who now save on transfer fees gives a benefit of £0.9m in 2030. Savings in transfer costs is a direct benefit to pensioner members as they will be realised as an immediate consequence of the estimated reduction in transfers.

[577] See https://www.nestpensions.org.uk/schemeweb/nest/my-nest-pension/transfer-your-pension-pots.html and https://members.tpt.org.uk/combining-your-pensions/

Table 15: Estimated counterfactual and post change transfers and fees saving

Year	**Transfers (Counterfactual)** (nearest 100)	**Transfers (post change)** (nearest 100)	**Average transfer pot value** (nearest £100)	**Transfer fee saving (0.8%)**
2028	-	-	-	-
2029	51,700	51,700	£15,400	£0.0m
2030	55,300	27,700	£16,000	£0.9m
2031	58,700	29,300	£16,600	£1.0m
2032	62,200	31,100	£17,300	£1.1m
2033	65,900	33,000	£17,900	£1.2m
2034	69,200	34,600	£18,600	£1.3m
2035	72,700	36,300	£19,400	£1.4m
2036	76,300	38,200	£20,200	£1.5m
2037	80,100	40,100	£21,800	£1.7m

Greater returns from entering default retirement product

102. Schemes should be able to make longer term investment decisions knowing a greater proportion of their membership will not be fully withdrawing or transferring their pension in full at the point of retirement. Where schemes are anticipating full cash withdrawals, their asset allocations are in highly liquid assets (such as cash and government bonds) for older savers – this is evident in schemes who do not currently offer decumulation products[578]. However, encouraging greater numbers to remain invested (through the default decumulation offering) can mean investment in return-seeking and more illiquid assets. This will deliver stronger returns for members and may lead to greater investment in more productive assets (such as private equity and infrastructure) which tend to have a greater home bias compared to other assets such as listed equities.

103. Schemes invest their members' pension pots according to certain milestones; for example, the funds of younger savers tend to be invested in riskier, high-returning assets with the view that this will produce the highest returns in the long term. Closer to retirement, members enter an investment phase referred to as *lifestyling*, where their funds are invested in less riskier assets that tend to have lower but stable returns[579]. Investment performance for pension schemes tend to thus be reported for these different stages; one such stage is the five-years pre-retirement, where schemes tend to allocate members' funds according to their

[578] Corporate Adviser's Workplace Pensions into Retirement Report, 2023 (https://corporate-adviser.com/research/)
[579] Corporate Adviser's Workplace Pensions into Retirement Report, 2023 (https://corporate-adviser.com/research/)

chosen path for decumulation. Where no decumulation solution is available, funds are moved into cash and liquid assets, in anticipation of members fully withdrawing their pension.

104. With the introduction of a default retirement solution for members, individuals who currently save into accumulation-only schemes will no longer be compelled to transfer or withdraw their pension. AE has shown the power of defaults due to inertia, with opt-out rates being around 8%-10% and pension participation for those eligible being close to 9-in-10 workers. It can be expected most savers who would have previously withdrawn or transferred but will not do so post-legislation will now enter their respective scheme's default retirement solution. Since having a default solution reduces the risk of large cash withdrawals, this allows schemes to invest for longer and to not need as much liquidity (as the probability of full-cash withdrawals is lower).

105. As a result, schemes will be able to ensure members approaching retirement remain invested in higher-returning assets, as members saving through inertia will no longer be compelled to make a decision at retirement, whether that means transferring their pension pot to another scheme or fully withdrawing their pension into a savings account. The Corporate Adviser report found that for members entering investment pathways, the returns for members staying invested (option 1) was 2.86% in 2023 and 11.54% in 2024, whereas for individuals intending to withdraw their entire pension in the next five years (option 4), it was 0.47% in 2023 and 6.78% in 2024[580]. An average is taken for the returns for both options from 2022 and 2023 to reflect the inevitable varying market conditions across the ten-year period analysis. This results in an estimated 7.2% return per annum when invested in higher-returning assets, compared to an estimated 3.6% return in the counterfactual where funds are invested in liquid assets. The 7.2% returns are a proxy for schemes allocating members' assets in anticipation of them entering their default product as opposed to withdrawing or transferring their pensions (in which case the returns are proxied at 3.6%).

106. Table 10 above shows the counterfactual versus post-legislation full-cash withdrawals based on all options selected following the withdrawal (see Table 11 for the four broad options members are found to select); since the reduction of full-cash withdrawals is premised on a default product being available/offered, it is assumed the entirety of the difference between the counterfactual and post-legislation will enter a default drawdown solution. As for transfers, it is assumed above that the reduction post-legislation occurs for those individuals who were previously saving in a scheme which did not offer adequate decumulation services. It is therefore assumed that once a default retirement solution is offered by schemes according to the profile of their membership, those individuals who no longer transfer post-legislation enter their respective scheme's default solution.

[580] Corporate Adviser's Workplace Pensions into Retirement Report, 2023 and 2024 (https://corporate-adviser.com/research/)

Table 16: Estimated counterfactual and post-change transfers & full-cash withdrawals and decumulation decision making

Year	**Transfers (Counterfactual)** (nearest 100)	**Transfers (post change)** (nearest 100)	**Previous transfers that now enter default** (nearest 100)	**Full-cash withdrawals (Counterfactual)** (nearest 100)	**Full-cash withdrawals (post change)** (nearest 100)	**Previous Full-cash withdrawals that now enter default** (nearest 100)
2029	51,700	51,700	-	249,800	249,800	-
2030	55,300	27,700	27,700	267,300	185,100	82,200
2031	58,700	29,300	29,300	283,300	192,900	90,400
2032	62,200	31,100	31,100	300,300	201,000	99,300
2033	65,900	33,000	33,000	318,300	209,400	108,900
2034	69,200	34,600	34,600	334,300	216,000	118,200
2035	72,700	36,300	36,300	351,000	222,800	128,200
2036	76,300	38,200	38,200	368,500	229,700	138,900
2037	80,100	40,100	40,100	386,900	236,700	150,300

107. The initial average wealth in year zero is estimated to be £15,400, as derived in paragraph 84 above. Paragraph 105 outlines the estimated difference in returns when members are expected to enter the default compared to being expected to fully withdraw or transfer their pension (7.2% compared to 3.6%). The differences in returns can be estimated for members (who now no longer fully withdraw their pension or transfer) in the five years leading up to retirement (after adjusting for charges of 0.5%). Paragraph 103 outlines the working assumption that the asset allocation for members' pots occurs five-years pre-retirement; therefore, the first cohort of members to benefit in higher returns pre-retirement will be in 2034, five years after the legislation is estimated to be enacted. The benefits significantly increase from around £41m in 2033 to £765m in 2037. This is a direct benefit to pensioner members that is realised as a result of members remaining invested with their scheme in the long run as opposed to deciding to fully withdraw or transfer their funds to another scheme. See Tables 17a and 17b for how the benefits are computed.

Table 17a: Difference in returns through remaining invested in higher-returning assets

Year	Returns (cash-based investment)	Returns (pension-based investment)	Difference in returns
Year 1	£15,900	£16,500	£600
Year 2	£16,500	£17,600	£1,200
Year 3	£17,100	£18,900	£1,800
Year 4	£17,700	£20,300	£2,600
Year 5	£18,300	£21,700	£3,400

Notes: Nearest £100, average pot size of £15,400 in Year 0.

Table 17b: Computation of benefits to members pre-retirement through default offering (first three years cohorts)

Year	Cohort 1 (first receiving benefits in 2033)		Cohort 2 (first receiving benefits in 2034)		Cohort 3 (first receiving benefits in 2035)	
	Reduction in transfers and full-cash withdrawals (nearest 100)	**Aggregate increased returns for these members (after 0.5% charge)** (nearest £m)	**Reduction in transfers and full-cash withdrawals** (nearest 100)	**Aggregate increased returns for these members (after 0.5% charge)** (nearest £m)	**Reduction in transfers and full-cash withdrawals** (nearest 100)	**Aggregate increased returns for these members (after 0.5% charge)** (nearest £m)
2033	74,100	£41m				
2034		£86m	79,200	£43m		
2035		£136m		£93m	84,700	£47m
2036		£191m		£145m		£98m
2037		£251m		£204m		£155m

Notes: The aggregated increased returns are calculated by multiplying the reduction in transfers and full-cash withdrawals by the difference in returns from remaining invested in higher-returning assets (see Table 17a). For example, there is a 74,100 reduction in full-cash withdrawals and transfers for Cohort 1 in 2033. This is multiplied by the difference in returns in year 2 (£1,200, rounded to the nearest £100 – see table 17a) and multiplied by 99.5% (to adjust for the 0.5% scheme charge). This results in an aggregate increased return of £86m in 2033 for this cohort. There are a total of five cohorts that are estimated to benefit throughout the appraisal period (2028-2037).

Benefits to Schemes

A reduction in full-cash withdrawals leading to increased revenue from charges

108. As explained above the proposed legislation should lead to a reduction in money leaving the trust-based pension market. This can generate a number of benefits for the pension schemes, including:
    - **Greater investment returns (and thus charges)** as knowing members are more likely to remain within the scheme can lead to the asset allocations of funds taking a more long-term approach (and thus delivering greater returns). Higher pension pot values will lead to greater revenues from the charges being applied.
    - **Offering a decumulation service** – it is assumed only those who can make a profitable decumulation service (in the medium to long-term) will create one. This should develop a profitable product for the industry, especially as pension pots continue to grow, leading to greater revenue. Those who are unable to deliver at a profit (or without loss, for those non-profit organisations) will transfer their members to a relevant scheme that can offer a decumulation service.
109. The challenge in monetising some of the benefits of decumulation is that the gain for trust-based schemes (who may not all offer decumulation services now) may be a loss to contract-based schemes (who would otherwise have received the pension pot). This may be best considered a transfer rather than a fully monetised benefit.
110. The above section on the benefits to members from reduced full-cash withdrawals explains the method employed to calculate this reduction from the proposed legislation. Paragraph 84 also derives an estimate of the average full-cash withdrawal over £10,000 (the threshold) in the trust-based market to be £15,400.
111. The Corporate Advisor found a five-year average return of 3.96% for an investor in a workplace default fund one day before State Pension age. It is assumed members who opt to remain invested with their pension scheme as opposed to fully withdrawing will receive returns on this scale. Table 18 outlines how many people are expected to remain invested post-policy who would have fully withdrawn in the counterfactual scenario. Schemes charge, on average, around 0.5%[581] on pension pots. This should deliver additional revenues in charges of around £6m in 2030, rising to £85m in 2037 reflecting the reduction in the growth of full-cash withdrawals compared to the counterfactual (arising from a growth in DC trust-based membership). This is a direct benefit to pension schemes arising from a greater number of members deciding to remain invested as opposed to fully withdrawing their pension.

[581] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

112. Note that the benefit to schemes in terms of additional revenue from charges arises from the entire pension pot that now remains invested (that was fully withdrawn in the counterfactual), not only on the additional investment returns generated. Schemes will also benefit from all pots that are withdrawn in the counterfactual and not post-policy, unlike for members where it is assumed that only those fully withdrawing into a savings product in the counterfactual, but no longer post-policy, stand to benefit. This is because irrespective of whether the member benefits by remaining invested as opposed to fully withdrawing, schemes will receive additional revenue from charges on pot funds remaining in the market.

Table 18: Estimated charges collected by schemes due to reduction in full-cash withdrawals into savings account

Year	**Difference in counterfactual vs post-policy full-cash withdrawals**[582] (nearest 100)	**Average pot size with returns (for the first cohort)** (nearest £100)	**Total increase in funds in the trust-based market due to reduction in full-cash withdrawals** (cumulative, nearest £0.1bn)	**Charges collected (0.5% on pot size)** (nearest £0.1m)
1	-	£14,500	-	-
2	-	£15,000	-	-
3	82,200	£15,700	£1.3bn	£5.8m
4	90,400	£16,300	£2.8bn	£12.6m
5	99,300	£16,900	£4.6bn	£20.7m
6	108,900	£17,600	£6.7bn	£30.2m
7	118,200	£18,300	£9.1bn	£41.2m
8	128,200	£19,100	£12.0bn	£53.8m
9	138,900	£19,800	£15.2bn	£68.4m
10	150,300	£20,600	£18.9bn	£85.1m

Notes: To calculate the benefit to schemes per year, the cumulative reduction in full-cash withdrawals is multiplied by the average pot size with returns that now remains in the trust-based market. For example, in year 4, there is estimated to be a reduction in full-cash withdrawals of 90,400 – this is multiplied by the estimated average pot size that remains invested post-policy adjusted for returns, which is £16,300 in year

[582] Note that here, the counterfactual versus post-legislation full-cash withdrawals is not adjusted to only account for those members who would have put their funds in a savings account in the counterfactual. This is because schemes would stand to benefit with all reductions in full-cash withdrawals, irrespective of what the members decides in the counterfactual scenario (which, other than putting the funds in a savings account, could be to invest separately, pay off debts, or make a large expense).

4. However, there is also estimated to be a reduction of full-cash withdrawals in year 3 of 82,200, and that too is multiplied by the pot value £16,300 in year 4. Thus, this gives a total increase of funds in the trust-based market in year 4 of £2.8bn. As discussed above, schemes are estimated to charge 0.5% on pension pots, leading to charge revenue of £12.6m in year 4 (see column 5). In summary, the scheme benefits from this charge revenue is cumulative, so in year 4, schemes benefit in the reduction from the counterfactual from both years 3 and 4.

Default decumulation retirement options leading to increased revenue from charges

113. The benefits of a default decumulation option for members is explained in detail above. Defaults will also generate benefits for pension schemes through greater investment returns (and thus charges), as knowing members saving through inertia are more likely to remain within the scheme can lead to the asset allocations of funds taking a more long-term approach (and thus delivering greater returns). Higher pension pot values will lead to greater revenues from the charges being applied.

114. The above section on the benefits to members explains the method employed to calculate how many members will benefit from a default product. Members are estimated to receive 3.58% higher returns per annum (see paragraph 105) for five years prior to retirement on their pension pot, which it is estimated to be £15,400 in year zero. Schemes charge, on average, around 0.5%[583] on pension pots. The higher returns should deliver additional revenues in charges of around £0.4m in 2033, rising to £7m in 2037. This is a direct benefit to pension schemes arising from a reduction in full-cash withdrawals and transfers due to a default decumulation offering. Note that the benefit to schemes here in terms of additional revenue from charges arises only from the additional investment returns generated, as the pension pots are expected to remain in the trust-based market until members reach retirement.

[583] https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

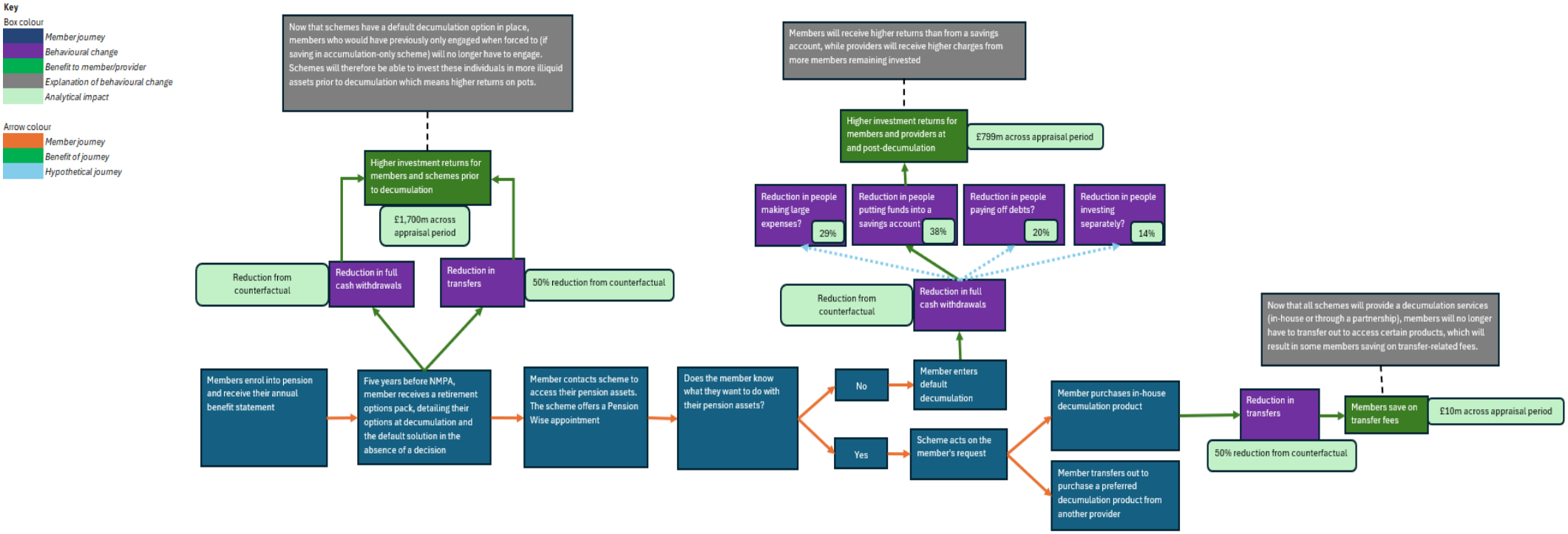
Table 19: Estimated itemised ongoing benefits over the appraisal period, undiscounted (£m)

	2030	2031	2032	2033	2034	2035	2036	2037
Greater returns from reduced full-cash withdrawals *(member benefit)*	-	4.5	14.2	29.9	52.7	83.5	123.3	173.5
A reduction in full-cash withdrawals leading to increased revenue from charges *(scheme benefit)*	5.8	12.6	20.7	30.2	41.2	53.8	68.4	85.1
Savings in transfer costs *(member benefit)*	0.9	1.0	1.1	1.2	1.3	1.4	1.5	1.7
Greater returns from entering default solution *(member benefit)*	-	-	-	40.5	128.6	272.5	481.1	764.5
Default solution leading to increased revenue from charges *(scheme benefit)*	-	-	-	0.4	1.1	2.4	4.2	6.7
Scheme benefits	**5.8**	**12.6**	**20.7**	**30.6**	**42.3**	**56.2**	**72.6**	**91.8**
Member Benefits	**0.9**	**5.5**	**15.3**	**71.6**	**182.6**	**357.4**	**605.9**	**939.9**
Total Benefits	**6.7**	**18.1**	**36.0**	**192.2**	**224.9**	**413.6**	**678.5**	**1031.5**

115. As Table 19 outlines, the vast majority of benefits are obtained by members; for those members who stand to benefit either by no longer transferring or fully withdrawing their pension into a savings account, the average benefit per these members is estimated to be £1,900 across the appraisal period.

116. Table 1 outlined how the legislation results in an estimated equivalent annual net direct cost to business (EANDCB) of £13m. This is largely due to costs to schemes accrued being immediate (and a significant proportion of costs being upfront), while benefits in the form of increased revenue from charges begin to be realised from year 3 of the ten-year appraisal period, once decumulation offerings are in place. **The proposed policy is estimated to become a net benefit to business by year 12, as revenue from charges outweighs ongoing running costs at an increasing rate. So, while there is net cost to business in the immediate ten-year appraisal period, there is likely to be a significant net benefit to business in the long term.**

Figure 6: Flowchart mapping the estimated benefits arising post-legislation and its associated behavioural changes



Non-monetised benefits:

117. There is significant uncertainty around the policy, behavioural responses observed, and how schemes develop their defaults. In addition, data is not always readily available or easy to measure. As a result, there are a wider range of benefits that could arise from the legislation but are hard to monetise at this point in time. These include:

- **Reduced complexity**: Members may be more likely to understand the options that are available to them as a result of schemes giving greater levels of information on decumulation and develop a suitable pathway for those who do not want to, or are unable to, make complex decisions. This should reduce the search costs and complexity to members. As a result, members should find the decision-making simplified and less complex, reducing the risk of taking a wrong financial option. This benefit to welfare could be significant; however, it cannot be monetised due to complexities in doing so.
- **Greater innovation:** The legislation is intended to allow schemes to develop decumulation products as they see best for their membership. As argued previously, this could limit innovation with schemes taking a risk averse approach. Equally, schemes may seek to maximise the opportunity and become more competitive on their decumulation offer to members. This could drive innovation in the market, leading to new and innovative decumulation products, which could lead to greater outcomes for individuals. This benefit cannot be known nor quantified with any robustness.
- **Asset allocations leading to higher returns:** Given the default solution, schemes can invest in invest in longer-term, higher-returning assets knowing that less members are likely to withdraw – this could result in higher investment returns than what is currently estimate based on investment data of pension schemes. This may also have wider spillovers and benefits in the UK and with the goal of productive finance and economic growth. The magnitude of this is incredibly difficult to determine, and thus, these potential further benefits have not been monetised.
- **Reduced reliance on advice/guidance:** The legislation entails that schemes will develop a default solution, based on the general profile of their members. As a backstop, the member would be placed into this solution if they do not make an active choice on accessing their pension savings. This may potentially reduce the need for financial advice or guidance (which may come at a cost, for financial advisers, or time costs in the case of guidance), as the default is expected to be a low-risk, sustainable solution for members who do not engage or do not desire to purchase an alternative product. While members wishing to access their pension savings will still be *nudged* to attend a Pension Wise appointment, the existence of a default solution may potentially reduce the need for financial advice for those

members unsure of which decumulation product to purchase. The extent of this, however, is difficult to quantify.

- **Managing longevity risk:** The default solution is expected to lead to a reduction in full-cash withdrawals, as explored above. One key benefit of this not monetised is that this will manage longevity risk. The IFS report[584] that individuals in early retirement tend to underestimate their life expectancy, which potentially hinders their ability to plan their retirement – if an individual is to fully withdraw their pension in such a case, it is likely that that they will spend their pension savings at a rate which may not last them throughout their retirement. It also may entail that individuals become reliant of state benefits such as Pension Credit later in retirement if they run out of private pension savings – this could come at a significant cost to the government. The default is expected to mitigate this risk, though the extent of this cannot be known or quantified at this point in time.

Sensitivity analysis

Costs

- **Policy length for familiarisation cost (central estimate: £296,000, one-off cost) –** In accordance with the FCA's Investment Pathways cost-benefit analysis, the policy documentation is assumed to be 40 pages in length, which takes two hours for trustees to read. However, since the policy details and clauses have not been finalised, it is acknowledged that policy documentation could either be longer or shorter. For the low and high scenarios, it is assumed 20 and 60 pages respectively, and this gives a one-off familiarisation cost range between £148,000 – £444,000.
- **Transfer arrangements costs –** In roundtables and one-to-one meetings with industry, there were various potential one-off cost estimates for partnering. While the IA settles on estimates that were more widely reported, the various cost estimates given does create a degree of uncertainty. For example, it could be the case that schemes face lower costs for a partnership if they do not engage in a comprehensive search for a suitable arrangement. A range of total one-off transfer arrangements cost is therefore presented of £19m – £77m based on the various estimates received.

[584] https://ifs.org.uk/publications/subjective-expectations-survival-and-economic-behaviour

Table 20: Range of one-off transfer arrangement costs (£m)

Scheme Size	Cost per scheme to partner	Number of schemes	Total Costs
Small	£10,000 – £100,000	510	£5m – £51m
Medium	£100,000 – £200,000	80	£8m – £16m
Large	£200,000 – £300,000	30	£6m – £10m
Total		**620**	**£19m – £77m**

Table 21: Range of ongoing reviewing transfer arrangement costs excluding consolidation impacts (£m)

Scheme Size	Cost per scheme to partner	Number of schemes	Total Costs
Small	£1,000 – £10,000	510	£0.5m - £5m
Medium	£10,000 – £20,000	80	£0.7m - £1m
Large	£20,000 – £30,000	30	£0.6 - £1m
Total		**620**	**£1.9m – £7.5m**

Note: Number of schemes declines over the 10-year period and partnerships are reviewed every 3 years. Totals may not sum due to rounding.

In-house decumulation product development (one-off costs, and ongoing costs between 2028-2037) – Similar to the transfer arrangements cost, estimated in-house product development estimates are from industry roundtables and one-to-one meetings, and there were various estimates. Based on this, across the ten-year appraisal period (2028-2037), a range of £153m to £763m has been used around the central estimate of £381m which was discussed in detail above. The range is based on various reports of one-off development costs and per member costs of running drawdown, with the lowest and highest estimates being used to present the low-high scenarios.

Table 22: Range of in-house decumulation development costs (£m)

(undiscounted)	**Low**	**Central**	**High**
One-off upfront costs	£0.3m	£0.5m	£1m
Ongoing costs per member	£20	£50	£100
Total one-off costs	**£1.8m**	**£3.5m**	**£7m**
Total ongoing costs	**£153m**	**£381m**	**£763m**

Table 23: Estimated change in costs by varying costs-related assumptions

Costs range (undiscounted)			
	Low	**Central**	**High**
Familiarisation	£0.1m	£0.3m	£0.4m
Training	£6.9m	£6.9m	£6.9m
Partnering for transfer arrangements	£21.3m	£50.1m	£84.2m
In-house development	£154.3m	£384.8m	£769.5m
Total costs	**£182.6m**	**£442.1m**	**£861.0m**

Benefits (all benefits are ongoing across the appraisal period 2028-2037)

- **Behavioural assumption for post-legislation full-cash withdrawals** – Estimates for the change in full-cash withdrawals post-legislation is based on behavioural responses to the Investment Pathways options. For the central estimate, it is assumed one-third (33%) of the 37% of individuals who select option 4 (have no plans to access their pension) will opt for drawdown when they decide to access. This gives a central estimate for this benefit for members and schemes of £799m across the ten-year appraisal period (2028-2037). Since it is uncertain whether individuals will accord to this behaviour, for the low scenario, it is assumed all individuals who select option 4 fully withdraw eventually. For the high scenario, it is assumed that the default decumulation offering will eventually have the same behavioural effect as Automatic Enrolment, where around 90% of eligible employees (over 20m) participating in a pension in 2023 (the policy was initially introduced in 2012). It is thus assumed that in the high scenario, post-legislation full-cash withdrawals reduce incrementally over the appraisal period to 10% of the counterfactual trend by 2037. The sharp reduction in full-cash withdrawals in this high scenario represents an increasing take-up of the default decumulation offering. This gives a range of £600m – £2,829m.
- **Reduction in transfers assumption –** It is assumed transfers to reduce by 50% compared to the counterfactual. As outlined previously, this is highly uncertain but recognises the existing challenge in the market. This gives a central estimate for this benefit of £10m. Nest's Retirement

Saving in the UK report states that active member-directed switches were 32%[585] of total switches, that is, around a third of total switches are from members choosing to switch from their default pension fund to a fund of a different composition. This can be used as a proxy for members deciding to transfer even when they have access to decumulation options with their current scheme. This would leave 68% who transfer to have any access to a decumulation product (high scenario), with the reverse low scenario being 32%. This gives a range of £6.4m – £13.6m across the ten-year appraisal period (2028-2037).

- **Returns for members entering asset allocation for default solution pre-retirement** – It is assumed returns for a pension pot in a default fund is equivalent to the average returns in 2023 and 2024 for option 1 of Investment Pathways where members remain invested (7.20%), with the counterfactual being 3.63% based on option 4 of Investment Pathways where members fully withdraw (difference in returns thus being 3.58%). The central estimate for this benefit is £552m across the ten-year appraisal period (2028-2037).
- Investment returns can be considerably volatile and subject to change, and a small change in returns can have significant impacts on the benefits estimated due to compounding returns. Barnett Waddingham's has five-year investment performance data at the retirement phase for 22 trust-based schemes. The research found the following average returns across the five-year period:
    - Schemes that offer drawdown: 4.5%
    - Schemes that do not offer drawdown: 2.5%
    - Schemes that do not offer drawdown or UFPLS: 1.6%.[586]

Meanwhile, the Corporate Advisor reported an average return of 11.54% in 2024 for option 1 of Investment Pathways where members remain invested in a drawdown product.[587] It is assumed returns for schemes that offer drawdown provide a reasonable proxy for the low scenario returns for a default solution. This is because—while schemes may offer alternative default solutions (and are free to do so)—it is assumed drawdown will be the most likely option being offered as a default in-house solution. Based on the above information, for the high scenario:

- The counterfactual selected is the returns for schemes that do not offer drawdown or UFPLS (1.6%) as per the Barnett Waddingham report,
- The returns on a default product are selected as 11.54% (as per the Corporate Advisor Retirement Report in 2024).

[585] https://www.nestinsight.org.uk/wp-content/uploads/2022/10/Retirement-saving-in-the-UK-2022.pdf
[586] https://www.barnett-waddingham.co.uk/comment-insight/research/dc-governed-default-investment-strategy-insights-2024/
[587] Corporate Adviser's Workplace Pensions into Retirement Report, 2024 (https://corporate-adviser.com/research/)

For the low scenario:

- The counterfactual selected is the returns for those schemes that do not offer drawdown only (2.5%), as per the Barnett Waddingham report.
- The returns on a default product are selected as 4.5%, as per the Barnett Waddingham report on schemes that offer drawdown.

This gives a total range of this benefit from £608m – £5,742m. The large range reflects the significant uncertainty and impact differing returns can have on a pension pot.

Table 24: Estimated change in benefits by varying benefits-related assumptions

Benefits range (undiscounted)			
	Low	**Central**	**High**
Reduced transfers	£6.4m	£10.1m	£13.6m
Reduced withdrawals	£600.1m	£799.3m	£2,841.4m
Default solution returns	£608.3m	£1,701.9m	£5,741.7m
Total benefits	**£1,214.8m**	**£2,511.3m**	**£8,596.7m**

Table 25: Combined sensitivity in total costs and benefits

Total estimated range of costs and benefits (Undiscounted)			
	Low	**Central**	**High**
Total costs	**£183.4m**	**£442.0m**	**£864.3m**
Total benefits	**£1,214.8m**	**£2,511.2m**	**£8,584.4m**

Risks and assumptions

118. As discussed, and outlined, there are a number of key risks and assumptions throughout the Impact Assessment. However, the main areas of risk include:

- **Data and data assumptions (amber):** The industry costs calculated in this Impact Assessment have been extrapolated from industry engagement and feedback. Although this is representative for the majority of savers, there is a risk smaller schemes face different costs. Nevertheless, hearing directly from schemes on their anticipated costs, and engaging with them directly gives confidence on the scale and estimates of costs. Assumptions employed in this Impact Assessment have been drawn from a wide array of sources and transparency on the level of evidence has been employed throughout. Some assumptions which underpin large values are based on limited evidence, which naturally poses a risk. The sensitivity analysis aims to capture the risk and uncertainties involved in the central

estimate. Nevertheless, a big challenge is lack of data from TPR on individual decumulation decision-making. This is an area the department and regulator are working closely together on improving for the future. Where TPR data is not available, the data from the contract-based side (FCA-regulated) is used. Although the demographic of members is potentially quite different from the trust-based market (which the proposed legislation impacts); analysis shows similar levels of earnings between the two markets and AE has resulted in the two markets converging somewhat given widespread pension participation. Nevertheless, several adjustments have been made in an attempt to best replicate and account for known differences (such as lower pension pots) to better reflect the trust-based market and have tested these adjusted assumptions with industry. As more data becomes available and the policy develops, assumptions will be developed and estimates enhanced at the secondary legislation stage.

- **Investment returns (amber):** Investment returns are a key driver of improved member benefits. As outlined, this Impact Assessment has drawn on multiple sources to verify this estimate, and investment performance (particularly given the tax advantages of pensions) should outperform savings in a bank account. However, it has to be recognised investment returns are highly uncertain and dependent on market conditions and will vary by scheme.
- **Final policy details (amber):** At this stage there is uncertainty over the full impacts of the proposal as policy details are yet to be finalised. Work will continue with industry in understanding the potential impacts and implications from the changes on industry and members. Timings of implementation, the specific details of the policy (including how the market responds to offering defaults), and future decumulation decision-making all make this incredibly challenging to estimate.
- **Pessimism Bias (green):** There is a further risk of the data collected and extrapolated that schemes have overestimated their costs. One potential reason why this may have happened is schemes cannot anticipate their costs without the final policy detail or may want to reduce the regulatory burden to them. As a result, the cost estimations may be higher than what schemes may face.
- **Behaviour change (red):** There are assumptions about behaviour change happening as a result of schemes putting defaults in place. AE has shown the power of defaults, with 88% of eligible employees participating in a workplace pension; this is much higher than originally anticipated. As decumulation is a complex decision, it is reasonable to expect large numbers to follow this option. To illustrate this, the Planning and Preparing for Later Life (PPLL) 2024

survey [588] shows those aged 40-75 with a DC pension, 43% would like their pension scheme to provide the option of a default pathway. For those who think the default pathway should be offered, the average amount they would be willing to pay as a one-off payment is £25 (this figure falls to £7 if looking at all adults who responded to the question). This figure is a clear indication of the value attached to the default pathway, although it will be offered free of charge to members. Nevertheless, survey evidence also shows many people are happy with the decision to take a lump sum (or fully withdraw their pension). The Planning and Preparing for Later Life (PPLL) 2024 survey shows 87% of those aged 55+ who have taken a lump sum from a DC pension since 2015 are very or quite satisfied with their decision[589]. To add to the complexity, decisions may change over time as pot sizes grow, products may change in popularity and default offerings may change to account for this. Innovation in the market may also change existing trends; it is likely that financial advice and guidance may evolve to adapt to changes in the market – all of this could also significantly affect changes in behaviour. The 'stickiness' of defaults may also largely depend on how schemes notify their members of it, that is, whether members receive a one-time notification or regular reminders. This is a critical assumption, hence the sensitivity, and one that will be monitored closely.

- **Data collection costs (green):** The trust-based market is regulated by The Pensions Regulator (TPR). DWP will also work closely with TPR to ensure compliance. However, TPR's check on compliance may involve data collection, which may result in the accrual of costs of administrative burdens or from employing extra resource.

Small and micro business assessment

119. To be consistent with the Pensions Dashboard Impact Assessment[590], as well as with other Pensions Scheme Bill Measures, Small and Micro businesses are defined as DC schemes with fewer than 1,000 members, though this definition isn't perfect as scheme size and employer size don't always correlate. Importantly, trust-based schemes can be set up by both smaller and larger employers, with a trend of smaller employers using Master Trusts for workplace pensions to minimise costs and improve governance.

Exemptions

120. Trust-based schemes with fewer than 12 members are exempt and out of scope from the legislation. All Trust-based DC schemes with 12 members or over are in scope. This is to ensure nearly all members can benefit from greater likelihood of receiving their pension

[588] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/summary-planning-and-preparing-for-later-life-2024
[589] https://www.gov.uk/government/publications/planning-and-preparing-for-later-life-2024/summary-planning-and-preparing-for-later-life-2024
[590] Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

entitlement. There are currently 1,080 trust-based schemes in the DC market. Trust-based schemes may be set up by both smaller and larger employers; however, it is important to note pension funds are different to employers. These regulations do not impose costs on employers/businesses, but on pension funds (which may have a large amount of assets but not necessarily large number of employees)

121. There has been a growing trend of smaller employers using Master Trusts when enrolling their employees into a workplace pension. These employers will not face any costs; only the Master Trust (or very small number of employers running a single-employer trust) would face a cost of implementation.

Proportionality

122. From TPR's scheme return data 2023-24[591], there are 790 schemes with between 12 and 999 members and for the purposes of this analysis, this is the definition of small businesses. This definition is consistent with the DC IAs for all elements of the Pension Scheme Bill. Further, there are 26,000 members aged 50+ in these schemes as of 2023 (this is 0.36% of the total of 7.2 million members of this age in all schemes)[592]
123. The costs to small schemes outweigh the direct benefits given the costs of partnering to transfer members to schemes with decumulation products. However, savers in smaller businesses will significantly benefit as this is a group who are currently unlikely to be offered decumulation services and therefore risk making sub-optimal decisions
124. It is on the basis that savers in small businesses stand to gain in their long-term outcomes that the inclusion of small businesses is proportional. It protects the equity of savers in small businesses who would otherwise not be offered decumulation services in their schemes
125. This measure also delivers a benefit to all small and micro businesses across the economy through providing more choice of decumulation options in the pension market. This creates benefits for employers when selecting or switching pension schemes. These benefits are not captured but could be significant; therefore, reinforcing that the measures are proportionate.

Mitigations

126. There are also a number of mitigations put in place for smaller businesses:
    - Micro schemes are out of scope of the new legislation (i.e. where there are less than 12 members).

[591] https://webarchive.nationalarchives.gov.uk/ukgwa/20240605050724/https:/www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023/occupational-defined-contribution-landscape-2023-annex
[592] https://webarchive.nationalarchives.gov.uk/ukgwa/20240605050724/https:/www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023/occupational-defined-contribution-landscape-2023-annex

- A number of options have been created to limit cost (e.g. transfer arrangements for smaller schemes).
- Smaller schemes could decide to merge and consolidate into a larger Master Trust if they cannot deliver for their members. This would result in no cost from the policy and may better meet their members' needs.
- Larger schemes are expected to have to implement the policy first, giving time for smaller schemes.

127. Most of the estimated costs for small schemes are driven by transfer arrangement costs (£27.2m) to provide the decumulation products. This assumes individual partnering agreement costs at around £50,000 per small scheme, with further ongoing costs to review partnerships. Partnering costs are derived from industry discussions, involving survey responses, roundtables and one-to-one meetings. A further £2.2m is accounted for by the estimate of training costs (derived from the FCA's cost-benefit analysis on Investment Pathways). It is assumed small schemes split the training 75% to 25% between external and internal training respectively – the commissioning of external training costs £1.9m
128. In terms of monetised direct benefits to small schemes, it is expected to be negligible; this is because all small schemes with no current decumulation offering are expected to partner with larger schemes to offer their members retirement products. As a result, any charges accrued from these members will be by the larger schemes. Additionally, the main policy benefit of staying invested for longer and improved investment returns accrues to members directly, not businesses
129. However, there are likely to be significant non-monetised benefits associated with smaller schemes. It is often not financially viable for smaller schemes to offer decumulation products to their members; however, the legislation allows transfer arrangements, which was found in industry engagement to be much more cost-effective for smaller schemes. Arranging for members to access decumulation solutions will positively impact the profile of smaller schemes, both to members and employers who arrange for their employees to save with these schemes. Not offering decumulation solutions risks members being significantly worse off and having to make complex financial decisions at the point of retirement
130. Table 26 breaks down the EANDCB calculation for small schemes only – showing an EANDCB of £3m per year to small schemes. Importantly, members within these small schemes can be expected to benefit from the legislation and the above has highlighted the indirect benefits also available to small schemes and businesses that are not scored below.

Table 26: Direct impact on small and micro businesses (EANDCB)

Impact	Overview	Cost / Benefit to business (NPV over 10-year appraisal)
Costs to small business		
One-off costs	*Familiarisation, Partnering, Training*	£28.6m
Ongoing costs	*Reviewing partnerships*	£2.1m
Total Cost to all small Pension Schemes	*Total one-off and ongoing costs*	£30.7m
Benefits to small businesses		
Benefits to small Pension Schemes	*Negligible (but members within small schemes should benefit)*	-
EANDCB of £3.6m per year		

Wider impacts

131. There are a number of wider benefits and implications from the policy measures which may arise outlined below

132. **Market consolidation**: As a result of the proposal, it is possible many schemes may decide to consolidate. The DC trust-based market has been consolidating over time with the number of schemes falling by around 10% each year since 2012[593]. This has resulted in a fall from around 3,700 schemes in 2012 to around 1,100 in 2024. Over the same time period, the assets held, driven by the rollout of Automatic Enrolment, has been rapidly rising (an increase of 546% since 2012 to £143bn). Part of the increase has been driven by Master Trusts (multi-employer pension funds), with around 30 Master Trusts accounting for around three-quarters of DC assets, 90% of DC memberships, and 95% of active savers

133. It is expected this trend of consolidation will continue. As outlined in DWP's previous consultation in 2021[594], consolidation can help ensure all savers are receiving the best value, through better governance, lower costs and charges, and greater investment opportunity (helping diversification). Nevertheless, it is important consolidation is done in the interests of the member and that the wider pensions market continues to have competition and innovation

[593] https://webarchive.nationalarchives.gov.uk/ukgwa/20240605050724/https:/www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2023/occupational-defined-contribution-landscape-2023-annex
[594] https://www.gov.uk/government/consultations/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation

134. The case for consolidation has been explored in detail. The evidence on the potential benefits of DC consolidation and the optimal size of pension schemes has previously been explored: in a Call for Evidence[595]; in the Pension Trends analytical report[596]; and in a review of Master Trusts[597]. Across those reports a wide range of evidence has been provided on the benefits of scale within the pension market. Key benefits include:
    - Better **governance**.
    - **Economies of scale**, with greater size helping to reduce average costs per member.
    - The ability to **move investment in-house**, potentially reducing investment costs.
    - Access to a **wider range of assets.**
    - Being able to **invest directly** in certain assets, rather than needing to be part of a pooled fund to do so.
    - An **improved bargaining power**, including the ability to pay lower investment fees.

135. This reform may further support consolidation through the additional costs that might arise (particularly for smaller schemes), however any behavioural effect of schemes cannot be known in advance. The potential costs and benefits of greater consolidation have been considered but have not been monetised. This is explored in the Summary IA
136. **Better investments, higher growth and deeper markets:** By promoting a greater focus on decumulation, this should encourage pension schemes to keep pension pots invested (rather than moving to liquid assets in anticipation of individuals withdrawing them). This can benefit savers in the first instance through improved compounded returns. However, there may be further benefits on capital markets and private companies as a second order impact through larger pools of risk capital becoming available to them and more emphasis being placed on the diversification benefits these assets pose to investors. These first and second order effects can indirectly help to boost economic growth, deepen capital markets and increase the UK's low investment levels
137. **Pension adequacy:** The decumulation legislation aims to provide a sustainable income in retirement for pensioner members, as opposed to pensioners simply accessing their savings in cash, which may be accessed at a quicker rate. Default solutions ensure members continue to receive investment returns on their pot, which may partially offset withdrawals made. While pension adequacy largely focusses on the accumulation stage and whether

[595] https://www.gov.uk/government/consultations/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation/future-of-the-defined-contribution-pension-market-the-case-for-greater-consolidation
[596] https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market#the-potential-benefits-of-consolidation
[597] https://www.gov.uk/government/publications/evolving-the-regulatory-approach-to-master-trusts/evolving-the-regulatory-approach-to-master-trusts

individuals are saving enough up until retirement, a sustainable decumulation solution can also help to ensure that pension savings are adequate throughout a member's retirement journey

138. **Innovation in pension investment and decumulation products:** It is estimated the legislation will allow schemes to retain a greater proportion of their membership in retirement. This may incentivise and provide the platform for schemes to innovate, such as longevity pooling DC pensions or investing in a wider range of decumulation products. Schemes may also innovate in their investment strategy, such as investment in non-traditional assets, which may provide higher yields.

Monitoring and Evaluation

139. Improving retirement outcomes for consumers is of fundamental importance to the Department and forms the central objective of this policy. Given the costs to industry, regulators, and government, extensive monitoring and evaluation will be essential focussing on both those delivering the policy and the consumer impact. Given that pension policy and administration operate within a wider UK framework, the Department will be informed by monitoring and evaluation undertaken by DWP, supported by consideration of NI specific impacts and outcomes. The impact on returns, transfer costs, and wider retirement planning will all be closely monitored and evaluated. This will be achieved in a number of ways, as outlined below

140. In terms of monitoring and evaluating the implementation process, DWP will aim to:

- **Work closely with pensions industry** throughout any proposed secondary legislation, ensuring both schemes and consumers' views are considered in developing the detail of the policy.
- **Work with pension schemes** to understand their experiences of implementation. This may take the form of informal conversations, as well as more formal, structured roundtables. This will help understand how schemes are taking a user-centred design approach effectively and understand the policy impacts on schemes and their consumers.
- **Regularly monitor key industry reports** to track implementation. This includes Corporate Advisor, for example, who report on the largest schemes and their retirement offerings, including quantitative research from around 20 schemes as well as qualitative research and analysis of the sector.
- **Regularly monitor** data such as HMRC's RTI data and TPR's DC scheme returns to look at trends in pension access.

- **Explore, with TPR, quantitative surveys** to understand readiness, awareness of the policies, and potential barriers which may be placed through Trustee surveys.
- **Explore qualitative research** around the motivations and decision-making at decumulation, to better understand the thought-process behind certain decisions and the impact of having default decumulation pathways.
- **Closely monitor the industry**, assessing the emerging default products of the largest schemes to ensure they are offering the sufficient flexibility and support for savers.

141. In terms of monitoring and evaluating the policy impact, the aim will be to:

- Work closely with industry and regulators to enhance data collection on decumulation product take-up and transfers and monitoring information collected. This will be crucial in assessing the impact of the changes and the choices consumers make.
- Work closely with TPR to monitor levels of scheme compliance.
- **Develop quantitative and qualitative research with members** to better understand consumer impact. For example, how many are taking the default option, how are individuals using their pension pot, and how is this changing over the course of their retirement. DWP has already commissioned two waves of Planning and Preparing for Later Life over the last 5 years, offering unique insights into retirement planning and access decisions.
- **Develop quantitative and qualitative research with providers** to understand the responses to the policy, any emerging challenges, and how providers are innovating.
- **Monitor trends in how savers are accessing their pension pot** – it is expected the policy will reduce the number of full cash withdrawals.
- **Maximise the range of surveys** to understand trends, such as Financial Lives Survey and Family Resources Survey, allowing information on pension pot access to be closely monitored.
- **Conduct a post-implementation review of the proposals.** This will particularly focus on the cost of the regulations, whether the Department may need to be more prescriptive, and how well the defaults are aligned to saver preferences.

142. In addition, this monitoring and evaluation will be supported with a wider research programme which continually monitors pensions take-up, adequacy, engagement and decumulation. This information will be used to continually assess the impact of the policy change and whether the benefits to members have been achieved. If throughout this

evaluation any problems are identified, the Department will review the policy to ensure it is delivering for consumers and the pensions industry.

Pension Schemes Bill (Northern Ireland) 2027

DB Superfunds Regulatory Impact Assessment

Title:	**Regulatory Impact Assessment (RIA)**
Defined Benefit Superfunds	**Date: May 2026**
	Type of measure: Primary Legislation
Lead department or agency:	**Stage:** Initial
Department for Communities	**Source of intervention:** Domestic NI
Other departments or agencies:	**Contact details:**
Department for Work and Pensions	

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)

Defined Benefit schemes play a significant role in the UK, supporting almost 9 million members across 5,000 schemes, most of which are closed schemes. Prior to the introduction of superfunds, schemes faced two options: either to run-on, with sponsoring employers remaining liable for ensuring their schemes have sufficient funding (or assets) to meet their liabilities; or to buy-out by securing member benefits through the insurance market. However, many schemes (around 1 in 2) are currently under-funded on a buy-out basis. superfunds provide an alternative route for securing member

What are the policy objectives and the intended effects? (7 lines maximum)

The policy seeks to protect members, giving them a greater chance of receiving their benefits in full by creating clear legislative obligations for those setting up and running superfunds. Specifics include:

- To help improve the probability of member benefits being paid in full.
- To ensure schemes are only transferred to a superfund where there is an improvement to members.
- To ensure schemes that can proceed to insurance buy-out fully consider the best outcome for members.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)

Do nothing (allow superfunds to establish themselves under existing legislation with The Pensions Regulator (TPR) overseeing)

Subject superfunds to the same regulatory framework as an insurer

Introduce a new superfund legislative and regulatory framework (**Preferred Option**)

The preferred option is option 3. Added safeguards are needed to ensure superfunds are well managed, financially sustainable, with both members' pension benefits and the PPF (Pension Protection Fund) adequately protected. The intention is to introduce parameters within which superfunds must operate as well as a new superfund authorisation and regulatory supervision regime. Superfunds that have established themselves before this legislation is in force will be required to seek authorisation from TPR in order to continue to operate.

Will the policy be reviewed? It will be reviewed	**If applicable, set review date:** May 2030

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	**Total net cost to business per year** £m	**Annual cost for implementation by Regulator** £m
1.2	0.1	N/A

Does Implementation go beyond minimum EU requirements?			**YES** ☐	**NO** ☒
Is this measure likely to impact on trade and investment?			**YES** ☐	**NO** ☒
Are any of these organisations in scope?	**Micro** Yes ☒ No ☐	**Small** Yes ☒ No ☐	**Medium** Yes ☒ No ☐	**Large** Yes ☒ No ☐

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Date:

Summary: Analysis and Evidence Policy Option 3

Description: Introduce a new superfund legislative and regulatory framework (Preferred option)

ECONOMIC ASSESSMENT (Option 3)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	**1.6**		**27.4**	**236.8**
High	**3**		**243.7**	**2,096.2**
Best Estimate	**2.3**		**134.2**	**1,154.7**

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

Sponsoring businesses: While all trustees of all schemes will undertake a degree of familiarisation of the legislation (costing £2.1m), it is estimated around 130 schemes would choose to consolidate. These sponsors will incur implementation costs of approximately £1.2bn. Superfunds: Familiarisation costs (around £800 per superfund based on

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

Superfunds: There will be additional costs to create a superfund such as the TPR and PPF levies. However, as these costs are yet to be determined, these have not been quantified. Insurance industry: If a scheme can afford insurance buy-out, TPR will not permit it to enter a superfund. It will not, however, be forced to buy-out - DB schemes are not

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	**68.6**		**44.5**	**426.5**
High	**610.3**		**395.8**	**3,795.9**
Best Estimate	**336**		**217.9**	**2,089.9**

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

Sponsoring businesses: Once a sponsoring business has transferred their DB scheme to a superfund, they will no longer pay on-going expenses of running a scheme (estimated at around £270m). Superfunds: Superfunds create a business opportunity for financial intermediaries that deem it to be profitable to enter the market (estimated potential profits of £1.1bn over the ten-year period). Members: Entry into a superfund should increase the likelihood of members receiving their pension benefits in full, relative to a

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

Sponsoring businesses: By discharging ongoing DB pension liabilities from their company accounts, sponsoring businesses may focus strategic resources towards growth opportunities and greater investment into their business. Insurance industry: Potential business opportunities for the insurance industry to help stimulate both the buy-in and buy-

Key Assumptions, Sensitivities, Risks Maximum 5 lines

The nature of the current market situation means establishing the counterfactual is not straightforward. TPR has put in place an interim regime that has led to one superfund being assessed. But only a legislated framework could set the basis for further development of a strong superfund market and providing greater number of Trustees with confidence in superfunds as a viable exit approach. In addition, the take-up and pricing level of entering a superfund are very sensitive

BUSINESS ASSESSMENT (Option 3)

Direct Impact on business (Equivalent Annual) £m				
Costs: 0.1	**Benefits: 0**	**Net: 0.1**		

Cross Border Issues (Option 3)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines The proposals in this Impact Assessment correspond to proposals in the Impact Assessment for the Westminster Pension Schemes Bill. Under the policy of parity, this option would only be introduced in Northern Ireland if it was

Evidence Base

(Unless stated otherwise, the costs and savings outlined in this Regulatory Impact Assessment are calculated on a UK-wide basis using 2024 data)

Problem under consideration

Defined Benefit schemes

1. Workplace pensions are split into three markets:
   a. **Defined Benefit (DB)** – This is a type of pension which pays a retirement income based on earnings, accrual rate, and length of service rather than the amount of money an individual has contributed to the pension. Of which, the market is further split into:
      - **public sector DB**,
      - **private sector DB** where there were around 5,000 pension schemes in 2024[598] and one DB Superfund which exists to support closed DB schemes.
   b. **Defined Contribution (DC)** – This is a type of pension where contributions, made by employees and sponsoring employers, are invested to create a pension pot at retirement. The DC market is further split into the:
      - **trust-based market** - A pension scheme governed by a board of trustees who have a fiduciary duty towards beneficiaries. The board of trustees manage investments on the members' behalf. This is regulated by the Pensions Regulator (TPR). In 2025, there were 920 trust-based pension schemes with 12 or more members[599]
      - **contract-based market** - A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider. This is regulated by the Financial Conduct Authority (FCA). In 2024, there were estimated to be around 30 firms with an authorised DC workplace pension business[600].
   c. **Collective Defined Contribution (CDC)** – these schemes are an emerging type of pension scheme based on risk sharing between pension savers. CDCs aim to move the risk away from the individual (as is the case under Defined Contribution schemes) and away from the employer (as is the case under Defined Benefit schemes). The only CDC arrangement in the UK so far is a scheme by the Royal Mail.

[598] https://www.ppf.co.uk/purple-book

[599] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-contribution-landscape-2024

[600] Corporate Adviser 2024 Master Trust and GPP Defaults Report https://corporate-adviser.com/research/

2. Collectively, these types of workplace pensions account for over £2 trillion in assets and support tens of millions of people[601]. This makes the UK one of the largest pension markets in the world[602]
3. The contextual and background information within the Impact Assessment (IA) has been updated to reflect the latest information. However, it is important to note the calculations are using 2024 data. The changes in the landscape are in line with expectations and therefore it would not materially change the cost or benefits of the policies.
4. DB pensions are backed by a sponsoring employer ("the sponsor"), who is required to fund the scheme to a level which is expected to allow for the promised benefits to be paid when they fall due, and to put in place plans should the scheme fall into deficit.
5. The vast majority of private sector occupational DB (workplace) pension schemes are set up as a trust, run by a group of trustees (the "trustee board") who manage the assets of the scheme and who have a duty to act in members' collective best interests in line with the scheme's trust deeds and rules.
6. DB Pensions are regulated by the Pensions Regulator (TPR) with the Pension Protection Fund (PPF) acting as a compensation scheme of last resort by providing compensation to members whose sponsoring employers become insolvent and where benefits, at least equal to the level of compensation provided by the PPF, cannot be secured.

The Defined Benefit Landscape[603]

7. Although fewer than 700,000 people are actively saving into a private sector DB scheme, the sector remains a significant market within the UK economic landscape. Across around 5,000 schemes, around 9 million members are being supported with assets of around £1.2 trillion.
8. A DB scheme's funding position is the difference between the assets the scheme holds (based on contributions and investment return) and the net present value of its liabilities (how much it is expected to have to pay out to its members). A scheme is in surplus where it holds a greater amount of assets than liabilities. A deficit is having a lower amount of assets than liabilities. This means improvements in the funding position can arise through:
    - **Greater pension contributions** for open schemes made by the employee or sponsoring employer (increasing assets).
    - **Investment performance** from the stock of existing assets (increasing assets).
    - **Deficit Reduction Contributions (DRCs)** made by sponsoring employers to help improve the funding position of the scheme (increasing assets).

601 https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/fundedoccupationalpensionschemesintheuk/apriltoseptember2025
602 https://www.oecd.org/en/data/indicators/pension-funds-assets.html?oecdcontrol-69798b0352-var8=PC_GDP
603 Pension Protection Fund. Purple Book 2024. Available at: https://www.ppf.co.uk/purple-book

- **Higher interest rates** which lower the expected value of the liabilities due to be paid out by the scheme (as liabilities are discounted by a rate of return).
- **Lower life expectancies** as schemes will have to pay out a pension over a shorter period of time (lowering liabilities)

9. DB liabilities, however, inherently carry an element of uncertainty as it is impossible to estimate future longevity or investment returns with certainty. There are a range of DB scheme liability measures, each designed and used for a specific purpose. They differ in the way the assumptions needed to assess scheme liabilities (like future investment returns) are made. There are a range of common measures of liabilities and funding levels used including:

- **Technical Provisions basis** represents the amount a scheme needs to hold in order to meet its future liabilities. As of 30th September 2024, almost 4,000 schemes (around 4-in-5 schemes) were in surplus on a Technical Provisions basis, with these schemes holding over £200bn in surplus[604].
- **Section 179 (S179) Basis**[605] which broadly represent what schemes would need to pay an insurer to secure PPF levels of compensation for their members (which is usually lower than full scheme benefits). The Purple Book reports, as of 31st March 2024, around 3,600 schemes were in surplus on a s.179 basis with around £240bn in surplus.
- **Buy-Out Basis** represents what schemes would need to pay an insurer to secure full compensation (i.e. 100% of scheme benefits) for their members. As of 30th September 2024, around 2,400 schemes (around 1-in-2 schemes) were in surplus on a Buy-Out basis, with these schemes holding almost £100bn in surplus.
- **Low Dependency Basis** set out how much schemes will need to hold to minimise ongoing reliance on financial support from the sponsoring employer by the time they are significantly mature. This is generally lower than the level required to buy-out. As of 30th September 2024, around 3,600 schemes were in surplus on a Low-Dependency basis, with these schemes holding around £160bn in Surplus.

604 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management

605 Section 179 of the Pensions Act 2004 sets out the way in which valuations determine scheme underfunding for the purposes of calculating the risk-based pension protection levy. The corresponding Northern Ireland reference is Article 162 of the Pensions (Northern Ireland) Order 2005. However, for this IA, the term section 179 basis is used to reflect the terminology in the Pension Protection Fund Purple Book etc.

Table 1: Funding levels across DB landscape (2024)[606]

	S179 (Mar-24)	Technical Provisions (Sep-24)	Low Dependency (Sep-24)	Buy-Out (Sep-24)
Assets	£1,167bn	£1,240bn	£1,240bn	£1,240
Liabilities	£948bn	£1,033bn	£1,103bn	£1,233
Funding Ratio	123%	120%	112%	101%
Schemes in Surplus	3,670	3,970	3,620	2,380
Surplus of schemes in surplus	£240bn	£222bn	£163bn	£97bn

10. The DB landscape funding position has significantly improved over the last few years. This has been due to factors such as changing macroeconomic conditions as well as sponsoring employers making Deficit Reduction Contributions (DRC). Most notably funding levels have improved because of rising interest rates – the Bank of England rate was 0.25% at the start of 2022 and as of May 2026 is 3.75%[607]. This, along with other economic factors, has contributed towards long-term gilt yields rising (which lowers estimated DB liabilities through increasing the discount rate being applied) and, as a result, the aggregate DB scheme funding position has improved significantly. This is demonstrated by the buy-out funding ratio improving from 62.3% in 2014, to 79.2% in 2022, and is currently estimated by the TPR at 101% as of September 2024.
11. DB schemes may have different strategies and objectives regarding how they are run in the longer-term (a long-term objective). Currently, DB schemes have the following choices:

d) To **run on** which means that the sponsoring employer continues to be liable for any changes in the funding position which may arise. Schemes may opt for a low-risk strategy and seek to reach low dependency on the sponsoring employer by the time they are significantly mature; or invest scheme assets with a view to generating a surplus.
e) **Buy-out** with an insurer - this is a process where a pension scheme transfers its liabilities to an insurance company. The pension scheme pays a premium to the insurer for the insurer to take on the responsibility of paying the pensions to the scheme members.
f) To **enter a commercial consolidator** vehicle such as a superfund.

606 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management
607 https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate

12. The Department for Work and Pensions (DWP) undertook a comprehensive review of the DB system and published a White Paper 'Protecting Defined Benefit pensions' in March 2018[608]. The paper concluded that although DB in general is not in crisis, the system is highly fragmented with many schemes and their sponsors under significant financial pressure due to several reasons, including increasing longevity and persistently low investment returns.

13. TPR's occupational DB Landscape publication indicates around 92% of schemes are closed to new members or closed to future accruals[609]. But as schemes' liabilities remain a risk for employers until the last member is paid - that can be many decades away. This means employers remain liable and vulnerable to changing funding levels.
14. Many schemes are still not fully funded to be able to afford "buy-out" (where a scheme is passed onto an insurer) and therefore must continue to manage the risk and uncertainty of managing their pension scheme. As shown in the table below[610], of the c.5,000 schemes in the DB universe, only c.2,000 are funded above 100% and can afford to buy-out. There are still c.3000 schemes that are underfunded, with around 4 million members. More recent estimates from the TPR (as of September 2024) suggest that 1 in 2 schemes are funded on a buy-out basis, which means that around 2,400 schemes (with around 4.6m members) still cannot afford to buy-out[611].

608 Protecting Defined Benefit Pension Schemes (White Paper). February 2018, Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

609 https://webarchive.nationalarchives.gov.uk/ukgwa/20250115145416/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-benefit-landscape-in-the-uk-2024

610 Estimates provided by TPR as of June 2023, rounded to the nearest 10. These estimates are based on the information available - true figures may differ from these. The true cost of buyout for individual schemes cannot be ascertained until we have approached the market etc. Figures may not sum due to rounding.

611 https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/estimated-db-scheme-universe-funding-splits-and-assets-under-management

Table 2: Membership, schemes and funding level (June 2023)

	Size of scheme (members) - All schemes as of 30 June 2023					
Buyout Funding Level	**2--99**	**100-999**	**1000-4999**	**5000+**	**Total Schemes**	**Members**
Above 100%	860	870	270	130	2,130	5,039,000
95-100%	150	210	70	30	460	684,000
90-95%	150	240	80	40	520	1,041,000
85-90%	160	230	70	40	490	824,000
80-85%	140	180	70	40	430	727,000
75-80%	110	130	40	20	300	344,000
70-75%	100	130	40	10	280	305,000
Below 70%	170	230	50	10	460	364,000
Total	**1,840**	**2220**	**680**	**320**	**5,070**	**9,328,000**

What is consolidation

15. Consolidation, where pension schemes are brought into larger entities so they can benefit from economies of scale and improved governance, already happens across the DB market. Options to consolidate can include sharing back-office functions (e.g., actuarial, administrative, investment and legal), sole trusteeship (where a trustee board is replaced by a single entity, which can be a person or company although this option is not solely used for consolidation)), as well as pooling pension scheme assets.
16. There is evidence larger schemes operate more efficiently on average, by: (a) having a lower administrative / scheme running costs per member, (b) having lower investment costs, and (c) having better governance[612]. It has been identified, through analysis and consultation with the pensions industry, and set out in the White Paper[613], scheme consolidation could potentially increase efficiency and governance leading to reduced costs / burden on scheme sponsoring businesses and improved security to scheme members. In addition, larger schemes with more assets under management may be able to access a wider range of investment opportunities (such as infrastructure, private equity).
17. DWP explored mandating consolidation under certain circumstances in its Green Paper: Security and Sustainability in Defined Benefit Pension Schemes. However, the majority of

[612] The evidence is referenced and evaluated in the section of this Impact Assessment entitled "Evidence behind the rationale for intervention"
[613] The white paper can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/693655/protecting-defined-benefit-pension-schemes.pdf

respondents thought that whilst consolidation should be encouraged, it should remain voluntary[614]. The White Paper: Protecting Defined Benefit Pension Schemes confirmed that schemes would not be mandated to consolidate.

Superfund consolidation

18. In its simplest form, superfund consolidation is where pension liabilities are transferred over from a sponsoring employer into a consolidator ("superfund") in exchange for a fee (that the sponsoring employer must pay into the scheme). The support the original sponsoring employer provided to the scheme (the "employer covenant"[615]) is replaced by capital provided by superfund investors who expect a return for their investment. The superfund will then run the scheme until all the pensions have been paid, or until the scheme can be passed on to an insurance company through buy-out[616]. As shown in Figure 1 below, schemes eligible for buy-out are not expected to enter a superfund. Superfunds offer an alternative strategy for schemes that may not be able reach buy-out levels of funding. If a scheme wishes to run-on (continuing to operate and paying out benefits to its members) despite being fully funded, they will still be able to do this.

Figure 1: Exit Options for DB Schemes: Current (left) and Proposed (right)



19. Encouraging a well-regulated superfund sector may offer a more effective way of managing liabilities for some schemes. This could provide an incentive for employers to inject money

614 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/691285/summary-of-responses-to-the-consultation-security-and-sustainability-in-defined-benefit-pension-schemes.pdf

615 The Employer Covenant is the ability and willingness of the employer to support the scheme.

616 A pension buyout enables the scheme sponsors (whether that be the sponsoring business or the future Superfund) to completely wind up its pension scheme and transfer both its assets and liabilities (and usually the payment of a cash premium) to an insurance company which becomes responsible for honouring pension promises as scheme members retire. Once the buyout is complete, all links with the previous entity are severed.

into their schemes to bring them up to being sufficiently well funded on a prudent basis, so that they can enter a superfund. This potential significant up-front investment would allow the employer to discharge their legacy liabilities and concentrate on their core business. The employer would also be reassured the members of their pension scheme are likely to be better protected in the long term, through the efficiencies of scale offered by a consolidation vehicle and the absence of potential future sponsoring employer insolvency.

20. It is superfund consolidation which is the subject of this IA. The decision whether to consolidate remains voluntary. Trustees of DB schemes will only choose to transfer into a superfund if, on balance, it is in the best interest of the scheme members and has the potential to increase the security of members benefits – i.e., the benefits outweigh the costs when compared against the counterfactual. Given trustee's legal and fiduciary duties it is unlikely that factors such as inertia will prevent schemes moving into a superfund.
21. At the time of writing, one superfund, Clara Pensions has already been approved as meeting TPR expectations in the interim guidance. To date, 3 schemes have been successfully onboarded.
22. As part of the Mansion House reforms on 10 July 2023, the then chancellor Jeremy Hunt set out his initiative to introduce a permanent superfund regulatory regime to provide sponsoring employers and trustees with a new way of managing Defined Benefit (DB) liabilities, as part of a set of measures aimed at enabling the financial services sector to increase pension assets into more productive investments.
23. Following this, DWP also published its response on 17th July 2023 to the superfunds consultation published on 7 December 2018 which set out how superfunds would operate. 60 responses were received from a wide range of organisations and individuals[617]. This has therefore been a result of years of intensive industry and regulatory engagement to build an appropriate safeguarded framework.
24. In the King's Speech in July 2024, the new Government announced plans to legislate in the first session of Parliament for DB Superfunds[618].

Rationale for intervention

25. Superfund consolidators offer several potential benefits. They can provide a new route to securing members benefits for sponsoring employers of closed DB schemes that are unable to afford insurance buy-out. They can also protect members from potential losses in the event of an employer insolvency. They can deliver improved governance through the

[617] Consultation response can be found here: https://www.gov.uk/government/consultations/defined-benefit-pension-scheme-consolidation/outcome/government-response-consolidation-of-defined-benefit-pension-schemes#consultation-on-Superfunds
[618] https://assets.publishing.service.gov.uk/media/6697f5c10808eaf43b50d18e/The_King_s_Speech_2024_background_briefing_notes.pdf

benefits of scale, as well as investing in a more innovative and productive way, which can also be beneficial for the wider economy.

26. Whilst superfunds can already be established under existing legislation, the current regulatory framework is not designed to guard against the new set of risks that superfunds pose. Unlike traditional DB arrangements, superfunds can be a commercial arrangement where investors provide capital to replace the employer covenant and will expect a return on their investment. It is important that controls are put in place to ensure that sufficient capital is provided, and that profit can only be taken in strictly limited circumstances, so that there is an appropriate balance between member security and commercial viability, and that members benefits are properly protected.
27. Maintaining the interim regime poses risks because it is based on guidance rather than regulation. This means TPR are unable to sufficiently monitor the emerging market and intervene where necessary; and, without specific regulations for superfunds, these risks cannot be effectively managed. Not intervening presents greater risk for members of schemes entering superfunds and the PPF. Regulation would provide certainty to enable the superfund market to grow and provide greater certainty for Trustees.
28. There are a number of market failures that necessitate government intervention:
    - ***Positive externalities.*** There are positive externalities/spillovers associated with securing pension benefits with an insurer, in terms of allowing employers to focus on core business and improving the chances of member benefits being paid in full. However, many schemes are still unable to benefit from these through the insurance market – in the latest data, around 1 in 2 schemes were under-funded on a buy-out basis (i.e. unable to afford insurance buy-out). Superfunds provide an alternative route for securing member benefits for such schemes, allowing more schemes/members to benefit from the positive spillovers.
    - ***Moral Hazard.*** It is important that there is a permanent regime regulating the emerging sector to manage levels of risk within the system. Without legislative powers, the Pensions Regulator (TPR) cannot ensure superfunds are funded to a particular level or have specific governance controls. This could lead to inappropriate transfers and higher risks for members and the Pension Protection Fund (PPF).
    - ***Financial stability.*** Superfunds are likely to grow to be of substantial size and scale (several billions). Given the large sums of money involved, if a superfund were to fail it could adversely impact financial markets, the PPF and consumer confidence. It is important that an appropriate regulatory framework is created to ensure that superfunds are effectively managed to ensure financial stability and ensure that

appropriate safeguards are in place to protect the market and members where there is no regulation currently in place.

- ***Market Limitations:*** The absence of a firm regulatory regime addressing these market failures may inhibit the growth of an emerging superfund market. Although Clara Superfund is currently operating under interim guidance, the lack of clear regulation has led to the winding down of other superfunds, such as the Pensions Superfund and greater certainty from legislation has been welcomed by industry.

29. Consolidation can also pose potential costs in terms of the increased risks to the market and members. There are several key risks associated specifically with superfunds compared with other types of DB pension schemes. These are:

- ***Regulatory arbitrage*****.** Some employers may see superfunds as a cheaper alternative to buyout with an insurance provider, even though the latter may be in the best interests of members (and provide greater likelihood of achieving full benefits).
- ***Replacing the employer covenant with a capital buffer*****.** An employer covenant refers to the financial ability and legal obligation of an employer to support its pension scheme, both now and in the future. A capital buffer is a financial reserve set aside, acting as a safety net to ensure that the scheme can meet its obligations to members even if unexpected financial difficulties arise. Replacing the employer covenant with a capital buffer with no ongoing recourse to a sponsoring employer once the capital buffer is depleted, means that there will be a significant reliance on investment performance and the superfund corporate entity being able to top up funding if needed.
- ***Change in relationship between key players*****.** Superfund business models create a significant change in the traditional relationships between key players (members, trustees, employers, and commercial providers) involved in running a DB pension scheme, including different behavioural incentives on which the current system of DB legislation and regulation is built. This poses a different set of risks to those found in traditional DB arrangements.
- ***Introduction of a profit motive*****.** Currently Superfunds have been developed based on being run for profit. The introduction of a profit motive introduces a new dynamic in managing DB pension schemes which is not relevant to the current system of DB legislation and regulation.
- ***Scale*****.** Due to the potential size of superfunds and the amount of liabilities they could hold, the associated concentration of risk is much higher than for other pension schemes. In the case of a superfund failure, it's likely to have a much larger impact on

consumer confidence and the PPF than would be the case for a single employer insolvency. The PPF provides compensation to pension members where an employer becomes insolvent, and the scheme cannot afford to pay the promised level of benefits.

30. As a result, regulation around the forms and circumstances in which consolidation can take place is critical to help mitigate these risks. The rationale for government intervention is therefore:
    - **To protect members and the PPF** from the different risks posed by superfunds which are not covered by the current system of DB regulation, whilst allowing enough flexibility to allow for greater innovation in managing legacy DB liabilities.
    - **To ensure superfunds entering the market are authorised by TPR** so that transferring trustees and members can have confidence that superfunds are operating to a clearly defined set of standards.
    - **To protect confidence in pension saving by reducing the risk of failure** in the superfund market.
    - **To prevent schemes transferring into a superfund where it is judged not to be in members' best interests**, for example, where an insurer may take on a scheme and give greater certainty of delivering member benefits.
    - **To help reduce fragmentation** in the DB sector in the long term, given there remain around 5,000 private-sector DB pension schemes, with only a small number (around 200) currently open to new members.

Policy objective.

31. The key policy objectives are:
    - To ensure **legislation effectively controls the unique risks** posed by a new and innovative pension arrangement, and that TPR has the necessary powers to effectively regulate and enforce standards. The regulation will include the replacement of the employer covenant by external capital, potential commercial interests within the superfund, and other factors that influence their financial resilience and viability.
    - To allow for **innovation within the DB** market which balances the need for member protection and the commercial viability of superfunds.
    - To **prevent inappropriate transfers** to a superfund vehicle.
32. This is Primary Legislation. Details pertaining to the specific regulation of superfunds are to be worked through in secondary legislation and working with the industry. Therefore, the IA

presents the best picture based on current available evidence and policy design; however, it is important to note that this is subject to change.

Description of options considered (including status-quo)

Option 1: Do nothing.

33. This option would retain the current counterfactual in which only one superfund operates. However, there would be insufficient safeguards in place to guard against the unique risks that superfunds present. For example, until legislation is in place, TPR will not have direct legislative powers to require the superfund to be funded to a particular level or have any particular governance controls in place, nor would it have powers to stop inappropriate transfers proceeding. In a market potentially worth billions of pounds supporting 100,000s of members, it is not believed that this option is appropriate.
34. To date the emerging superfund market has been guided by regulatory measures, such as guidance. TPR has published interim guidance to operating superfunds and to employers and trustees considering transferring into a superfund (revised guidance was published in July 2024[619]). However, guidance is not enforceable. While applicants to TPR have to date followed this guidance, there is a risk that in the event of non-compliance, the TPR would not have the powers they need to effectively regulate and enforce standards for superfunds, posing a higher risk to members and the PPF.
35. This option may also inhibit the growth of the emerging market. While a superfund has already been set up to take on schemes (Clara Superfund), the absence of a firm regime could be a deterrent to other providers in the market. The 'Pensions Superfund', ultimately wound down their superfund, citing the lack of clear regulatory guidance making the market "uninvestable"[620].
36. Schemes may also find it difficult to enter superfunds. Trustees have a duty to ensure the best outcome for members, which would mean fewer schemes would be willing to enter an unregulated market. This has also been suggested by LCP[621] who said the lack of certainty was an issue for both trustees and investors.
37. Further regulation has been encouraged by stakeholders. Insurers are keen further regulation is put in place to prevent the risk of regulatory arbitrage. The Prudential

619 https://www.thepensionsregulator.gov.uk/trustees/wind-up-or-transfer-your-scheme/db-superfunds/superfund-guidance-for-prospective-ceding-trustees-and-employers

620 https://www.researchgate.net/publication/395234965_Longevity_Risk_and_Capital_Markets_The_2023-24_Update

621 https://www.nortonrosefulbright.com/en/knowledge/publications/111f460f/pension-Superfund-to-wind-down-after-failing-to-secure-regulatory-authorisation#:~:text=In%20the%20meantime%2C%20the%20Regulator,for%20both%20trustees%20and%20investors

Regulation Authority have also previously raised concerns about superfunds and have supported the development of a regulatory regime with a more robust framework[622].

38. Given this, it is unlikely that this option could enable a superfund market to operate successfully or meaningfully. Therefore "do nothing" is not considered a viable option.

Option 2: Subject superfunds to the same regulatory framework as an insurer.

39. This option would mean superfunds were held to the same regulations and framework as insurers. The PRA have been supportive of this, suggesting the current insurance regulations regime would give the regulator robust powers of rule-making and supervisory intervention.
40. However, this would limit superfunds ability to operate effectively, as they would face more prudent regulation (based on Solvency UK) and be unable to take the financial risks they are designed to take which would increase prices and bring them into operating in the same markets as insurers, rather than serving those schemes which are not currently able to buy-out.
41. A strong insurance market already exists and is continuing to expand. As of November 2025, there were 11 insurers writing buy-in and buy-out business in the UK, although LCP predict there could be a merger of two insurers in 2026.[623] Creating regulation to crowd the market with more participants, without expanding access to market solutions for sponsoring employers to pass on their schemes, would be inefficient and increase regulatory complexity. Schemes that are under-funded on a buy-out basis would then struggle to access commercial consolidation and/or face no-exit solution.
42. From the perspective of members, where their scheme remains underfunded relative to buy-out, they would still have to remain within their DB scheme and therefore face the risk of lower pension benefits if their employer went into insolvency. Schemes would continue to have no exit solution for their employers – therefore not addressing the reason for intervention and the market failures that exist.
43. Therefore, this option is not the preferred option.

Option 3 (<u>preferred option</u>): create a legislative framework and an authorisation regime within which superfunds could operate.

44. This option would introduce a new legislative framework for superfunds which would:

[622] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/pra-response-to-dwp-consultation-paper-defined-benefit-pension-scheme-consolidation.pdf
[623] https://insights.lcp.com/rs/032-PAO-331/images/LCP-PRT-Report-2025.pdf

- **Require superfunds to be authorised** in order to operate within the DB market based on certain authorisation criteria.
- **Provide TPR with new powers** to:
- **Authorise or refuse** to authorise a superfund.
- **Operate an ongoing approach to regulation** through the life of the superfund which would require the superfund to report certain changes or developments.
- **Require key information from the superfund** and connected parties that is relevant to the regulation of the superfund.

45. The preferred option requires primary legislation supported by secondary legislation. The primary legislation will set out the framework for authorisation based on the following criteria – that the superfund:
    - can be effectively supervised;
    - is run by fit and proper persons;
    - has effective administration, governance, and investment arrangements;
    - is financially sustainable;
    - has contingency plans in place to protect members; and
    - enhances the likelihood of members receiving their benefits in full.
46. This measure would meet the two-fold policy objective of facilitating the industry to innovate and expand, whilst ensuring that consolidation does not happen in a legislative environment that is not sufficient to ensure security and good governance.
47. Therefore, this is the preferred option.

Evidence behind the rationale for intervention

48. As DWP set out in the White Paper, the evidence base highlights the benefits consolidation might bring in reducing on-going costs; allowing access to more diversified and sophisticated investment strategies; and improving the standards of governance. Ultimately, consolidation will not alter the intended benefits members have accrued in their DB pension schemes; however, it is expected to offer a higher probability of members receiving full benefits and offer businesses under certain circumstances an option of delivering the same promises at potentially lower cost than buy-out. Without intervention, 1,000s of schemes and employers continue to face no exit option, potentially impacting their business and member outcomes.

Scheme running / administrative costs

49. Evidence shows larger schemes can benefit from economies of scale and have lower administrative and total scheme running costs per member – see Table 3. Although the research is dated, the findings are consistent with research such as the DC Pension Charges Survey, which also shows the larger schemes were more economic per member and, having larger total funds often allowed larger schemes to leverage a lower ongoing charge[624].

Table 3. Typical yearly administration and total scheme running costs for the scheme per member, by scheme size.[625]

	Small schemes (2–99 members)	Medium schemes (100–999 members)	Large schemes (1,000–4,999 members)	Very large schemes (5,000+ members)
Median admin fee per member, £	301	140	68	42
Median total cost per member, £	905	411	259	177
Mean total cost per member, £	1,054	505	281	182

Investment impacts

50. Evidence from both DC and DB shows mixed evidence between scheme size (by Assets Under Management (AUM)) and gross (underlying) investment returns[626]. The benefits of having fewer, larger pension schemes mostly show through economies of scale that improve governance and help lower costs (improving net returns i.e. returns after accounting for costs and charges).
51. Evidence from CEM benchmarking finds that, net of costs, DB funds with more than $10bn (USD) AUM have consistently delivered excess returns that are significantly higher than smaller funds with under $1bn (USD) AUM thanks to these scale economies[627]. This outperformance has mostly been through larger schemes having the ability to implement private assets internally, resulting in much lower overall private asset management costs. Large schemes also have much lower staffing per dollar invested and negotiate lower fees to external managers, all of which improve net returns and value added[627].

624 https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes#executive-summary

625 The Pensions Regulator. 'DB scheme running costs research 2014'. 2014. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125115mp_/http://www.thepensionsregulator.gov.uk/docs/db-scheme-costs-research-2014.pdf tables 4.2 and 3.4.

626 For example, Figure 11 in https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf shows that across the AUM spectrum of scheme size, there are examples of small, medium and large-sized schemes with both relatively high and relatively low gross returns.

627 https://www.imcoinvest.com/pdf/research/CEM-Benchmarking-Report_A-Case-For-Scale-February-2022.pdf

52. The asset mix of larger funds tends to differ from smaller funds through increased investment in alternatives (such as infrastructure, hedge funds, property, and private equity) and lower levels of investment in assets such as annuities and listed equities. Although alternatives are more expensive to manage, the expected risk-adjusted return may be greater and provide diversification benefits, which may lead to improved or less volatile investment outcomes.

Table 4. Asset mix by scheme size for UK DB Schemes [628].

	Listed Equity	Unquoted equity	Bonds	Other
Under £5m	27%	0%	42%	31%
£5m-£10m	27%	1%	49%	23%
£10m-£100m	21%	1%	74%	4%
£100m-1bn	16%	2%	74%	7%
Over £1bn	11%	7%	67%	15%

Quality of governance

53. All DB occupational pension schemes are run by trustees. However, evidence suggests small schemes are more likely to have non-professional trustees[629] (TPR research indicates 83% of trustees for small schemes are non-professionals compared to 60% for larger schemes).

54. Evidence also tends to suggest that on average bigger schemes are likely to have better quality of scheme governance. TPR's research[630] shows larger schemes were more likely to have:

- **trustee boards that meet more frequently** (46% of small, 63% of medium, 93% of large schemes reported to have boards that meet at least every quarter),
- a **trustee training plan** and log (20% of small, 46% of medium, and 61% of large),
- in place a **documented policy to assess the fitness and propriety of new trustees** (49% of small, 61% of medium, and 74% of large),
- **read the guidance** on how to assess employer covenant (small 79% / all trustees 90%) and the guidance on integrated risk management (small 65% / all trustees 83%),
- in general, **higher self-reported trustee knowledge and skills**.

[628] Adapted from chapter 7 of The Purple Book 2023 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf

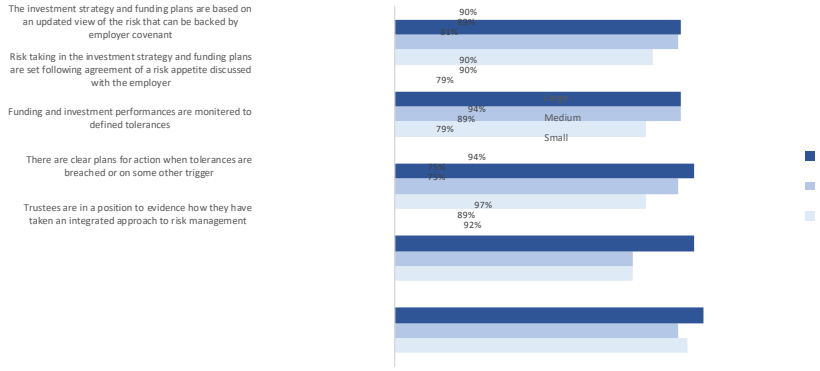
[629] Table B38 https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125152mp_/http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

[630] IFF Research on behalf of TPR, 'Defined benefit trust-based pension schemes research', 2017. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20180702134247mp_/http://www.thepensionsregulator.gov.uk/docs/db-research-summary-report-2017.PDF and TPR, 'Trustee Landscape Qualitative Research', October 2015. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20180103170253/http://www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

55. One expectation TPR has in relation to managing risk is that schemes carry out a number of activities to ensure that funding, investment, and covenant risks are managed in an integrated way between valuations. The five activities are shown in the figure below (Figure 2).
56. The results suggest a lower proportion of trustees from smaller schemes engage with the listed five activities relative to their counterparts in larger schemes. This may imply that on average trustees of larger schemes tend to be relatively better equipped to assess and manage the three key risks relating to defined benefit pension schemes – funding, investment, and covenant. This is not to say that all small schemes do not manage their risks or that all large schemes better manage their risks. In fact, anecdotal evidence suggests that there are certain small schemes who do engage in bespoke activities such as Integrated Risk Management at a reasonable off the shelf price. However, on average larger schemes tend to engage more effectively with Integrated Risk Management, which according to the Regulator forms an important part of good scheme governance[631].
57. This evidence does indicate larger schemes are, on average, better governed relative to their smaller counterparts. This implies larger consolidator funds, which would be a large scheme by nature, have a higher probability of being well governed; and it is expected the authorisation and supervision regime intended to be put in place for superfunds will require higher standards of governance to be demonstrated.

[631] Further guidance on Integrated Risk Management on TPR's website. Available at: https://www.thepensionsregulator.gov.uk/en/trustees/investment-and-db-scheme-funding/integrated-risk-management

Figure 2. How schemes manage funding, investment, and covenant risks between valuations



Protecting member benefits

58. The evidence for consolidation is set out above. Superfunds are one method of achieving consolidation. However, without clear regulation of superfund vehicles, there are potential risks to protecting member benefits and the PPF. These include:
    - the fact that there is **no enforceable recourse to the former sponsoring employer**, to get further financial support once the capital buffer has been exhausted under the current regime post transfer.
    - the **commercial element** of the emerging superfund propositions and the expectation of investors to make reasonable profits from capital which they put at risk alongside the assets of the scheme.
    - given the potential size of superfunds, the **consequences of their investment strategy failing** could have significant impacts for scheme members and the PPF levy payers.

Providing a clear legislative and regulatory framework for superfunds

59. Although there is evidence of interest in transferring into superfunds, the initial feedback received from advisors of corporate sponsors of DB schemes suggests there is a general nervousness about engaging in this new market until further safeguards are embedded in

legislation. LCP suggested the lack of legal certainty was an issue for both trustees and investors[632].

Likelihood of reaching insurer/allowing employers to focus on business

60. The Purple Book indicates there were around 1,900 schemes in deficit on a buy-out basis, as of 31st March 2023. For buy-out with an insurer (for full benefits) schemes need to be funded to at least 100% on a buy-out basis.
61. For schemes that are underfunded, there is no real alternative end-state solution. The employers of underfunded schemes must make Deficit Reduction Contribution (DRC) payments in certain circumstances; however, they face the risk of changes in macroeconomic conditions further worsening their funding position and requiring more financial support from the employer. ONS data indicates since Q1 2020, DB schemes have paid over £50bn in DRC payments (an average of over £12bn per year))[633]. By allowing employers to consolidate their scheme into a superfund, the ongoing financial support the scheme needs that constrains employers and presents future risks is removed – allowing employers to focus on the business rather than continuously supporting the scheme, as well as increasing the chance of the scheme reaching buy-out (as superfunds can also buy-out with insurers within their vehicle).

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

62. A wide-range of sources and evidence has been used to build a strong evidence-base to identify the problem and impacts of the solutions. This has included:
    - **Analysing several key data sources from TPR, the PPF and ONS.** This includes the publicly available purple book, as well as commissioning analysis from TPR for more in-depth figures (e.g., figures on schemes by covenant groups, breakdowns of scheme numbers by size and funding band etc), TPR research on trustees, and using the ONS ASHE publication for data on wages. Data from TPR analysis as at June 2023.
    - **Number of industry publications –** papers from various sources have been used to build the evidence base and support assumptions made in the costings including publications by First Actuarial, and LCP.

[632] https://www.nortonrosefulbright.com/en/knowledge/publications/111f460f/pension-Superfund-to-wind-down-after-failing-to-secure-regulatory-authorisation#:~:text=In%20the%20meantime%2C%20the%20Regulator,for%20both%20trustees%20and%20investors
[633] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/datasets/fundedoccupationalpensionschemesintheuk

- **Direct discussions with GAD** to test the IA assumptions and costings and to sense check results of the analysis with pension and actuary experts.
- **GAD modelling was commissioned** to assess the regulatory parameters required to meet the superfund policy objectives for authorisation which provides the foundation for the changes. This has been iterated as the policy has developed, economic conditions have changed, and greater levels of detail emerge. The key GAD assumptions are included in the annex, which are drawn from the work done around 2022. The modelling highlights the sensitivity of pricing, given a set of assumptions, on entering a superfund. Therefore, the IA balances the GAD modelling through sensitivity analysis around the price of entering a superfund (around 94% of buy-out price). This is assumed to vary in the region of 90-99%. This will be dependent on economic conditions, the competitiveness of insurance (and superfund) market, and level of risk/return that can be achieved.
- **Engagement with industry** via consultations and roundtables on the policies.

63. However, there are also challenges. Only 1 superfund exists. This presents challenge in estimating to avoid disclosing any sensitive commercial details and limits the amount of information available for a brand-new type of pension regime. This limits some parts of the analysis.

64. It is also recognised at Primary Legislation stage that policy details are still to be fully developed and worked through. Consequently, the Department will further engage with industry ahead of secondary legislation stage, to enhance the understanding on costs and benefits of the proposals and develop the evidence and impacts.

Counterfactual

65. Establishing a counterfactual is not straightforward given the current situation. There have been two propositions for superfunds since the idea was proposed, with only one (Clara) being fully launched and approved by the Regulator under the interim regime. Nevertheless, as outlined above, there is clear evidence and concerns that a fully functioning superfund market cannot exist without a strong, clear, and legislated for, regime. The counterfactual options included:

a) **No consolidators are created –** Given consolidators have emerged since the policy was floated and discussion of a superfund framework have been proposed, it is not

reasonable to assume the superfund market would not exist without plans to introduce this legislation.

b) **A small number of consolidator and transactions are created/enacted –** Given a consolidator has been created, this may suggest some form of consolidation would happen regardless of the framework. However, the lack of additional superfunds being created in the absence of legislation suggests greater certainty on the framework is required.

66. There is no reasonable way to establish how many superfunds and of what quality would be launching in the absence of the proposed legislative and regulatory framework. Without a permanent regime, it is unclear whether superfunds would continue to operate indefinitely. For the purposes of the IA, the following assumptions are made:

- The number of consolidators in the absence of the proposed option being introduced would be very limited; and
- The quality and outcomes could be at risk of being mixed, with the potential of adverse outcomes in some cases outweighing positive outcomes in other cases.
- Very few deals and schemes would enter a superfund as without a permanent regime, trustees may be reluctant to enter their members into a superfund.

67. Although the assumptions are arbitrary (albeit based on a certain rationale and signals as discussed above), they are made only for the purposes of evaluating impacts in this IA. Based on this, the approach taken is that **minimal consolidation would take place in the counterfactual**. The impacts discussed, unless stated otherwise, are based on a counterfactual with a very small superfund market existing, and the framework allowing superfunds to take on larger, more significant assets.

<u>Scope – how many schemes and members in them will go into superfunds.</u>

68. It is incredibly difficult to assess how many schemes will go into superfunds as this is a new form of DB consolidation and market reaction is impossible to assess with certainty. Industry feedback has also suggested significant uncertainty and this being dependent on the parameters set in the framework.

69. However, it is possible to outline the likely parameters of schemes which may be attractive to consolidators; and who may be in scope of seeking an alternative DB long term solution that may not be with an insurer. The key parameters when assessing the potential market size include:

a) **Membership size –** Schemes too large (over 10,000 members) are likely to be open (and therefore continue to run-on as a scheme) and are more likely to transact with an

insurer which brings even greater certainty. Larger schemes are generally preferable to insurers for several reasons, including economies of scale.

b) **Funding level –** Those with funding above 95% may be more likely to aim towards the insurance market; those significantly below 90% buy-out may not be able to afford the capital required for the consolidator.

c) **Employer security –** Those employers who may have weaker security may be more likely to seek buy-out of their DB scheme.

d) **Closed schemes** will transact, whereas open schemes (albeit a very small part of the market) are highly unlikely to enter.

70. It is estimated **approximately 130 schemes with 130,000 members, holding around £20bn in liabilities and £17bn in assets** (once adjusted for take-up) would fall within scope for consolidation as a result of the preferred option. This figure is highly uncertain, and the exact number will depend on how exactly the industry will react, future economic conditions, and competition amongst superfunds. This could be significantly greater if the market grows. The assumptions used for this estimate are summarised in table 5 and discussed in more detail below. The underlying data is from The Pensions Regulator, providing accuracy in identifying the proportion of schemes, assets, and memberships in scope.

Table 5. Summary of the potential scope of schemes that could enter a superfund.

Expected criteria for DB schemes that are in scope for transferring into a superfund	**Rationale** (See paragraphs 61 - 78 for further detail)	**Proportion of DB schemes**
Membership size	It is assumed the schemes in scope for consolidation are those with membership sizes between 100 and 9,999 members.	60%
Funding level	It is expected that those most suitable to be schemes are funded between 70% and 90% on a buy-out basis. Schemes funded below 70% are unlikely to be able to afford consolidation, whilst schemes funded above 90% are already likely to be in scope for insurance buy-out.	30%
Scheme membership	It is not expected for active members to have their liabilities transferred to a superfund. Open schemes must currently be affordable to employers and therefore sustainable (otherwise they would not remain open to new members). Therefore, only expect schemes that are closed to new members and closed to future accruals to be within scope of entering a superfund.	92%
Covenant of the sponsoring employer	It is expected schemes within Covenant Groups 2 and 3 (i.e., those with weak employer covenants, meaning they have a lower financial ability to support their DB pension scheme) will be able to demonstrate that members' benefits are more likely to be secured within a superfund rather than having a sponsoring employer securing members' benefits	64%

71. For the purpose of this IA, a uniform distribution is assumed across each of the expected criteria for all 5,063 schemes in the current DB universe[634]. As a result of this, it is expected approximately **520 schemes would be within the potential scope of entering a superfund** (5,063 schemes * 60% (based on membership size) * 30% (based on funding level) * 92% (closed schemes) * 64% (covenant level)). **Adjusting for take-up (discussed further below) this is around 130 schemes**.

[634] Pension Protection Fund. 'Purple Book 2023', figure 2.1. Available at: https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf

72. To sense check the estimate, using TPR scheme-level data on how many schemes fall within specific funding ratios and size, this method estimates around 560 schemes are within scope for superfunds, falling to around 130 after adjusting for take-up. The similarity from using more detailed splits from TPR data supports the assumptions used above.
73. The first expected criteria for eligibility to transfer into a superfund is whether schemes are permitted to consolidate by the regulatory and authorisation framework that will be put in place. Consolidation of a DB scheme will only be permitted if it matches these policy principles:
    - Ensuring that superfund consolidation offers a **clear and viable option to improve security for members**.
    - Ensuring that **superfund consolidation is not seen as, and cannot be used as, an alternative to insurance buy-out** for schemes who are expected to be able to afford buy-out in the foreseeable future.
74. As buy-out provides greater certainty of benefits to members[635], schemes that are assessed by the trustees as having a realistic prospect of buy-out either now or in the foreseeable future (in this context 'foreseeable future' is defined as a period of up to five years) will not be permitted to consolidate.
75. In addition to eligibility relative to the policy principles, key determinants of the potential number of schemes that are suitable for consolidation are size of the current scheme, funding level, and covenant strength of the sponsoring employer.
76. A small additional number of schemes may enter superfunds on a PPF+ basis. A PPF+ case is when a DB scheme with a failed employer comes out of PPF assessment because it is funded above PPF compensation levels but has insufficient assets to secure full benefits on the insurance market. The inclusion of these cases may expand the superfund market. However, it would be very difficult to predict how many schemes will fail and enter PPF assessment and have funding levels above the requirement from the PPF. As context, around 60 schemes are currently in assessment with the PPF[636], with only a fraction of these likely to exit the PPF. Given the significant uncertainty, these schemes have not been included in the calculations.

Membership size.

[635] Insurance buyout is still considered to provide greater certainty of benefits to members than transferring into a Superfund because capital requirements for insurance companies are much higher than for most sponsoring businesses and future Superfunds, so there is more of a cushion. Moreover, buyout 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.

[636] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

77. A key benefit of entering a superfund will be the efficiencies derived from economies of scale. These potential benefits include lower scheme running/administrative costs per member, better governance standards and better investment diversity (due to having a wider and more innovative mix of investment opportunities). However, even some of the largest schemes could still fall within the scope for consolidation if they meet the eligibility criteria.
78. Consequently, when assessing which schemes are more likely to enter a superfund, it is assumed the very large schemes (those with 10,000 or more members) would be less likely to benefit from such efficiencies and as such would be less likely to consolidate. That does not mean larger schemes cannot, or will not, enter superfunds. It is just considered less likely. Moreover, although very small schemes (those with fewer than 100 members) could potentially benefit the most from consolidation, it is assumed they are also unlikely to enter a superfund because new consolidation vehicles are more likely to target the larger schemes in order to achieve the benefits of scale more rapidly. Very small schemes would also have low assets (on average) which impacts scale and profitability, especially early on for superfunds.
79. Therefore, it is assumed the range of schemes in scope for consolidation are those with membership size between 100 and 9,999 members, which accounts for approximately 60% of all DB schemes[637].

Funding level

80. A key aim of creating this legislative framework for consolidation vehicles is to reduce the risks of members not receiving their benefits in full. For schemes with a realistic prospect of buy-out in the insurance market, either now or in the foreseeable future, entry into a superfund will not be permitted. This is assumed to be at a level of at least 90% on a buy-out basis. Therefore, it is assumed that schemes that have such funding are not within scope of transferring into a superfund. This is based on GAD modelling but is also highly sensitive to economic conditions and the funding model used by a superfund.
81. By moving to a superfund and breaking the link with the sponsoring employer, the trustees are replacing protections provided by the original sponsor (the employer covenant) with a financial covenant provided by a capital buffer which sits outside the scheme assets in the superfund structure. In order to protect the members of the superfund from a weakening of the funding position, the sponsoring employer (or another group company) of any underfunded scheme looking to transfer into a superfund would be required make a significant injection of capital to bring the funding level up to that of the superfund scheme.

[637] Pension Protection Fund. 'Purple Book 2023'. Available at: https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf

The more the scheme is underfunded, the larger the required cash injection and therefore the more likely that a sponsor would view consolidation as unaffordable. Consequently, when assessing the potential scope for consolidation, it is assumed those with current funding levels below 70% on a buy-out basis would not currently be suitable for consolidation as they would be unable to afford the required injection of capital and corresponding entry price.

82. Therefore, it is expected those most suitable and likely to consolidate to be schemes which have funding levels between 70% and 90% on a buy-out basis, covering approximately 30% of pension schemes based on TPR data[638]. When assessing this over the ten-year period, it is expected those with funding at 80-90% to be more likely to potentially consolidate within the first five years and will require a lower injection of additional funds to match the gateway requirements outlined in the consultation document[639]. Whereas those funded at 70-80%, may require more time to fall within scope for consolidation as they would need more time to pay the ongoing DRCs and more time for convergence in funding levels[640]. As such, it is expected that the remaining schemes will consolidate within years 5-10 of consolidation framework coming into force.

Scheme membership

83. Similar to insurance buy-out, it is not expected that the liabilities of active members would be transferred into a superfund. This is because active members are still paying into their schemes and building up entitlements. This presents additional uncertainty for superfunds, like insurance companies for buy-out, in estimating the liabilities they would have to pay. Consequently, it is expected that only deferred and pensioner members would transfer into superfunds.
84. When assessing the potential scope for consolidation by scheme status, open schemes are excluded as they are still open to new members, implying that they are affordable to employers and therefore sustainable. Those schemes winding up (and likely entering the insurance buy-out market) are excluded because these schemes are already in the process of closing and ending the trust.
85. Schemes that are Closed to Future Accruals (CTFA) solely consist of deferred and pensioner members; therefore, all CTFA schemes are within scope for transferring into a superfund.

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[638] TPR analysis (https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/options-for-defined-benefit-schemes)

[639] Department for Work and Pensions. 'Consolidation of Defined Benefit Pension Schemes' (Public Consultation). 2018. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/762503/consolidation-of-defined-benefit-pension-schemes.pdf

[640] It is acknowledged this will not always be the case, and that if the employer is cash-rich to a sufficient level then a scheme with a lower funding ratio will be able to enter a consolidator quicker. However, it cannot be estimated the likelihood of this and therefore use the above assumption

Although active members of schemes that are Closed to New Members (CTNM) are not expected to be transferred, the deferred and pensioner members in the CTNM schemes have the potential to have their liabilities transferred to superfunds via bulk transfers. Table 6 shows the current split across the DB universe.

Table 6. Distribution of schemes by scheme status in 2023[641]

Year/Percentage of Schemes	Open	Closed to New Members (CTNM)	Closed to Future Accruals (CTFA)	Winding up
2023	4%	20%	72%	4%

86. As a result, around 92% (20% + 72%) of all schemes are in potential scope for consolidation, either transferring all or part of their scheme into a superfund.

Covenant of the sponsoring employer

87. A final criterion for the potential scale of consolidation is regarding the schemes being able to show a demonstrable covenant enhancement of transferring into a superfund. That is, whether the scheme trustees can demonstrate members' benefits are more likely to be secure within a superfund rather than having a sponsoring employer securing members' benefits.
88. DB schemes are currently analysed in 4 covenant groups (CG1 to CG4) ranging from "Strong" (CG1) to "Weak" (CG4). It is expected that the majority of CG2 schemes and all CG3 schemes would fall within the scope of consolidation, based on a demonstrable improvement in covenant transferring into a superfund. Whereas CG1 schemes may have a realistic prospect of buy-out either now or in the foreseeable future and CG4 schemes might not be able to afford the additional payments outlined above. Analysis of TPR data suggests 64% of schemes would fall within this group.
89. Based on the above assumptions, it is expected that the potential scope of schemes to enter a consolidation vehicle to be approximately 520 schemes (5,063 * 60% * 30% * 92% * 64%). However, it isn't necessarily expected that all schemes will enter a superfund. Estimating take-up is challenging for a new initiative; however, a number of surveys give us an indication of potential interest in entering a superfund (to varying degrees of quality). For example:

[641] TPR: Occupational defined benefit (DB) landscape in the UK 2023 Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20241206061158/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-benefit-landscape-in-the-uk-2023

- Research by TPR suggested around 25% of employers for small to medium schemes were interested in consolidating[642].
- This is supported by the findings of AON at a webinar focused on the pension's implications of the Mansion House Speech in 2023. Of the 330 attendees, 26% said they would consider entry into a commercial consolidator or superfund[643].
- Other research, from surveys undertaken by LCP suggest that interest in superfunds may be around 5%[644].
- This is supported by TPR's DB trust-based pension schemes research which found around 5% of small schemes had a long-term objective of entering a superfund[645]. However, a more certain regulatory framework could lead to greater interest.

90. Based on the above, a 25% take-up rate has been used; however, analysis using the lower range of figures has also been conducted (see sensitivity analysis). Adjusting for take-up, it is expected that around 130 schemes would enter a superfund over the ten-year period. It is important to note, this could be significantly higher, depending on how the market develops.
91. As set out above, it is expected that schemes with 100-9,999 members to be most likely to consolidate. For the purposes of the central scenario assumption, it is broadly assumed that there are, on average, 1,000 members per eligible scheme. Data based on the estimated weighted average for the number of schemes with 100-9,999 members from the Purple Book[646] have an average of around 400 members; however, it is likely superfunds will target schemes slightly larger in size in order to benefit from the economies of scale. Therefore, this level is adjusted upwards. When accounting for the active members who are not expected to transfer into a superfund (as outlined above), it is estimated around 500,000 members (520 * 1,000 * 92%) will be in schemes that have the potential to enter superfunds over the next ten years. Assuming average assets of £130,000 per member[647] – this represents a **potential market with assets of approx. £70bn for superfunds.**
92. Once adjusted for take-up rates, it is **estimated that around 130,000 members may enter a superfund (after take-up)** (130*1,000). Based on these 130,000 members in scope to enter a Superfund, it is estimated that around **£20bn in liabilities and £17bn in assets would enter superfunds over the next 10 years**. This is based on the average assets per

[642] TPR Defined Benefit Trust-Based Schemes Research 2023, Figure 3.9.2. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20240605044208/https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis

[643] https://www.aon.com/unitedkingdom/media-room/articles/aon-poll-db-schemes-consider-alternatives-benefits

[644] https://insights.lcp.com/rs/032-PAO-331/images/LCP-Chart-your-own-course-06-2024.pdf

[645] Table 3.1.1 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2023.ashx

[646] https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

[647] This figure is based on TPR data on total assets in underfunded schemes, and total members in underfunded schemes.

member being £130,000 per member[648], and average liabilities being £150,000 per member[649].

Summary of Costs and Benefits

93. The below table summarises the total discounted cost and benefits (2024 prices, 2025 present value):

Cost/Benefit Type		Total over 10-year period (£)
Initial familiarisation Costs:		**£2,000,000**
Cost to Schemes	Initial familiarisation cost	£1,200,000
	Secondary Familiarisation cost	£900,000
Cost to Superfunds	Familiarisation cost to superfunds	£800
	Authorisation fee to superfunds	£200,000
Ongoing costs		**£1,151,000,000**
Cost to Schemes	Employer contribution needed to enter superfund	£1,107,000,000
Cost to Superfunds	Superfund running costs	£45,000,000
Ongoing Benefits		**£2,089,000,000**
Benefit to schemes	Saving from reduction in scheme running costs	£274,000,000
Benefit to Superfunds	Investment returns to superfunds	£1,110,000,000
Benefit to members	Benefit from increased likelihood of receiving full pension	£705,000,000

94. Costs and benefits are modelled over the standard Green Book 10-year appraisal period – while pension schemes work to long-term horizons, policy uncertainty and the uncertainty over scheme behaviour supports the use of a 10-year appraisal as opposed to any longer periods; especially as establishing the counterfactual becomes more uncertain with time.
95. It is assumed all costs (aside from initial familiarisation costs) would be **indirect costs**. This is because both entering and/or creating a superfund is optional. The regulations do not mandate schemes to enter a consolidation vehicle, or for businesses to create their own superfunds. Therefore, these costs/benefits are avoidable and dependent on trustee behaviour.
96. As such, whether a scheme enters a superfund will be up to the scheme itself, and it is expected that there will be quite a few steps before a scheme or business decides to enter/create a superfund (i.e., needing to understand superfunds, needing to decide if it's

[648] This figure is based on TPR data on total assets in underfunded schemes, and total members in underfunded schemes.
[649] This figure is based on TPR data on total assets in underfunded schemes, and total members in underfunded schemes.

appropriate for the business/scheme, assessing options, ensuring funding etc.), making it an indirect business cost.

Costs and benefits to businesses

Businesses with a DB scheme

97. Very few employers now have a DB pension scheme. Although the scheme meets the cost of running the pension scheme, many sponsoring employers will help meet these costs.
98. The proposed legislative change of allowing Defined Benefit pension schemes to be entered into a superfund is voluntary. Sponsoring businesses will have to incur initial screening costs and familiarisation costs (of understanding the new legislative framework) and implementation costs (of entering a superfund).
99. *Initial screening costs*. In a broad sense, consolidation is not a new concept to the pensions industry. There are already several consolidation options available to DB schemes, such as DB Master Trusts[650]. Additionally, in the counterfactual (that the proposed legislative change does not occur) the existing commercial consolidator would still operate, albeit in an unregulated environment. Consequently, it is assumed that sponsoring businesses already have a basic understanding of the concept of consolidation in the baseline, and so their initial screening costs are considered negligible.
100. *Familiarisation costs*. Following from the initial screening costs, more detailed familiarisation of the specifics of understanding the new legislative and regulatory framework will be required for sponsoring employers and trustees to make an informed decision of whether to discharge their liabilities into a superfund.
101. Although this legislative change is voluntary, it is anticipated that trustees of all schemes will undertake a degree of familiarisation of the legislative change. As trustees are bound by Trust Law and have a fiduciary duty to work in the best interests for their members, it is expected that the trustees of all schemes to familiarise themselves with DB consolidation to determine whether they are within scope and whether it is in the best interests of their members to transfer into a superfund.
102. Given the level of information and legislation, it is assumed that this one-off cost will take trustees of each of the 5,063 schemes in the DB universe around 2 hours of work to read and digest the information in order to determine whether their scheme is potentially suitable for transferring into a superfund. Each scheme has an average of around 3.2 trustees[651].

[650] Generally, there is no transfer of liabilities with DB Master Trusts, so it isn't consolidation in the same literal sense

[651] Trustee Landscape Quantitative Research 2015- Estimate based on Figure 3.2.3 Number of trustees by scheme size., page 14: https://webarchive.nationalarchives.gov.uk/ukgwa/20170712122409/http:/www.thepensionsregulator.gov.uk/docs/trustee-landscape-quantitative-research-2015.pdf

Using the Annual Survey of Hours and Earnings (ASHE) dataset[652] for the median wage rate of corporate managers and directors (£28.75), uprated by 27% to account for non-wage costs (£36.51), this **one-off familiarisation cost is estimated to be £200 per scheme, totalling £1.2m across the whole DB occupational pension scheme sector** (£36.51 per hour * 2 hours * 3.2 trustees * 5,063 schemes).

103. Following from this, schemes within scope of superfunds may choose to undertake further familiarisation of the exact details of the legislative and regulatory framework in order to determine whether their members should be transferred into a superfund. However, this is considered optional and so these sponsors and trustees would only choose to do so if, on balance, it is more beneficial for them when compared to the counterfactual.

104. It is assumed this (further) one-off cost will take sponsors around 15 hours of work. This assumption is based on the amount of time required for trustees to further familiarise themselves with the DC Master Trust legislation[653]. This was used given some similarities around creating a brand-new system of pension scheme and the various authorisation requirements. Using the same ASHE wage estimate, this (further) one-off familiarisation cost is estimated to be £1,700 per scheme (£36.51 per hour *15 hours *3.2 trustees). Using the estimated potential scope of consolidation of approximately 520 schemes, as outlined in paragraph 71, **this (further) one-off cost is expected to total £0.9m across the DB sector.**

105. *Implementation costs*. Sponsoring businesses will generally pay a premium for transferring the scheme into the superfund. Schemes are likely to only be eligible for superfunds if they do not have a realistic prospect of being able to afford buy-out either now or within the foreseeable future; therefore, the price of entering a superfund would inherently be less than the price of buy-out. How close the price is to buy-out will depend on the legislative framework and the structure of the individual schemes and superfunds. However, analysis from GAD estimates for a superfund to be viable, the price of entering a superfund might be expected to be approximately 6% lower than the price of buying out[654]. This is purely a modelling assumption for the purposes of the IA and the final price and viability will be subject to further detail and how superfunds decide to operate.

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652 Office for National Statistics. 'Annual Survey of Hours and Earnings 2024. Table 2.5a. 2024. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

653 https://www.communities-ni.gov.uk/sites/default/files/publications/communities/dfc-ria-pension-schemes-bill-master-trust-authorisation.pdf

654 See Annex to this Impact Assessment for further details on GAD modelling and assumptions. These figures are used for the purposes of modelling the cost and benefits and may be subject to change in the secondary legislation.

106. The PLSA DB Taskforce report[655] quoted an expected price of 80-85% of buy-out (though note, this was estimated pre-2022 and since then funding levels have significantly increased). Anything lower than this would either reduce the security for members of superfunds to a level below that which may be seen as acceptable, or investors will be required to put in more capital reducing their expected rate of return. However, the requirements proposed in the consultation for superfunds to become and remain authorised are more stringent than those proposed in the PLSA DB Taskforce.
107. The gross cost to sponsoring employers is the premium they will have to pay above being fully funded on a self-sufficiency basis. Self-sufficiency (also known as a low dependency basis), is how much it would cost for the scheme to not need the support of the employer anymore or to reduce support to a minimal level. Employers could also choose to buy-out which would be the only other way they could discharge their liabilities of the pension scheme; however, this would be a choice rather than the default position for the sponsoring employer.
108. Buy-out liabilities estimate the cost needed to transfer to an insurer. It can therefore be reasonably concluded that a superfund will operate between these two levels. The majority of data on schemes is available on a buy-out basis. This is approximately 88% of the cost of buy-out[656]. This is based on data from First Actuarial which suggests as of March 2024 the average price of a bulk annuity covering pensioners will be 10% higher than the equivalent self-sufficiency liabilities and around 15% higher for deferred members. This suggests the funding ratio for running on with low dependency on the scheme's employer is 12%[657] lower than buy-out with an insurer. When comparing to the cost of consolidation (94% of buy-out[658]), this results in a total gross cost to sponsoring employers for entrance into superfunds of 6%[659] of buy-out liabilities. When assessing this to the potential scope of consolidation, this equals around £1.3bn (6% * £20bn[660]).
109. It is difficult to know which individual schemes will choose to join a superfund and at what point over the next 10 years they may wish to consolidate. Therefore, it is assumed that a pure uniform distribution of schemes, assets and members enter evenly over the next 10

[655] Pensions and Lifetime Savings Association. 'DB Taskforce – Opportunities for change'. 2017. Available at: https://web.archive.org/web/20230109004150/https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/DB-Taskforce-third-report-Opportunities-for-Change.pdf

[656] First Actuarial data suggests that for pensioner members the difference between low dependency and buyout for pensioners is 10%, and around 15% for deferred members (https://firstactuarial.co.uk/wp-content/uploads/Bulk-annuity-briefing-Q1-2024.pdf)

[657] ((90%+85%)/2).

[658] Based on GAD analysis. GAD modelling suggests a TP discount rate of around gilts plus 0.75% pa and a profit trigger of 150% has an assessed cost of around 93%-95% of buyout. See Annex to this Impact Assessment

[659] Figures may not sum due to rounding.

[660] This figure is not discounted. See Table 17 for how the buyout liabilities within scope of transferring into a Superfund is calculated.

years. Although a very simplistic assumption, it is not anticipated that this would materially impact the results given the assessment is over 10 years.

110. When assuming static costs to sponsors and (for illustrative purposes) a uniform distribution of schemes transferring into superfunds over the ten-year period[661], the expected gross costs (relative to solely being fully funded on a low dependency basis) in year 0 is £129m. When applying the standard discount rate of 3.5% from the Green Book[662] for year 1 onwards it can be seen that the total gross cost over the ten-year period is approximately £1.1bn, as shown in Table 7 below.

Table 7. Gross costs to sponsoring businesses.

Year	Discounted gross costs to sponsors
0	£129m
1	£124m
2	£120m
3	£116m
4	£112m
5	£108m
6	£105m
7	£101m
8	£98m
9	£94m
Total cost	**£1,107m**

111. The sponsoring businesses of any underfunded scheme would be required to make a significant injection of capital to bring the funding level up to that of the superfund scheme. The more the scheme is underfunded, the greater the required cash injection and so the cost to the sponsoring employer or the wider corporate group is therefore dependent on each individual scheme.

112. This additional gross cost of £1.1bn is relative to being fully funded on a low dependency basis – where a schemes reliance on the sponsor is minimal. As previously stated, transferring into a superfund is voluntary for a sponsoring employer or the wider corporate group. However, an employer would need to balance this cost in considering:

- **Future funding risks** that might arise in the future; for example, market movements may quickly change the funding position requiring greater employer support. Similarly, significant

[661] For illustrative purposes, the Impact Assessment has assumed a uniform distribution for the number of schemes transferring into a Superfund over the ten-year period.

[662] HM Treasury. 'The Green Book: Central Government Guidance on Appraisal and Evaluation'. Available at: https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government

life expectancy developments could increase future payments to members. Movements into a superfund removes this future risk from the employer.

- **Additional cost of reaching buy-out** as many sponsoring employers are aiming to get their scheme to a funding position which allows the sponsoring employer to buy-out the liabilities with an insurance company. TPR research suggests around 55% of schemes have this as their long-term objective[663]. Buying out pension liabilities is more expensive than being fully funded on a low-dependency basis due to the insurance companies being commercial businesses looking to make profits and because they are subject to UK legislation which transposes the EU Solvency II regime[664] ("Solvency II is the term used within industry). Solvency II requires a greater level of funding to be held (enough to provide a 99.5% probability of paying member's benefits over the year) compared to an occupational pension scheme. Occupational pension scheme funding requirements were transposed into UK law on the basis of the EU's Institutions for Occupational Retirement Provision II directive[665] (IORP II), where the funding requirements take a longer view and are designed to ensure that the scheme has sufficient funding to pay benefits as they fall due[666].

113. Employers choose to buy-out pension liabilities to reduce the uncertainty and volatility of funding the pension scheme against the benefits which members are promised. It removes the cost to the sponsoring employer of administering and running the pension scheme. As discussed above, the price of entering a superfund will be cheaper than buy-out, due to the lower-level probability that superfunds will have to guarantee members' benefits in full but is likely to be significantly more expensive than taking on the uncertainty and volatility and being fully funded on a low dependency basis.

114. As entering a superfund is voluntary, it is only expected that the sponsoring businesses or the wider corporate group to undertake these costs if they are eligible for entering a superfund (evaluated above in "Scope") and if, on balance, it is more beneficial for them to do so than their best alternative option. Therefore, as entering a superfund is voluntary, sponsoring businesses will only undertake the additional familiarisation and implementation costs if it is beneficial for them to do so.

663 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2023.ashx

664 For more information on the Solvency II directive please see: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN

665 For more information on the IORP II directive please see: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L2341&from=EN

666 These funding principles are derived from EU legislation. The UK was a significant influence on these directives, and they were in turn transposed adhere to the UK's national system. They are an integral part of the UK's legislative framework for financial services and remain so after the UK's exit from the EU. "Solvency II" remains the term of art for financial services products that sit under that regime, which reflects the UK's world-leading position as an exporter of such products.

115. *Running on a surplus.* Schemes running on could generate a surplus which sponsoring employers could extract; therefore, employers face an opportunity cost of giving up their scheme and any potential surplus extraction in order to consolidate their scheme within a superfund. Evidence suggests few schemes do run-on in order to extract surpluses, although this may change going forward. Schemes that are eligible to extract a surplus must be in surplus (most likely on a buy-out basis), therefore it is unlikely these schemes would be within scope for consolidation given their current funding position.

Benefits

116. For sponsoring businesses of DB schemes eligible for transferring into superfunds, a key benefit is that they can discharge their ongoing DB pension liabilities from the company accounts, and to do that at a reduced cost than what is required for buy-out (see implementation costs above). Discharging ongoing liabilities means uncertainties (and costs associated with them) are eliminated, as well as costs associated with running the scheme, allowing sponsoring employers to plan and to concentrate on their core business without the uncertainty involved with maintaining a legacy scheme.
117. *Scheme running costs*. Once the liabilities have been discharged the sponsoring employer will no longer be required to pay the on-going expenses of running a pension scheme. Based on The Pension Regulator's DB scheme costs comparison tool[667], which is based on research into scheme running costs, it is assumed the average cost per member of a scheme eligible to enter a superfund (based on the criteria of being an appropriate size alone) is £360[668]. When adjusting for (CPI) inflation for today's prices, the average cost per member for a scheme eligible to enter a superfund is (in 2024 prices) £470[669]. These costs include actuarial, administration, covenant, investment, legal and other costs associated with running a pension scheme, although they do not include the costs of actuarial valuations and PPF levies.
118. Although there is a high degree of uncertainty, when following the assumptions outlined above (paragraph 70) of potentially 130,000 members could transfer into superfunds over the next ten years, assuming a uniform distribution of 13,000 members being transferred into a

[667] The Pensions Regulator. 'DB scheme running costs research 2014'. 2014. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125115mp_/http://www.thepensionsregulator.gov.uk/docs/db-scheme-costs-research-2014.pdf

[668] This is calculated from a weighted cost of the total annual running costs of schemes of sizes 100-999 and 1,000-4,999. The scheme running costs for those with 5,000+ members have been excluded as it has not been possible to differentiate between those sized 5,000-9,999 and those with more than 10,000 members. These weights are calculated from the average cost per member from the TPR's DB scheme costs comparison tool (see https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125115mp_/http:/www.thepensionsregulator.gov.uk/docs/db-scheme-costs-research-2014.pdf) and the S179 liabilities of schemes (Figure 2.2. of the Purple Book 2023 available at: https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf)

[669] The average annual CPI inflation rate between 2014 and 2024 was 33.9% over the 10-year period. This is calculated from ONS CPI Tables using 2014 prices https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation/current (Feb 2025 update, Table 20.a)

superfund each year, it is estimated consolidation could potentially lead to savings of £6.0m (£470 * 13,000) in year 0. When applying the standard discount rate from the Green Book for years 1 onwards, sponsors transferring their schemes into a superfund could lead to savings to the sponsoring businesses of approximately £270m over the ten-year period.

119. It should be noted that, for some schemes, they may be able to cover the scheme running costs through the return on their assets (investment returns) rather than needing additional employer money. Given this, the savings described in the table below could be an over-estimate. However, asset allocations (and recent asset falls) suggest schemes are taking very conservative investment approaches, it is likely that the number of schemes that can do this are low.

Table 8. Discounted employer savings of scheme running costs.

Year	Discounted savings of scheme running costs
0	£6m
1	£12m
2	£17m
3	£22m
4	£27m
5	£31m
6	£35m
7	£38m
8	£42m
9	£45m
Total benefit	**£274m**

120. *Discharging liabilities*. Liabilities recorded on the company balance sheet are calculated using accounting standards, which often contain less prudence than the TP or buy-out basis. This therefore tends to show lower liabilities than on either of these bases. However, the liabilities on company balance sheets are still volatile and depend on current market conditions and demographic experiences of the scheme compared to the assumptions used to calculate the section 179 and buy-out liabilities. Consequently, it might be that sponsoring businesses incur a cost against their balance sheet if consolidation costs exceed amounts held on their balance sheets in respect of DB pension scheme liabilities, but the benefit of removing the volatility within the liabilities is an important consideration for sponsoring employers.

121. Pension liabilities can often restrict the investment opportunities available to companies and can be a barrier to company restructurings and mergers which could reduce the probability of insolvency. By discharging the pension liabilities, a company is more likely to attract investment or undertake restructuring activities which may not have been feasible previously, to improve the growth of said company or reduce the likelihood of insolvency. A study by the Bank of England[670] found that while Defined Benefit pension deficits are estimated to have had a small effect on the macroeconomy (DB deficits are estimated to have reduced GDP by around 0.1% since 2007), 'larger pension deficits and recovery contributions in recent years have had large and economically important effects on individual firms' spending decisions'. Therefore, by relieving the employers of the pension liabilities and the DRCs, the sponsoring employers may be able to make higher levels of investment and take advantage of more growth opportunities.

122. Superfunds will only be an option to schemes with sponsoring employers who want to discharge their liabilities but are unable to afford buy-out in the foreseeable future. Buy-out of pension liabilities was around £50 billion in 2023 alone with market expectations that this level of buy-out activity is expected to continue for several years[671]. This demonstrates how employers are willing to pay the price of buy-out in order to meet their obligations to members and discharge their liabilities.

123. It is important to note insurance buy-out provides a greater level of security for member benefits over transferring into a superfund, due to the higher capital requirements in Solvency II relative to IORP II, which is reflected in the difference in price between buying out and entry into a superfund. Therefore, as previously stated in this IA, entering a superfund will not be permitted for those that have a realistic prospect of buy-out either now or in the foreseeable future (which, as previously stated, is defined as a period of up to five years). From the perspective of sponsoring employers, the benefits of discharging their liabilities to a superfund are very similar to the benefits gained from buying out in respect of the benefits of no longer having pension liabilities on the company balance sheet. However, by entering a superfund instead of buying out with an insurance company, the employer retains more risk in respect of the members not receiving full benefits and the possible reputational risks this can bring.

124. As entering a superfund is voluntary, sponsoring businesses or wider corporate groups will only pay the costs of entering a superfund if it is beneficial for them to do so. Consequently,

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[670] Bank of England. 'Growing pension deficits and the expenditure decisions of UK companies '. 2018. Available at: https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/growing-pension-deficits-and-the-expenditure-decisions-of-uk-companies.pdf?la=en&hash=EA0932B619DC438C363E16D5DD4985E2D644C30D

[671] https://www.lcp.com/en/media-centre/press-releases/two-new-entrants-predicted-to-enter-the-buy-in-market-as-2024-set-to-be-another-record-year.

it can be assumed the gross benefit offered of entering a superfund must be equal to or greater than the net costs of the premium paid to transfer into a superfund plus the familiarisation costs (as detailed above)[672].

Costs and benefits to Superfunds

125. Superfunds will be a business opportunity for those financial intermediaries that deem it to be potentially profitable to them and decide to enter the market. The potential profits are outlined in paragraph 141; however, financial intermediaries will need to consider the costs below when deciding whether to create a superfund. Additionally, due to only one provider currently being in the market (and it being unlikely large numbers would enter given the capital requirements), care is needed to avoid disclosing sensitive information. The results presented are the best estimate based on several assumptions which are highly uncertain and subject to change.

126. *Scope.* It is difficult to estimate how many superfunds may enter the market. The cost/benefits for superfunds (aside from familiarisation/authorisation costs) are estimated based on the total members and liabilities in scope and are reflective of costs to the total superfund market. The number of superfunds that enter the market will not impact the costs that have been estimated for this (rather, spread the costs/benefits between more superfunds). In the DC market, there are around 30 authorised Master Trusts (large multi-employer pension schemes); a number that continues to fall over time despite the DC market continuing to grow quickly. Similarly, in the DB landscape, as of February 2024 there are only 10 insurers in the buy-out industry. As a result, it is reasonable to assume only a handful of DB Consolidators are likely to be created. However, given the lack of evidence, the number of superfunds who would enter cannot be estimated.

Costs

127. It is important to note these are estimated costs based on available information; however, this analysis does not reflect individual company costs operating in the market.

128. *Setup costs*. For the purpose of this IA, set up costs have not been estimated as a superfund already exists – the legislation will move the superfund from operating under an interim (voluntary) regime to a more permanent regulatory requirement. Whilst it's recognised that the cost of setting up and running a superfund may be significant, it is unclear whether and/or how many new superfunds would be created. Any set-up costs are

[672] It is recognised that some corporate groups may also be willing to pay a price to remove future volatility. For the purpose of the IA, the above comparison is used in order to cost costs/benefits.

expected to be indirect, and superfunds would only incur them if they believed that these costs would be more than offset by anticipated profits. It is also likely that set-up costs would evolve over time as the market evolves. Given only one superfund operates in the market, any current set-up costs are likely to disclose commercially sensitive information which would not be appropriate – and may not necessarily represent the cost of setting up superfunds in the future.

129. *Familiarisation costs*. When deciding whether to undertake this business decision of creating a superfund, businesses would need to familiarise themselves with the legislative and regulatory framework in place, both the general requirements for authorisation and the specific on-going requirements.

130. It is estimated this one-off cost will take 3.2 individuals[673] with prior knowledge of DB pensions (like that of trustees, scheme strategists and scheme funders) around 7 hours of work to read and understand around 60 pages of information, based on the average reading speed of 300 words per minute. This assumption is based on a broad estimate from TPR stating that the authorisation code and Codes of Practice for the superfunds to be approximately 1.5 times the length of the DC Master Trust Code which was necessary for the Master Trusts to familiarise themselves with. Using the ASHE wage of Trustees (previously explained), the one-off familiarisation costs are estimated to be £800 per superfund (£36.51 per hour * 7 hours* 3.2 members)[674].

131. However, it is expected that businesses will only choose to undertake this decision to familiarise themselves with the legislative and regulatory framework if, on balance, they believe it is beneficial to do so (whether they decide to create a superfund) due to its voluntary nature – i.e., the benefits outweigh the costs when compared against the counterfactual.

132. *Authorisation fee*. As a result of the authorisation regime, a superfund seeking to enter the market will be required to gain authorisation from TPR in order to operate. This process of authorisation would impose costs on TPR relative to the counterfactual due to the resource required to assess whether the superfund meets the authorisation criteria, which include the sustainability and capital adequacy of the superfunds. Superfunds that enter the market will be required to pay a one-off authorisation fee that is intended to cover TPR's costs associated with the regulatory framework and compliance requirements.

[673] It is assumed, similar to the average number of trustees on a DB scheme, that superfunds would need more than one individual to set up.

[674] Office for National Statistics. 'Annual Survey of Hours and Earnings 2023. Table 2.5a. 2018. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

133. Although the authorisation fee has not been finalised, TPR currently estimate it to be between four to six times larger than the existing DC Master Trust authorisation fee (£41,000 per Master Trust). Using the central estimate of five times larger, it is estimated that authorisation cost to each superfund will be £205,000 (£41,000 * 5), although this is subject to change.

134. However, creating a superfund is a business decision and so if a superfund decides to enter the market it is because they deem it potentially profitable to do so, and as such must view it to be beneficial for them, even after paying the authorisation fee.

135. *Bespoke TPR levy*. Moreover, as part of the regulatory framework, superfunds will be required to provide additional on-going information to the regulator, relative to the counterfactual of typical DB pension schemes, placing additional supervision costs on to the regulator. This process of on-going supervision of the superfunds, in order to ensure sustainability and capital adequacy, would impose additional costs on to TPR. To cover such on-going regulatory/supervision costs, superfunds would have to pay a bespoke TPR levy. The principle of the bespoke levy is outlined in DWP's consultation document[675], although the amount of this levy is yet to be determined. However, this cost will need to be taken under consideration when deciding whether to undertake the business opportunity of creating a superfund.

136. *Scheme running costs*. Once the liabilities have been discharged, the sponsoring employer will no longer be required to pay the on-going expenses of running a pension scheme. However, the newly created superfunds will have to pay running costs. As each superfund is expected to have significantly more than 5,000 members enrolled in them (as outlined in paragraph 70, there are approximately 130,000 members in scope to transfer into superfunds over the ten-year period), running costs of the superfund should be significantly lower[676]. Using this evidence, scheme running costs per member of a superfund would be around £59, equal to the lowest annual scheme running cost per member from TPR data. When uprating this to 2024 prices, as per the same methodology outlined in paragraph 117, it is estimated that the annual scheme running costs will be approximately £79 per member.

137. Assuming a uniform distribution of 130,000 members being transferred into superfunds each year over the ten-year period, it is estimated that in Year 0 superfunds will have scheme running costs of £1.0m per year. Over the ten-year period, assuming scheme running costs

[675] Department for Work and Pensions. 'Consolidation of Defined Benefit Pension Schemes' (Public Consultation). 2018. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/762503/consolidation-of-defined-benefit-pension-schemes.pdf

[676] The Pensions Regulator. 'DB scheme running costs research 2014'. 2014. Available at: https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125115mp_/http://www.thepensionsregulator.gov.uk/docs/db-scheme-costs-research-2014.pdf

accumulate evenly each year as more members are transferred into a superfund and apply the Green Book discounting rate of 3.5% from year 1 onwards, it is estimated that scheme running costs for superfunds would total approximately £45m – as shown below in Table 9.

Table 9. Superfund scheme running costs.

Year	Discounted superfund scheme running costs
0	£1m
1	£2m
2	£3m
3	£4m
4	£4m
5	£5m
6	£6m
7	£6m
8	£7m
9	£7m
Total cost	**£45m**

138. *PPF levy*. In addition to the bespoke TPR levy above, another cost that will need to be considered when deciding whether to create a superfund is the proposed annual bespoke PPF levy for superfunds. This levy would be separate to the current levy paid by DB schemes and will be in place to help fund the PPF if a superfund becomes insolvent and the members liabilities within said superfund had to be transferred to the PPF. The principle of the levy, like that of SWOSS schemes (Schemes Without a Substantive Employer), has been outlined in their consultation document[677], although the amount of said levy is yet to be determined. However, this cost will also need to be taken under consideration when deciding whether to undertake the business opportunity of creating a superfund.

Benefits

139. As previously stated, superfunds will be a business opportunity for those financial intermediaries that deem it to be potentially profitable to them and decide to enter the market.

140. Traditional DB occupational pension schemes are designed to ensure members receive a specified pension payment on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age. They are run on a trust basis, not to create profit for the sponsoring employers. The current legislative framework disincentivises

[677] Pension Protection Fund. 'The 2019/20 Pension Protection Levy Consultation Document'. 2018. Available at: https://www.ppf.co.uk/-/media/PPF-Website/Public/Files/file-2018-11/L/levy-consultation-document-2019-2020.pdf

the sponsoring employer from removing surplus as profit by taxing any profit removed (though the recent Authorised Surplus Payments Charge Order 2024 reduced the amount of tax due on the amount of authorised surplus payment from 35% to 25% from 6th April 2024 onwards). Different superfund proposals have put forward different mechanisms for releasing the profit generated within a superfund. These include charging performance related fees for services provided to the pension scheme, such as asset management, or by taking profit from the capital buffer – however these are not currently approved alternative avenues for profit.

141. Profits will vary across superfunds due to various factors, in particular, profits will vary depending on the final legislative framework in place, the individual superfund proposal, which DB schemes transfer into them and the level of investment they receive from investors. However, based on the assumptions outlined in this IA (see "Scope" above), and further assumptions outlined below, it is estimated that superfunds could achieve potential profits of approximately £1.1bn over the ten-year period (see Table 10).

142. The DWP consultation proposed a range of measures to be included in the authorisation and supervision regime, which will influence or restrict when superfunds can take profits. These include:

- *Funding level triggers*. These will require the superfund to take certain actions when specified levels of funding are met. For example, if the funding drops below a specified level on the S179 basis the superfund will be required to start winding up. The consultation proposed a specific trigger relating to when profits can be taken. Whether this trigger is legislated for, and the funding level at which it is enacted will affect the expected profit of a superfund.
- *The appropriate probability of members receiving benefits*. This in turn will affect the capital buffer which needs to be held in respect of the pension liabilities. It is currently expected that the capital buffer will be around 12.5% of the pension liabilities.
- *A regulatory gateway*. There continue to be discussions about whether there should be a gateway on the extent schemes have to demonstrate they have been unable to buy-out with an insurer or may be able to do so in the future.
- *Whether profit can be extracted before a scheme reaches buy-out*. This will delay profits and therefore reduce the expected rate of return. If this proposal is legislated for the distribution of profit is unlikely to be uniform over the next 10 years as Table 10 below suggests.

143. The options and parameters included in legislation will all affect the expected rate of return for superfunds. However, this is assuming that profit can be taken when it is earned and

applying the standard discount rate of 3.5% from the Green Book, in addition to the following assumptions:

- Average per member buy-out liabilities of approximately £150,000 (£662bn in total buy-out liabilities divided by the 4.2m members of private DB schemes)[678]. When assuming there is a potential of 130,000 members that could transfer into a superfund (as outlined in paragraph 92), this equates to total buy-out liabilities of approximately £20bn in scope for consolidation (130,000 * £150,000).
- For the purposes of this IA, it is expected that the investor capital broadly equivalent to 10% of the buy-out liabilities in scope is invested evenly over the next 10 years.
- For the purposes of this IA, analysis by GAD has been used to assume that investors receive a rate of return of 12.5% on their investment per annum[679], on average. The rate of return will depend on the design of individual superfunds and the legislative framework following the consultation. From industry engagement, it is believed that this will be similar to returns generated for investors in insurance companies as they generally expect to generate profits of approximately 10% per annum. However, it is envisaged that superfund investors will be looking to make a slightly higher profit due to the less stringent capital requirements for pension schemes compared to those required of insurance companies under the Solvency II regime. Work and Pensions Select Committee evidence suggested one superfund proposal was looking to make profits around the 'mid-to-high-teens'[680]. As the capital requirements proposed in the consultation are less stringent for pension schemes compared to those required under the Solvency II regime, it is expected that the rate of return is somewhere around 12.5% per annum.

144. Following the above assumptions of £2bn evenly invested over the ten-year period (based on the superfund capital requirement), with the expected return rate to investors of 12.5%, the estimated investment return to the investors of the superfunds in year 0 is £25 million (£2.0bn * 12.5% * (1/10)). Assuming that profit is based on cumulative capital provided by investors, as illustrated in Table 10 below, the estimated benefit after year 1 is £25m and the total investment return to superfunds is £1.1bn over the ten-year period.

[678] Based on underfunded schemes only, data from TPR – see paragraph 10 for Table 1

[679] Based on GAD modelling – see Annex to this Impact Assessment for further details

[680] Work and Pensions Committee. 'Oral evidence: Defined benefit pensions White Paper, HC 956'. 2018. Available at: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/defined-benefit-pensions-white-paper/oral/82390.pdf

Table 10. Total Investment Return to Superfunds.

Year	Discounted profit to superfunds
0	£25m
1	£48m
2	£69m
3	£89m
4	£108m
5	£125m
6	£141m
7	£156m
8	£169m
9	£181m
Total benefit	**£1,111m**

Costs and benefits to insurance industry

145. As previously stated in the policy principles outlined in paragraph 73, the legislation proposal is that consolidating into superfunds is not seen as, and cannot be used as, an alternative to insurance buy-out for schemes who may be expected to afford buy-out in the foreseeable future. Consequently, those schemes that are likely to buy-out within the foreseeable future (potentially within the next five years) would still be viable commercial opportunities for those in the insurance industry, whilst those schemes who have the potential to enter superfunds would remain as unviable options for buy-out from insurance companies. Therefore, it is not expected for there to be a loss of business opportunities to the insurance industry as a result of this proposed legislative change, on this measure it is not envisaged that there will be any net costs. However, DWP will keep monitoring and liaising with the insurance industry to maintain this aim in practice.

146. Moreover, whilst it is not expected that there will be any lost business opportunities as a result of consolidation from individual schemes, it is also expected that superfunds could create further business opportunities for the insurance industry and help stimulate both the buy-in and buy-out market, relative to the counterfactual. These further business opportunities would be in the form of insurance companies potentially buying out superfunds themselves, either as a whole or subsets/subgroups within the superfund. This could also benefit members as it could help some individual schemes who would never be able to achieve buy-out themselves, be able to achieve buy-out via transferring into a superfund. Superfunds will also look to derisk over time and will be looking to secure buy-ins and buy-outs as part of their derisking strategy.

Costs and benefits to members

Costs

147. Familiarisation and implementation costs to members are assessed to be zero. On the member's side, the decision of whether to enter a commercial consolidator is not undertaken by the members directly but rather by the trustees of the existing scheme on their behalf[681]. Members will not be required to do anything. As such, there will be no familiarisation and implementation costs placed on to the members regarding decision making/familiarisation. Although trusts are not businesses, it is assumed that any costs incurred by the trustees will ultimately be incurred by the sponsoring business, and business costs are discussed in paragraphs 97-115 of this IA and not borne by individuals via costs/charges.

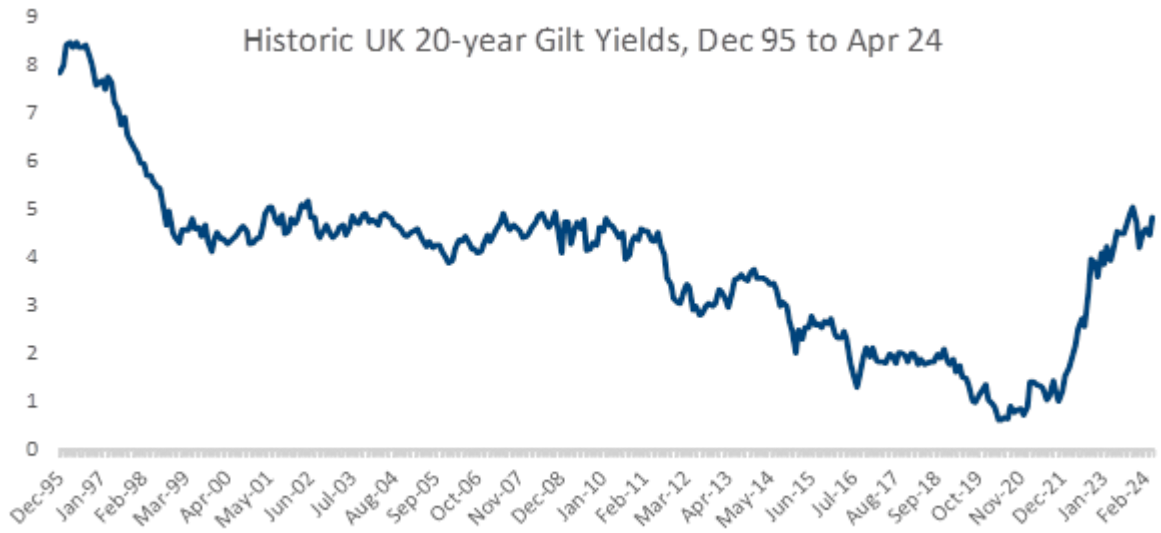
Benefits

148. In terms of pension outcomes, it has been assessed that there will be a net benefit to members. Using the assumptions outlined above regarding the potential scale of schemes that are likely to consolidate (see "Scope" section), and the further assumptions detailed below, it is estimated that a potential benefit to members is approximately £705m in total over the first ten-year period (see Table 11). This estimate is set out below.

149. All pension schemes face the same risks; the inability of the sponsoring employer to sufficiently fund the scheme (covenant risk), investment risk, and longevity/other demographic risks. Evidence shows that although the DB sector remains sustainable, the associated costs are high and higher than what was expected at the time DB schemes were introduced, with longevity growth faster than expected and investment returns staying low for a sustained period – see Figure 4 below for illustration.

[681] Trustees are committed by trust law to work in the best interests of the scheme members.

Figure 4. Changing economic conditions[682]



150. If the employer stands behind a scheme and can provide sufficient financial support, then members will receive their benefits in full. The critical risk to members (and the PPF) is, therefore, insolvency of the sponsoring business at any point when the scheme is underfunded. At the point of insolvency, the position of the scheme is crystallised and underfunded schemes will not be able to secure their members' benefits in full. For these schemes, the amount by which member benefits will be reduced will depend on the size of the deficit in the scheme. In addition, in certain cases members would receive PPF level benefits if this level of benefits cannot be secured through the scheme being bought out by an insurance company (the PPF levels are the minimum level that could be received).

151. *Increased scheme benefits*. Although there is no definitive estimate of the average reduction in member benefits, for illustrative purposes, it is assumed that scheme benefits will be 15% less than if they receive their benefits in full if a sponsoring business faces insolvency and goes out of business. This assumption is based on:

- **PPF levels of compensation** which are broadly around 90% of the value of someone's entitlement if an employer goes solvent and the scheme enters the PPF scheme. Although around 90%, the actual value may be lower given the PPF have caps on indexation.
- **Funding levels of schemes** it is expected that schemes will enter a superfund having funding levels of 70-90% on a buy-out basis. It is envisaged that those with funding

[682] Yield data: https://www.bankofengland.co.uk/statistics/yield-curves
Life expectancy data:
https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/datasets/lifeexpectancyatbirthandselectedolderages

levels of 80-90% will consolidate within the first five years. Those funded between 70-80% will improve their funding position to 80-90% in years 1-5, and then potentially transfer into a superfund in years 5-10. Following this, assuming a uniform distribution in funding levels of 85% for all eligible schemes over the 10-year period, it is estimated that average member losses to be 15% less than full benefits if their scheme were to wind up.

152. It has further been assumed that there is a probability of employer insolvency based on information from Figure 12 of the Pensions and Lifetime Savings Association (PLSA) DB Taskforce "The case for consolidation"[683]. When assessing against a 30-year time horizon, the report indicates an average probability of failure for CG2 and CG3 schemes to be approximately 30%. This being the case, the probability weighted loss of schemes eligible for superfund consolidation is estimated to be 4.5% (30% * 15%).
153. GAD superfund analysis models a 1.7-3.1% failure rate on a certain set of parameters based on asset allocations and investment returns[684]. A prudent assumption has been made that the probability of a superfund failing within the first ten years is 2.4%, applying the estimated loss of benefits of members to be at most 15%[685]. Therefore, it is estimated that the probability weighted loss of benefits to members of superfunds is 0.4% (2.4% * 15%).
154. Consequently, for members in schemes that do transfer into a superfund, there will be at least a 4.1 percentage point improvement in the probability of each member receiving their benefits in full relative to the counterfactual (4.5% - 0.4%).
155. Using the assumptions set out above (see "Scope" section), it is estimated that approximately 130 schemes and approximately 130,000 members will transfer into a superfund, with total (buy-out) superfund liabilities of approximately £20bn.
156. In order to make a quantifiable estimate of the total benefit to members over the first ten years, two broad assumptions have been made: (a) that consolidation occurs evenly over the 10-year period, and (b) that there is a uniform distribution of the total liabilities across all members and schemes over the ten-year period.
157. The benefit to members is receiving their full pension entitlement (and to their partner, if applicable) throughout their retirement (until death). At what point those payments are made will be dependent on each individual's age, likelihood of surviving each year, and dependent

[683]PLSA. 'The Case for Consolidation'. 2017. Available at: https://www.pensionsuk.org.uk/portals/0/Documents/0622-The-Case-for-Consolidation.pdf

[684] See Annex to this Impact Assessment for further detail on GAD modelling and assumptions.

[685] The rationale for this is that members cannot be made worse off by transferring into a superfund relative to the counterfactual. The PPF acts as a backstop for schemes.

on partner status. The calculation therefore also assumes the full benefit from entering a superfund is received in the year of consolidation for the member. It is recognised the benefits may be spread over several years; but equally, insolvency can happen at any point. Therefore, this takes a simplistic approach to estimating.

158. As a result of these assumptions, scheme liabilities worth £2.0bn will enter consolidation each year, evenly, over the 10-year period, building up to £20 billion in year 10, as outlined above (see "Scope" section). As a result, the estimated benefit to members, in terms of protected scheme liabilities, in Year 0 is £82m (£2.0bn * 4.1%). When applying the standard discount rate of 3.5% from the Green Book, the estimated benefit in year 1 is £82m ((£2.0bn * 4.1%) / (1 + 3.5%) ^1) and over the ten year period, the total benefit to members, again in terms of protected scheme liabilities, is estimated to be approximately £705m, equating to a discounted increase in per potential member benefits of approximately £6,000 (£705m / 130,000)[686].

Table 11. Estimated net benefit to members.

Year	Discounted benefit to members
0	£82m
1	£79m
2	£76m
3	£74m
4	£71m
5	£69m
6	£67m
7	£64m
8	£62m
9	£60m
Total benefit	**£705m**

159. *Unintended consequences*. Although it is expected to be zero cost for members, there would still be a potential risk of a lower pension for members due to any ex post unintended consequences as a result of the trustees deciding to enter the scheme into a consolidator. One of the main risks to members is of the superfund failing although this is mitigated to some extent as the scheme would fall into the PPF.

160. The decision to move to a superfund will be a challenging one and trustees will need to assess the risk that their sponsor and their consolidator will not be there to support the

[686] When estimating the net benefit to members (in terms of protected scheme liabilities), we are quantifying them in the year they consolidate.

scheme in the future. This assessment will be based on the best available information from legal, actuarial and covenant advice. Given the significant nature of this transaction, it is expected that an external covenant assessment by a regulated provider is an essential component for trustees when considering this complex issue.

161. However, as the assessment is based on the best available information it will carry a degree of uncertainty where in some cases entering the consolidator may, in theory, unintentionally result in worse outcomes for members. On the other hand, in other cases, entering the superfund may result in even better outcomes for members than the 98% probability of securing benefits in full. Given that the time horizons associated with pension liabilities are very long it is assumed that that any such unintended costs or benefits net to zero.

Costs and benefits to government

Costs

162. As a result of the authorisation regime, a superfund seeking to enter the market will be required to gain authorisation from The Pensions Regulator (TPR) in order to operate. This process of authorisation would impose costs on to TPR relative to the counterfactual due to the resource required to assess whether a scheme meets the authorisation criteria, including the sustainability and capital adequacy of the superfunds. It is expected that TPR will be able to draw on existing resource for this, given that there will be a reduced number of DB schemes to oversee. The magnitude of these gross costs is yet to be finalised; however, it is envisaged that to cover these costs, superfunds that enter the market will be required to pay a one-off authorisation fee (see paragraphs 132-134).

163. Moreover, as part of the regulatory framework, superfunds will be required to provide additional on-going information to the regulator, relative to the counterfactual of typical DB pension schemes, placing additional supervision costs on to the regulator. This process of on-going supervision of the superfunds in order to ensure that the authorisation criteria continue to be met (including sustainability and capital adequacy) would impose additional costs on to TPR. However, similarly to the authorisation costs, these supervisory costs will be transferred to the superfunds via a bespoke TPR levy (see paragraph 135).

164. Therefore, although there would be costs placed on the regulator in the form of authorisation and supervision costs, as these would both be transferred to the consolidators themselves via an application fee and a bespoke levy, it is envisaged that there would be no overall costs placed upon the regulator.

Benefits

165. *Benefits to the PPF*. As set out above in the benefits to members section, as part of the authorisation and on-going supervision conditions outlined in the regulatory framework, superfunds would have to demonstrate at least a 98% probability of paying or securing all members' benefits in full[687]. Moreover, the proposed regulatory framework in the consultation document outlines a potential wind-up trigger point for superfunds, depending on a definition of failure (for example, 105% of that required to buy-out PPF level benefits on a prescribed basis). Reaching this trigger point should require the superfund to automatically start a wind-up process and allow trustees of the superfund scheme to have full access to the assets in the capital buffer, however full access is likely to be given to trustees before funding falls to 105% (in line with the "low risk" trigger of TPR's interim regime set at 100% technical provisions). Assuming both assumptions above hold following the consultation period, this should reduce the amount the PPF would have to pay out in benefits and therefore ultimately benefit levy payers (sponsoring employers).

166. *Unintended consequences*. Although consolidation is expected to be a net benefit for members, and therefore also the PPF, there would still be a potential risk of additional costs as a result of members receiving PPF level benefits due to any unintended consequences. Although this would place potential gross costs upon the PPF, the proposal is classed as having no net cost to the PPF because any gross costs incurred by the fund will be recovered from the superfund in the form of the payment of the bespoke PPF levy. It is also expected that the PPF will be protected by the wind-up trigger of 105% of PPF benefits.

167. Therefore, as a result of any of the costs placed upon government (PPF, TPR) being recovered from the superfunds, this measure is considered to be a zero, if not negative (i.e., beneficial), net cost to regulators.

Sensitivity analysis

Sensitivity around take-up

168. A key area of sensitivity for the potential costs and benefits of DB schemes transferring into a superfund is regarding the potential take-up rate for those schemes that are eligible to enter a superfund. For the purpose of this IA, it is assumed that 25% of schemes eligible would enter a superfund based on TPR research. This is supported by the findings of AON at a webinar focused on the pension's implications of the Mansion House Speech. Of the

[687] These figures are used for the purposes of modelling the cost and benefits and may be subject to change in the secondary legislation.

330 attendees, 26% said they would consider entry into a commercial consolidator or superfund[688]. However, this is particularly sensitive.

169. Other research, such as TPR[689] and LCP[690] have undertaken surveys which suggest interest in superfunds may be around 5%. Therefore 5% has been used as a lower bound estimate. However, legislative framework could also lead to greater interest. As an upper bound, accepting take-up could be higher, it is assumed all those schemes who do not have a long-term objective to buy-out (45%) may look to enter a superfund. This is based on The Pensions Regulator's annual survey of trustees[691]. Hence when allowing for sensitivity around this assumption of 20 percentage points either way (i.e., 5% or 45%). Holding everything else constant:

- The total number of schemes within scope of transferring into a superfund changes to approximately 30 and 230 respectively (the central estimate is 130 schemes).
- The total number of members eligible to be transferred into a superfund, changes to approximately 30,000 and 230,000 respectively (the central estimate is 130,000).
- The total buy-out liabilities in scope for consolidation could be around £4bn to £36bn (the central estimate is £20bn).

Businesses

170. Following the sensitivity analysis on the potential scope of consolidation, there are consequences to both the potential gross costs for sponsors and the potential profits from savings on scheme running costs.

171. *Scheme running costs*. Holding all other things constant, as a result of the total scope of members eligible to transfer adjusting to the lower and upper estimates (30,000 and 230,000 respectively), it is estimated that in Year 0 the saving to sponsors from scheme running costs will be around £1m and £11m respectively. Over the ten-year period, assuming scheme running costs accumulate evenly each year as more members are transferred into a superfund, the estimated savings from scheme running costs for sponsors would total between £55m and £486m – as shown below in Table 12.

688 https://www.aon.com/unitedkingdom/media-room/articles/aon-poll-db-schemes-consider-alternatives-benefits

689 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2023.ashx

690 https://insights.lcp.com/rs/032-PAO-331/images/LCP-Chart-your-own-course-06-2024.pdf

691 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2023.ashx

Table 12. Lower, central, and upper estimated savings of scheme running costs.

Year	Discounted savings of scheme running costs (lower)	Discounted savings of scheme running costs (central)	Discounted savings of scheme running costs (upper)
0	£1m	£6m	£11m
1	£2m	£12m	£21m
2	£3m	£17m	£31m
3	£4m	£22m	£40m
4	£5m	£27m	£48m
5	£6m	£31m	£56m
6	£7m	£35m	£63m
7	£8m	£38m	£70m
8	£9m	£42m	£76m
9	£9m	£45m	£81m
Total Benefit	**£56m**	**£274m**	**£498m**

172. *Gross cost to sponsors*. While the cost to individual sponsors would not change, as this is based on schemes paying 6% of total liabilities on a buy-out basis, the overall cost would change depending on how many schemes enter a superfund as shown in the table below. It is estimated that in year 0 the gross costs to sponsors for entering a superfund will be around £26m and £234m respectively. Over the ten-year period, assuming a uniform distribution of schemes are transferred into a superfund, the estimated gross costs for superfunds would total between £226m and £2.0bn – as shown below in Table 13.

Table 13, Lower central, and upper estimated gross costs to sponsors.

Year	Discounted gross costs to sponsors (lower)	Discounted gross costs to sponsors (central)	Discounted gross costs to sponsors (upper)
0	£26m	£129m	£234m
1	£25m	£124m	£226m
2	£24m	£120m	£218m
3	£24m	£116m	£211m
4	£23m	£112m	£204m
5	£22m	£108m	£197m
6	£21m	£105m	£190m
7	£21m	£101m	£184m
8	£20m	£98m	£177m
9	£19m	£94m	£171m
Total Benefit	**£226m**	**£1,107m**	**£2,011m**

Superfunds

173. Following the sensitivity analysis on the potential scope of consolidation, there are consequences to both the potential running costs for superfunds and the potential profits within scope for superfunds.

174. *Scheme running costs*. Holding all other things constant, as a result of the total scope of members eligible to transfer adjusting to the lower and upper estimates (30,000 and 230,000 respectively), it is estimated that in Year 0 superfunds will have scheme running costs of £0.2m and £2m respectively. Over the ten-year period, assuming scheme running costs accumulate evenly each year as more members are transferred into a superfund, the estimated scheme running costs for superfunds would total between £9m and £83m – as shown below in Table 14.

Table 14. Lower, central, and upper estimated superfund scheme running costs.

Year	Discounted superfund scheme running costs (lower)	Discounted superfund scheme running costs (central)	Discounted superfund scheme running costs (upper)
0	£0m	£1m	£2m
1	£0m	£2m	£4m
2	£1m	£3m	£5m
3	£1m	£4m	£7m
4	£1m	£4m	£8m
5	£1m	£5m	£9m
6	£1m	£6m	£10m
7	£1m	£6m	£12m
8	£1m	£7m	£13m
9	£2m	£7m	£13m
Total costs	**£9m**	**£45m**	**£83m**

175. *Potential benefits to superfunds*. Holding all other things constant, when allowing for sensitivity around the potential number of schemes, members and buy-out liabilities in scope, the estimated investment return to the investors of superfunds in Year 0 ranges from £5m as a lower estimate to £45m as an upper estimate. Over the ten-year period, when assuming that profit is based on accumulative capital provided by investors, as illustrated in Table 15 below, total profit ranges from £227m to £2.0bn.

Table 15. Lower, central, and upper estimated investment returns to superfund.

Year	Discounted superfund profits (lower)	Discounted superfund profits (central)	Discounted superfund profits (upper)
0	£5m	£25m	£45m
1	£10m	£48m	£87m
2	£14m	£69m	£126m
3	£18m	£89m	£162m
4	£22m	£108m	£196m
5	£25m	£125m	£227m
6	£29m	£141m	£256m
7	£32m	£156m	£282m
8	£34m	£169m	£307m
9	£37m	£181m	£330m
Total benefit	**£227m**	**£1,111m**	**£2,017m**

Members

176. Following the sensitivity analysis on the potential scope of consolidation, there are also consequences to the total potential benefit to members. Holding all other things constant, when allowing for sensitivity around the potential number of schemes, members and buy-out liabilities in scope, the estimated increased benefit to members in Year 0 ranges from £17m as a lower estimate to £149m as an upper estimate. Over the ten-year period, as illustrated in Table 16 below, total net benefit to members, in terms of protected scheme liabilities, is estimated to range from £144m to £1.3bn.

Table 16. Lower, central, and upper estimated benefit to members.

Year	Discounted benefit to members (lower)	Discounted benefit to members (central)	Discounted benefit to members (upper)
0	£17m	£82m	£149m
1	£16m	£79m	£144m
2	£16m	£76m	£139m
3	£15m	£74m	£134m
4	£15m	£71m	£130m
5	£14m	£69m	£125m
6	£14m	£67m	£121m
7	£13m	£64m	£117m
8	£13m	£62m	£113m
9	£12m	£60m	£109m
Total benefit	**£144m**	**£705m**	**£1,281m**

Sensitivity around price of entering a superfund

177. The price of entering a superfund is uncertain and likely to vary significantly depending on several factors. It is therefore appropriate that sensitivity analysis tests the implications of changes in the price of entering a superfund vis-à-vis buyout.

178. The first iteration (2019) of GAD's modelling positioned the cost of superfund entry (in the base case) as roughly **90% of the cost of insurance buyout.** This modelled superfund was predicted to have a **1.6% probability of failure**.

179. The second iteration (31 December 2022) of GAD's modelling positioned the cost of superfund entry in an *optimal case* as **93%-95% of the cost of insurance buyout**, with a predicted **failure rate of 2%.**

180. Estimates produced by GAD are sensitive to a range of assumptions which may vary over time due to changes in the macro-economic environment, pricing of insurance and the evolving DB landscape. Therefore, the modelling can only provide a broad indication of the cost of superfund entry relative to buyout. Furthermore, the consultation anticipates a range of regulatory intervention points that would trigger action if superfund finances deteriorated. The modelling does not allow for any actions that might occur from direct regulatory intervention, such as TPR demanding a failing superfund is wound up or transferred to another superfund.

181. A **central price assumption of the cost of superfund entry has been assumed at 94% of the cost of insurance buyout**, reflecting a mid-point between the highest and lowest price estimates provided by GAD in their latest analysis. It is expected that the price of entering a superfund would have to be materially different to the price of an insurance buy-out, as the latter would be considered by trustees as better protecting member interests. It is also anticipated that the entry-price for superfunds may be lower in the short-to-medium term as superfunds aim to secure their footing in the market. It is also possible that declining inflation in the coming years alongside economic growth could widen credit-spreads and increase the scope of profits to be earned within the market, reducing the price of superfund entry. A 94% estimate therefore appears to be a sensible assumption for the price of entering a superfund.

182. **A lower price assumption of the cost of superfund entry has been assumed at 90%** of the cost of insurance buyout. This is consistent with the initial analysis carried out by GAD and reflects emerging discussion in the industry on potential price points.

183. **An upper price assumption of the cost of superfund entry has been assumed at 99%** of the cost of insurance buyout. This represents a theoretical upper-bound on the potential cost associated with joining a superfund, beyond which it is expected that trustees (bound by fiduciary duty towards members) would choose to secure pension liabilities with an insurer.

Gross cost to sponsors

184. Schemes in scope of the superfund are assumed to be funded to 88% of buy-out liabilities (see paragraph 108), which means that there would be an additional cost to sponsoring employers for the scheme to be able to enter a superfund (represented by the difference).
   a. In the central scenario, the additional cost would be 6% of total liabilities on a buy-out basis (94%-88%=6%).
   b. In the lower scenario, the additional cost would be 3% of total liabilities on a buy-out basis (90%-88%=3%[692]).
   c. In the higher scenario, the additional cost would be 12% of total liabilities on a buy-out basis (99%-88%=12%).

185. It is estimated that in Year 0, the gross costs to sponsors for entering into a superfund could range from £49.5m to £227.5m. Over the ten-year period, assuming a uniform distribution of schemes are transferred into a superfund, the estimated gross costs for entering a superfund could range between £425.8m and £1,958.5m.

[692] The difference is 3% due to rounding (90%-87.5% = 3%)

Table 17. Lower, central, and upper estimated price point for entering a superfund

Year	Discounted gross costs to sponsor (low)	Discounted gross costs to sponsor (central)	Discounted gross costs to sponsor (high)
0	£50m	£129m	£228m
1	£48m	£124m	£220m
2	£46m	£120m	£212m
3	£45m	£116m	£205m
4	£43m	£112m	£198m
5	£42m	£108m	£192m
6	£40m	£105m	£185m
7	£39m	£101m	£179m
8	£38m	£98m	£173m
9	£36m	£94m	£167m
Total cost	**£426m**	**£1,107m**	**£1,959m**

186. It is also important to note that GAD results, from the analysis as at 31 December 2022, are based on one particular economic model, and that different models may yield different results. At this time, GAD have not modelled a wide range of alternative asset classes and asset allocations. It is possible that superfunds may adopt alternative asset allocations which could yield a lower cost relative to buyout, whilst maintaining a low probability of superfund failure.

187. There are other policy/design decisions which impact the modelled output. For example, if a slightly higher failure rate was acceptable to government, the cost of entry would reduce. Alternatively, a different approach could be taken, for example, to setting the Technical Provisions or the profit-taking trigger or indeed other design elements of the superfund framework. The modelled superfund assumes buyout occurs when it is affordable. A superfund which 'runs on' rather than buys out will have different characteristics. As a result, the modelling is always likely to show different price points at different points of the economic cycle but will ultimately be dependent on pension schemes to develop their business model balancing risk and return.

Direct costs and benefits to business calculations

Table 18. Direct cost and benefits to business

Cost/Benefit Type	Total over 10-year period (£)
Direct Costs	
Initial familiarisation cost to schemes	**£1,200,000**
EANDCB	**£140,000**

188. Any **Direct Costs** are associated with **familiarisation with the policy**. This is because trustees are bound by Trust Law and their fiduciary duty, meaning that they will have to familiarise themselves with the new policy.
189. Familiarisation costs for schemes are estimated to be £1,200,000.
190. Costs other than familiarisation costs are deemed to be indirect costs. This is because both entering and/or creating a superfund is optional. The regulations do not mandate schemes to enter a consolidation vehicle, or for businesses to create their own superfunds. Therefore, these costs are avoidable and dependent on trustee behaviour.

Following the arguments as above, all benefits have also been deemed as being indirect.

Wider Impacts

191. *Benefits to wider economy*. As set out above, superfunds will be designed and are expected to increase the likelihood of members' pensions being paid in full whilst reducing the costs to sponsoring employers – i.e. improved efficiency. The improved efficiency is inherently expected to free up some resources which could be productively used elsewhere in the economy, contributing to its growth. Quantifying this second order impact would be very complex and disproportionate for the purposes of this IA.
192. In addition, the ability of superfunds to deploy significant capital in the investment markets is also likely to be of benefit to the wider economy as trustees will look to have a well-diversified portfolio which might include investment in productive finance and UK assets. Superfunds will benefit from economies of scale, giving them the ability to boost investment in productive finance assets, and may profit from greater returns than individual schemes given the larger scale of the superfund. Better investment returns may also arise as a result of governance of the superfund – given the benefit of the scale of a superfund, they may be able to more readily afford investment consultant or other external support fees etc. which smaller schemes may find difficult.
193. Consolidating multiple DB pension scheme assets into one larger superfund may help increase investment in UK productive finance. This is driven by superfunds having greater

scale and expertise to invest in a wider range of asset classes. Evidence shows that larger schemes have a greater allocation of assets towards asset classes such as private equity and infrastructure. These assets are also more likely to have a home bias compared to some other asset classes such as equities. Therefore, it may be reasonable to assume billions more could be invested in the UK economy.

Small and Micro Business Assessment

194. The Department has considered the potential impacts that the superfunds policy may have on micro and small businesses. The role of small and micro businesses has been considered closely within the policy-making process.

Context

195. Although there are a large number of small DB schemes, this does not necessarily translate into sponsoring employer size (as sponsoring employers may have run a scheme for a subset of employees). This makes it challenging to estimate accurately the potential impacts on small sponsoring employers. The size of the scheme does not always perfectly correlate with the size of its sponsoring business. However, it is expected that, on average, scheme size is a sufficiently good proxy for business size for these purposes.

196. To be consistent with the Pensions Dashboard Impact Assessment[693], as well as with other Pensions Scheme Bill Measures, small and micro businesses have been defined as **DB schemes having fewer than 1,000 members**.

197. There are almost 4,000 schemes with less than 1,000 members in the DB Universe[694]. It is therefore important to note around 4-in-5 DB schemes under this definition are classified as small/micro.

Exemptions

198. Small businesses have not been exempted from the policy measure, as this policy is expected to deliver a benefit should they choose to undertake it. It is expected that all schemes would need to undertake an initial amount of familiarisation on the regulatory framework. However, it is not anticipated that the proposed changes would lead to any disproportionate costs on small and micro businesses.

Proportionality

199. No disproportionate costs have been identified for small and micro businesses as a result of the proposed legislative and regulatory framework.

693 Pensions Dashboards Impact Assessment https://www.legislation.gov.uk/nisr/2023/209/pdfs/nisrem_20230209_en_001.pdf

694 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf (Page 13)

200. It is expected that all schemes (including small schemes) would need to undertake an initial amount of familiarisation on the regulatory framework. These are deemed to be direct costs. The costs associated with initial familiarisation for small schemes has been estimated based on the assumptions set out in paragraphs 100 to 104:
    - There are around **4,100 schemes** small schemes with less than 1,000 members (compared to 5,000 in total).
    - These are expected to face costs of around **£230 per scheme.**
    - This leads to a total familiarisation cost for Small and Micro businesses of around **£950,000** compared to £1.2m costs across the industry as a whole.
201. Further costs are not expected to accrue to all of these small schemes. Schemes will not be precluded from entering a superfund; however, it is unlikely that very small schemes will be accessing the superfund market at this stage.
    a. It is expected that very small schemes (those with less than 100 members) are unlikely to be within scope of transferring into a superfund as they are more likely to target larger DB schemes to achieve the benefits of scale more rapidly[695]. Once consolidators have achieved appropriate scale, they may wish to look at targeting this segment of the market.
    b. For similar reasons, around deriving economies of scale, it is expected that superfunds will not be small or micro businesses either.
202. Therefore, only schemes between 100-999 members have been included for calculating further costs. This is around 2,200 schemes in total[696]. Applying the same assumptions as above to calculate the number of small schemes, suggests that approximately **390 small schemes are in scope to enter a superfund** (5,063 schemes * 43% (between 100-999 members) * 30% (funded between 70 and 90% on a buyout basis) * 92% (closed schemes) * 64% (schemes with a weak employer covenant).
203. These schemes are expected to undergo a further 15 hours of familiarisation, which would cost them around **£680,000** in total (or around £1,800 per scheme) compared to around £920,000 across the industry.
204. Of the 390 small schemes in scope, it is expected that around **95 small schemes would choose to enter a superfund**. Given significant uncertainty on take-up, it has been assumed that take up levels will remain the same for small schemes, therefore a 25% take up assumption is used.

[695] See paragraph 78 of this Impact Assessment for more detail on why schemes with less than 100 members are not expected to be within scope of transferring into a Superfund.
[696] 5,053*0.43 - Purple Book 2023. https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf

205. Based on PPF data, it is estimated that schemes with 100-999 members have on average 350 members each[697]. Hence, the 95 small schemes, that are expected to enter a consolidator, would hold in aggregate £4bn in assets and £5bn in liabilities, encompassing around 30,000 members.

206. The gross cost to sponsors for these small schemes is therefore estimated to be around £284m over the 10-year period (see Table 19 below) or £33m in year 0. The additional gross cost of £283m is relative to being fully funded on a low dependency basis and compares to £1.1bn in employer costs across the industry.

Table 19 – discounted gross costs to small schemes

Year	Discounted gross costs to sponsor
0	£33m
1	£32m
2	£31m
3	£30m
4	£29m
5	£28m
6	£27m
7	£26m
8	£25m
9	£24m
Total Cost	**£284m**

207. The more a scheme is underfunded, the larger the required cash injection; therefore, the cost to the sponsoring employers is dependent on each individual scheme. Evidence from the purple book suggests schemes with 100 to 999 members tend to be less well funded on a buy-out basis (107.6%) than other schemes on average (111.9%)[698]. Therefore, these small schemes may require a larger cash injection from the sponsoring employer relative to other schemes. However, it is not believed that these costs would be disproportionate to small schemes.

208. Small schemes are expected to benefit the most from consolidation. Evidence suggests small schemes tend to have higher administration costs. TPR research on scheme running costs suggests small schemes have running costs 3 times greater than very large

[697] 760,000 members / 2194 schemes - Purple Book 2023, Figure 2.1/2.2 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf

[698] Purple book 2023, Figure 4.6 https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2023/PPF-The-Purple-Book-2023.pdf

schemes[699]. Therefore, small businesses could benefit more from reduced costs by entering a superfund relative to larger ones.

Table 20. The estimated costs and benefits to small schemes

	Estimated costs to small schemes (Discounted)	Estimated benefit to small schemes (Discounted)	Net
0	£35m	£5m	-£30m
1	£32m	£9m	-£23m
2	£31m	£13m	-£18m
3	£30m	£16m	-£13m
4	£29m	£20m	-£9m
5	£28m	£23m	-£5m
6	£27m	£26m	-£1m
7	£26m	£28m	£2m
8	£25m	£31m	£6m
9	£24m	£33m	£9m
Total	**£285m**	**£203m**	**-£83m**

209. The most significant costs and benefits to small schemes are expected in initial year (£35m) due to schemes facing familiarisation costs, (and for those who choose to proceed) secondary familiarisation costs and employer contribution costs. These costs fall slightly over time to £24m in year 9.

210. The benefits to small schemes are due to the savings from running costs of the scheme, which are passed onto superfunds who are expected to face lower running costs. Initially, the costs to small schemes are larger than the benefits, but this reverses from years 7 onwards. The net cost over the appraisal period to small schemes is estimated at ~£80m.

211. Considering only those costs and benefits that are direct to businesses (for EANDCB purposes), Table 21 shows an **equivalent annualised net direct cost to small businesses of £0.1m per year**. This is because, as above, many business impacts of the measure are categorised as indirect given it is a choice for schemes to enter into a superfund.

[699] 505/182 TPR scheme running costs research report https://webarchive.nationalarchives.gov.uk/ukgwa/20170902125115mp_/http://www.thepensionsregulator.gov.uk/docs/db-scheme-costs-research-2014.pdf page 21.

Table 21: Direct impact on small schemes (EANDCB)

Impact	Overview	Cost / Benefit to business (NPV over 10-year appraisal)
Costs to small business		
One-off costs	*Initial familiarisation cost for schemes*	£1m
Ongoing costs	*No direct ongoing costs (see 'Direct costs and benefits calculations' section)*	£-
Benefits to small businesses		
Benefits to small schemes	*No direct benefits (see 'Direct costs and benefits calculations' section)*	£-
EANDCB of £0.1m per year to small schemes		

Mitigations

212. Importantly, entering a superfund is voluntary. It is expected that sponsors of small schemes will pay the cost of entering a superfund only if it is beneficial for them to do so; and that trustees are content that it is in the best interest of members. Therefore, it is assumed that the gross benefit from entering a superfund must be equal to or greater than the net costs of the premium paid to transfer into a superfund plus the familiarisation costs for small schemes.

213. The Department's view is that the policy should **help benefit small schemes and smaller employers who may have a DB scheme**. Small schemes have not been excluded as evidence suggests these are schemes who may face additional barriers when seeking a DB end-game solution. For example, a smaller employer may not have the same financial backing to support a DB scheme continuing to run-on given the financial volatility this may have. Smaller schemes may also face challenges entering buy-out as there may be an additional premium for smaller schemes (often driven by lower profitability and additional costs, such as data cleaning). As a result, superfunds offer a viable exit strategy for smaller schemes to consider and therefore it is appropriate they are offered the opportunity to consider.

Summary and preferred option with description of implementation plan.

214. Primary Legislation would require superfunds to seek authorisation in order to operate, set out the broad framework for superfund authorisation and accompanying regulatory regime as well as the broad framework for the gateway. This will be underpinned by secondary legislation and a TPR Code of Practice. TPR has already issued guidance for those looking

to establish a superfund before legislation comes into operation as well as for those trustees and employers considering transferring.

Monitoring & Evaluating

215. Once legislation is in place for superfunds, there will be active engagement with TPR (at least quarterly to start with and then bi-annually once the legislation is embedded) to share information regarding superfunds to include, but not limited to the following:
    a. The number of consolidators that are currently undergoing the authorisation process.
    b. The number of schemes that are transacting to determine the growth of superfunds.
    c. The amount of Assets under management by superfunds.
    d. The number of members within superfunds.
    e. Consolidator reporting shared with TPR.
    f. Any matters with the legislation that will need addressing.

216. Additionally, DWP will maximise existing surveys and industry engagement to closely monitor the impacts and take-up. For example:
    - Exploring **interest and take-up** of superfunds via regular DB surveys of trustees. This will help better understand the likely growth of superfund demand.
    - **Qualitative and quantitative surveys with Trustees** on how they found the transition of moving a scheme into a superfund, the communication with members, and any barriers or concerns.
    - **Regularly engaging with superfunds** to understand how they are finding the new framework and build on their feedback, where appropriate. This will also explore investment returns to ensure this is matching expected plans.
    - **Working closely with GAD** to independently review the superfund proposition and review the modelling on a regular basis and to reflect emerging business models within the market.
    - **Interviews with employers** who are freed of their DB scheme and therefore whether they have consequently increased investment or supported their DC scheme.

217. Undertaking surveys with members will be explored to ensure the move into a superfund has been well explained to them and they continue to receive the appropriate information, support, and have not been impacted.

Annex A: GAD Analysis

1. DWP have worked closely with the Government Actuary's Department (GAD) to estimate how these regulations might be applied in practice; and to be open and transparent about the potential impacts of the changes. GAD modelling attempts to assess the regulatory parameters required to meet the superfund policy objectives for authorisation (as set out in the 2018 Superfund Consultation) using stochastic modelling. The consultation set out that the proposed authorisation regime will assess whether a superfund has a viable business model, is financially sustainable, is well governed, and has a high probability of being able to pay members' benefits as they fall due.
2. Estimates produced by GAD are sensitive to a range of assumptions about the state of the economy. Therefore, the modelling can only provide a broad indication of the cost of superfund entry relative to buyout. The modelling is based on a particular approach/model to run superfunds, whereas there will be opportunities for superfunds to be run differently for profit. Furthermore, the consultation anticipates a range of regulatory intervention points that would trigger actions if superfund finances deteriorated. The modelling does not allow for any actions that might occur from direct regulatory intervention, such as TPR demanding a failing superfund is wound up or transferred to another superfund.
    a. The first iteration (2019) of GAD's modelling positioned the cost of superfund entry (in the base case) as roughly **90% of the cost of insurance buyout**. This modelled superfund was predicted to have a **1.6% probability of failure**.
    b. The second iteration (31 December 2022) of GAD's modelling positioned the cost of superfund entry in an *optimal* case as **93%-95% of the cost of insurance buyout**, with a predicted **failure rate of 2%**. The modelling used within the IA is based on the 2022 analysis. This is based on the latest available modelling at the time of the IA and reflecting a sensible assumption based on emerging discussions with industry.
3. The central price assumption for the cost of superfund entry has been derived from the latest iteration of GAD analysis (2022 version). This is based on the latest available modelling at the time of writing the IA and reflecting a sensible midpoint of pricing estimates made and emerging discussions with industry.

Modelling Assumptions/methodology:

4. The modelled superfund consists of a superfund scheme and a capital buffer. The superfund scheme is made up of deferred and pensioner members with benefits intended to be typical of DB schemes. The modelled long-term objective is for the superfund scheme to reach a

buy-out level of funding after 15 years. The modelling was calibrated against market conditions and buy-out prices as of 31 December 2022.

5. In each year of the modelling, GAD consider 1,000 economic scenarios. The superfund assets and liabilities are projected forward, and cashflow is paid out based on the randomly generated economic scenarios being modelled and the benefits to be provided by the superfund scheme. Member expenses equivalent to 2.5% of liability cashflow in each year are deducted from assets when cashflow is paid out.

6. The modelling assumes that the present value of member liabilities is split roughly between 60% deferred members and 40% pensioners based on current data. The duration of the liabilities is around 15 years at outset. Three investment strategies have been modelled each with their own capital requirements to reflect their different risks, as shown in Table 22 below. Strategy 1 (Credit-based portfolio) is the type of strategy that superfunds may be more likely to adopt based on industry engagement but given uncertainty and no specific investment strategy being mandated, the range of figures presented from the range of investment strategies has been used.

Table 22: Investment strategies for GAD modelling

Asset Class	**Strategy 1: Credit-based portfolio**	**Strategy 2: Diversified portfolio**	**Strategy 3: Alternative credit-based portfolio**
Global Equities	0%	6%	0%
Euro high yield bonds	0%	0%	5%
UK property	0%	4%	5%
Hedge funds	0%	2%	0%
Private equity	0%	6%	0%
UK infrastructure	0%	6%	5%
UK high yield bonds	0%	6%	0%
Private debt	25%	0%	10%
LDI fund	30%	45%	40%
UK corporate bonds	45%	25%	35%
Annualised returns (above gilts) over 10 years	1.6% p.a.	1.8% p.a.	1.4% p.a.
Average annual funding volatility over 10 years	5.1%	5.2%	4.1%
Hedging ratio (interest and inflation)	~90%	~90%	~90%
LDI leveraging	~ 2.4x	~ 1.8x	~ 1.9x
Assessed authorised capital requirement	14.1% of tp's	16.8% of tp's	13.1% of tp's
AMC	0.2% p.a	0.2% p.a	0.2% p.a

Modelling results:

7. GAD analysis has been used to inform the probability of failure for a superfund, as well as the realistic affordability price as a % of buy-out in order to determine the potential benefit to members. GAD modelling suggests under a framework of:
   a. A Technical Provisions discount rate of around gilts plus 0.75% per annum
   b. A profit trigger of 150% of the Authorisation Capital
8. Modelling of this approach would suggest a cost of around 93%-95% of buy-out, with a risk of superfund failure of 1.7%-2.3% (depending on investment strategy), albeit there is a range of plausible outcomes. See Table 23 below.

Table 23: Assessment of model outcomes

Discount Rate	Gilts + 0.75% pa		
Profit Taking requirement	150% of ACR		
Investment Strategy	**Strategy 1: Credit-based portfolio**	**Strategy 2: Diversified portfolio**	**Strategy 3: Alternative credit-based portfolio**
Modelled failure rate	1.7%	3.1%	1.9%
Modelled price as % of buy-out	93%	95%	95%
Modelled return on capital	12.5%	12.5%	12.5%

Use within the IA:

9. Based on the range provided for the modelled rate of failure, it is assumed that the probability of securing benefits in a superfund is 98% (1-(1.7%+3.1%/2)), while based on the range of modelled price of entry into a superfund as % of buy-out figures, it is assumed that the price will be around 94% ((93+95)/2).
10. It should be noted however, that the figures used within this IA from the GAD modelling are purely to support the modelling and understanding of the potential costs/benefits of superfunds. This does not mean the primary legislation will include these prescriptive requirements. Any more detailed requirements on profit-taking, failure rate, and return on capital are likely to be in the secondary legislation after consultation and may be subject to change.

Limitations of the modelling:

11. As previously mentioned, the assumptions and methodology set out in this report are appropriate as at the date of calculation, 31 December 2022. The outcomes should be considered within the context of the economic position as at that date. Any changes or movements in economic conditions since this date have not been factored into the modelling or analysis. For example, PPF 7800 index data suggest in December 2022, the aggregate funding ratio was around 136.5% on a s179 basis with around 700 schemes in deficit[700]. while at the end of June 2024 the aggregate funding ratio was around 149.4% on an s179 basis, with around 500 schemes in deficit[701].
12. These improvements to funding ratios could potentially mean the actual number of schemes in scope for superfunds is smaller, given the aggregate improvements will mean some

[700] https://www.ppf.co.uk/-/media/PPF-Website/7800/2023/PPF_7800_Update_January_2023.pdf
[701] https://www.ppf.co.uk/-/media/PPF-Website/7800/2024/PPF_7800_Update_July_2024.pdf

schemes fundings will have improved and potentially moved them out of scope for the superfund eligibility criteria of 70-90%.