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60-second summary

Government fires starting pistol for pension reforms

On 29 May 2025, the Government laid out plans for extensive pensions reform. They came in the form of the Final Report from the Pensions Investment Review, and the outcomes of three consultation exercises: on unlocking the UK's defined contribution (DC) pensions market for growth, making the Local Government Pension Scheme in England and Wales fit for the future[1], and the options for defined benefit (DB) schemes.

Unlocking DC pensions for growth

The Government will proceed with plans to require that each personal-pension provider and DC master trust has at least one default investment arrangement with £25 billion in assets under management (AUM) by 2030 (plus proportionate investment capabilities). The foundations for the obligation will be laid by the forthcoming *Pension Schemes Bill*. The detailed definition of such '*main scale default arrangements*', as they will be known, is to be set by regulations, following a consultation exercise. The requirement will not apply to schemes established for single employers or corporate groups, nor to collective DC schemes. Neither will it affect Sharia-compliant default arrangements.

A '*transition pathway*' will exist for those that can convince the Pensions Regulator that they will have at least £10 billion in AUM by 2030, with plausible proposals for reaching £25 billion by 2035. To allow room for innovation and competition, there will also be a '*new entrant pathway*', whereby entities with proposals for original products, and plans for reaching appropriate scale, can seek authorization.

The Government has decided not to limit the number of defaults arrangements in use by any one scheme. However, legislation will generally prohibit the creation of new defaults, unless regulatory approval is obtained. There will be no requirement for standardised pricing by default funds, at least initially; more analysis will be conducted once the current reforms are embedded.

A contractual override will allow personal-pension providers to transfer members out of underperforming and legacy arrangements, where an independent expert certifies that it is in their best interests. If a provider wishes to transfer people to another arrangement within its own stable, it will have to be the one representing best value. The Financial Conduct Authority (FCA) will develop and consult upon rules governing the use of the contractual override. Any decision to use it will have to be based on objective standards of measurement, including some from the new Value for Money (VFM) Framework.

The VFM Framework will push underperforming schemes to improve, or transfer members to more-successful arrangements and wind up. Decisions will be based on performance measures that allow comparison between schemes. The Government expects active decisions from trustees and providers on whether to move members into a main scale default arrangement.

[1] See our LGPS team's separate policy briefing note and commentary for full details of this aspect of the coming reforms.

In 2029, after the first tranche of VFM assessments, the Government, FCA and Regulator will review how effective the contractual override and VFM Framework were in encouraging use of main scale default arrangements. A '*legislative underpin*' (latent intervention power) will enable the Government to act if insufficient consolidation has occurred. The Regulator and FCA are, later in 2025, to launch a market-wide data-collection exercise requesting asset-allocation (split by asset class and sub-class, and UK versus overseas) information from the largest DC pension providers. They will report on their findings in 2026, and are expected to repeat the exercise annually until data obtained via the new VFM Framework emerges.

The Government has for the moment decided against imposing additional obligations on employers and advisers, such as periodic review of auto-enrolment providers. It has concluded that mandatory investment in growth assets is currently unnecessary, but will again give itself power to intervene if initiatives such as the Mansion House Accord do not have the desired effects; use of the latent power will be subject to member-interest safeguards and '*consistent with the principles of fiduciary duty.*'

Options for DB Schemes

The *Pension Schemes Bill* that will shortly be laid before Parliament will remove barriers to surplus extraction, subject to rigorous funding conditions. It will clarify the current requirement for trustees to be satisfied that a payment of surplus to the sponsor is in the interests of members, so that payment must be in accordance with trustees' overarching duties to beneficiaries, allowing them to better balance employers' and members' interests. The Bill will permit rule changes by trustee resolution, where necessary, to facilitate employer surplus payments, and will repeal the requirement for a pre-6 April 2016 resolution. The Government favours specifying the low-dependency-funding-basis (not buy-out) as the minimum threshold for surplus extraction and will consult on draft regulations to make it so. The Regulator will publish surplus-extraction guidance to help trustees decide when it may be appropriate. The '*authorised surplus payments charge*' will be kept at 25%, but the Government is reviewing the wider tax regime.

The Bill will not create a 100% PPF underpin option, nor legislate for a government-sponsored consolidator at present. However, the Government is continuing to explore the prospects for a 'small, focused' consolidator, run by the Pension Protection Fund, and aimed at underfunded schemes that are unlikely to be within reach of buy-out or other commercial-consolidation solutions anytime soon. It would operate on the basis that sponsors remain on the hook to support their schemes until deficits are eliminated. The Government is waiting to see how the buy-out and superfund markets develop before deciding whether the public consolidator could be extended to small-but-well-funded schemes.

What next?

The next phase of the Pensions Review will be announced '*in the coming months*.' The Government is to publish a '*roadmap*' for private-sector pensions, to locate the announced reforms in the context of wider policy. The *Pensions Schemes Bill* ought to be introduced soon (before Parliament's 22 July summer recess).

These are ambitious plans to release the untapped potential of a more-productive pensions system. We are supportive of the DB surplus-extraction reforms and vision for DC megafunds, and see both as key pillars for UK growth in the private pensions sphere. For more incisive commentary, visit our media centre.

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