

Work and Pensions Committee

Oral evidence: Investment in the UK economy and Pension Schemes Bill, HC 897

Wednesday 14 May 2025

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Members present: Debbie Abrahams (Chair); Damien Egan; Amanda Hack; Frank McNally; John Milne; David Pinto-Duschinsky.

Questions 1 -35

Witnesses

I: Jesse Griffiths, CEO, Finance Innovation Lab; Jackie Wells, Independent Pensions Researcher; and William Wright, Managing Director, New Financial.

II: Rachel Croft, Trustee Director, Association of Professional Pension Trustees; Chris Curry, Director, Pensions Policy Institute; Joe Dabrowski, Deputy Director, Pensions and Lifetime Savings Association; and Yvonne Braun, Director of Policy, Long-term Savings, Health and Protection, Association of British Insurers.

Examination of witnesses

Witnesses: Jesse Griffiths, Jackie Wells and William Wright.

Q1 Chair: Welcome to our one-off inquiry session on investment in the UK economy and the Pension Schemes Bill. It is our pleasure to welcome our panel of experts this morning. We have Jackie Wells, Jesse Griffiths and William Wright. I think it is you, William, who needs to leave promptly at 10.15 am for a Eurostar connection, so we will make sure that you can do that. Perhaps you would like to introduce yourselves and the organisation that you represent.

Jackie Wells: Good morning and thank you, Chair. I am Jackie Wells, an independent policy and research consultant. I have spent many years working in pensions and I have several hats, but this morning I am here in connection with work I have been doing with the Pensions Policy Institute on asset allocation in the pensions sector.

Jesse Griffiths: Good morning; I am Jesse Griffiths, the CEO of Finance Innovation Lab. We are a charity that works with experts inside and outside the system to try to improve Government policy on financial systems.



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William Wright: Good morning, and thank you very much for the invitation to join you today. My name is William Wright. I am the founder and managing director of New Financial, a think-tank that I launched just over 10 years ago to make the case for bigger and, most importantly, better capital markets across the UK and Europe. We have been doing a lot of work in the last few years on UK pensions reform and on similar reforms going on in Europe.

Q2 **Chair:** A very warm welcome to all of you. I will kick off the questions. I want to know about how pension funds invest their assets—I am thinking about the UK and internationally, and particularly the trends in this investment.

Jackie Wells: In terms of how pension schemes invest their money, it is important to start with a reflection on what we do and do not know. We know quite a lot. There is a lot of data out there, but it is not enough to comprehensively map the assets of the UK pension sector with a high degree of confidence. We do not have consistent or complete data across the sector. We have multiple sources that are categorised in different ways and that sometimes tell slightly different stories on the data. So that is scene setting, but there are some things that we do know with a degree of confidence.

We have some confidence around private sector DB schemes because we have quite a lot of data, and on the whole, we know that they are heavily invested in bonds—about 70% of the portfolio is in bonds—with Government bonds dominating that mix. What is also happening is that there is a trend towards securing the liabilities of the schemes with buy-in annuities, which in turn invest in corporate bonds. There is a bit of a transition going on within and outside private sector DB schemes, as they mature. We also have listed equities and private market investments that make up a small proportion of the remainder of the assets.

We know quite a lot about public sector-funded DB schemes, particularly LGPS, although there are some slightly conflicting datasets out there. In those funds, equities play a very large part, as do private market investments. Private market investments have been increasing in recent years—maybe we will talk about that a bit more. We have some data, thanks to the ABI, on how pension annuity assets are invested. We know that they are dominated by bonds—corporate bonds principally—from both the public and the private markets. Loans and private credit make up quite a substantial part of the portfolio.

Data on DC is much less complete. We have reasonably good data on the trust-based side, and less good data on the contract-based side. The contract-based side is still important to recognise in workplace—it is still bigger than trust-based. We can estimate that about half of the total funds are allocated to listed equities in totality, but that rises to about 80% in the new growth default funds that are growing quite substantially. Bonds make up a quarter, while private markets represent 4% to 5%. I have to say that it is really hard to pin down precisely these numbers.



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Looking at the totality of UK pensions, which is now just over £3 trillion, we estimate at the PPI that around 45% of the assets in totality are invested in growth assets, whether that is public or private markets. I hope that gives you some sort of overview. I know that William has some other numbers, and I am sure that Jesse has some data to add.

Chair: We will have to be a little bit tight on our responses.

Jesse Griffiths: The main thing I will highlight is that the UK pension system has not been good at supporting business investment, particularly higher-risk business investment. Part of the reason is that it is based on two models that, largely, are not well suited to that. The defined benefit scheme ought to be good for supporting business investment, because it promises people a decent pension at the end of it. But because most of those have closed and we are in a wind-down phase, they have shifted, as we said, to safer assets, largely to bonds. That has become a problem.

The defined contributions, which most people have now—the default model—are not so much like a pension scheme. They do not promise you an income; they are more like a savings account. What you get out is based on what you put in. Because they individualise the risk in that way, they are unwilling—particularly the smaller schemes—to take higher risks by making the kinds of business investment that the Government or we might like them to.

That is a fundamental problem in the system, and that is why we welcome the Government's move to scale up the alternative—the collective defined contribution schemes, which can hopefully marry the two elements and promise an outcome that pushes the scheme to invest in a wider range of longer-term assets. One study suggests that for the same amount of money put in, a CDC scheme could get you a 50% better return when you reach retirement. There is some hope there, but fundamentally, the two types of models are not the kinds you might want if you want to increase business investment, which I would argue is important not just for the economy, but for pension savers.

William Wright: I echo and reiterate what Jackie started with on the data side. It is very difficult and for something as important as pensions and investment, it is striking how inconsistent the data can be. Building on those first two comments, it is important to try to think about pensions not in aggregate, but in terms of the different buckets within pensions, because they all have very different pressures, incentives, dynamics, risk tolerance and, therefore, very different asset allocation.

There is one thing that we can be reasonably confident of from some of the work that we have been doing. Let's look at equities investment, for example. In the big buckets of pensions like DC, which most people in the private sector will be relying on, or LGPS, we think the overall investment to equities is around 50% to 55%. That is in line with equivalent pensions in other developed pensions markets.

It is also clear, however, that the proportion invested in UK-listed domestic equities is significantly lower than most equivalent systems, in



aggregate and in each of the different buckets. It is also reasonably clear that the proportion in these different buckets that is allocated to private markets, to unlisted equity, to infrastructure—yes, as Jackie said, it is growing from a relatively low base, but that is also lower than in most equivalent systems, when you compare DC in the UK with DC in other markets, or public sector DB with public sector DB in other markets.

The UK is very much an outlier in how the system is structured. It is also an outlier in how assets are invested.

Chair: Thank you. I have another couple of questions, but I would be grateful if you wrote to the Committee in response—first, about why there is the difference in investment in the UK, and secondly, about the impact of the US-UK tariffs on this. If you can write to us afterwards, that would be fantastic. I will hand over to Amanda Hack

Q3 Amanda Hack: We have started along the path about how pensions are invested in the UK economy. Are there any more barriers to investing in the UK economy other than what you have explained? I think, Jesse, you started off with some of those barriers.

Jesse Griffiths: It is not just a problem with the pension system. The UK has had the lowest level of business investment in the G7 for 24 of the last 30 years. The fundamental driver behind that is that the financial system as a whole does not support business investment as much as it does in other countries. So it is not just about pension funds, but banks, stock markets and other parts of the financial system. We have a broader problem than just fixing the pension system or expecting the pension system to resolve it.

I would argue that the main reason for that is that financial sector policies focus too much on growing the financial system as an end in itself, and not on seeing the financial system as a mechanism for delivering other ends—in particular, supporting sustainable investment in the economy. That reflects a broader set of problems.

Others might want to talk about the pension system, and we have mentioned the different models, but I add that it is also reasonable to say that the pension system needs a better pipeline of investable assets, if we want it to do the kinds of things that we need it to do. For example, Phoenix estimates that only 4% of pension investments are climate-friendly investments, and we need to scale that up rapidly. The solution to that does not lie in the pension system, but the logical partner for getting pension funds to scale up investment in the UK—in businesses and in the green transition—is the National Wealth Fund, and that is much too small. The UK Infrastructure Bank released £1.7 billion in its last year, whereas the German equivalent, KfW, released £68 billion. It is perfectly possible for the National Wealth Fund to grow to that size if it issues its own bonds. That would provide a safe, secure asset for pension funds to invest in. That is the way to try to support pension funds to do the kinds of investments we want them to do.

Q4 Amanda Hack: If we look across the domestic example, how do we



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compare with other countries? For instance, Canada and Australia are often used by the Chancellor.

William Wright: It is important to make it clear that we are comparing not the UK with Canada or Australia, but the different buckets. For LGPS or public sector pensions, the best comparison is public sector DB in Canada, the Maple 8. The key difference is scale. The Canadian pension reserve fund, CPPIB, is managed as one fund. It has roughly the same value of assets under management as the entire LGPS scheme in England and Wales, which is split between 86 different administering authorities.

That scale enables these pension schemes to take a broader approach to asset allocation. Often, they are doing private markets, unlisted equity, and infrastructure investment in-house because they are big enough to do so. That translates to having almost three times as much allocated to unlisted equity and infrastructure. About 35% of the Canadian public sector DB system is in those assets, compared with about roughly 12% plus or minus a bit in LGPS.

We see a similar thing in Australia. The supers in Australia are much bigger. They have been going longer and contributions are much higher in Australia than they are in the UK. Employer contributions, I think, have recently gone up to 12% minimum compared with the 3% required in the UK. They are bigger and the scale gives them the opportunity to invest in a broader range of assets. Australian DC are in the mid-teens in terms of unlisted equities and infrastructure investment compared with maybe 2% or 3% for UK DC. There are clear differences, mainly embedded in the structure of the different systems.

Q5 **Amanda Hack:** We have Canadians investing in UK infrastructure. How can they make such large investments and our pension companies do not?

William Wright: If you are CPPIB—so you have about \$400 billion Canadian under management, or a bit more, and 20% or 30% of that is allocated to infrastructure—you can make investments with a deal size of hundreds of millions of pounds. I cannot remember what fund it was, but I think a Canadian fund bought Associated British Ports outright. In that year, there was more investment by that one fund in that one deal than the entire infrastructure investment by DC pensions in the UK in the same period. Ultimately, it boils down to scale.

The high level of investment in infrastructure projects and assets across the UK—whether it is airports, utilities or transport—by Australian and Canadian pension funds, by sovereign wealth funds, indicates to me that the demand is there. These are sophisticated investors who tend to require returns. It points me towards thinking that it is primarily a structural issue in the UK pensions industry that is the main barrier to more investment in those sorts of assets, because other sophisticated investors clearly are comfortable buying them.

Jackie Wells: I think there is another factor in this, a structural factor. Nobody disputes that scale is a key to investing, particularly in some of



these private markets, but investing in private markets requires significant additional resource internally. Schemes like USS and Railpen—some of the asset pools for LGPS—have huge resources devoted internally to due diligence and governance of private markets. It is a very different type of investment from investing in listed assets.

Many of the schemes in the UK are resourcing up to achieve what they have committed to under the Mansion House accord, but that takes time. It takes time to get the governance regimes in place, and it takes time to get the resources internally that can do the due diligence work, and work with the managers. It is a matter of transition in the UK. We are going through it. We have certainly heard, in the research we have done recently, a huge amount of appetite for investing in private markets and for investing in the UK, as well as signals that it will take time and that it is not an overnight activity.

Q6 David Pinto-Duschinsky: Thank you so much for taking the time to come and talk to us. This is very timely because just yesterday we had the announcement of the Mansion House accord, building on the work of the Mansion House compact a couple of years ago. As you said, that is in the context of levels of investment into private markets, and specifically into UK private markets, that are much lower. I think one of the quoted stats was that our DC funds invest about 4% versus up to 40% in the US for domestic equities and private markets. Obviously, the accord is based on a voluntarist approach, as was the compact before it. Do you think that will be effective?

Jackie Wells: I think it comes down to the comment that Jesse made about the pipeline, and we have seen that as a caveat on the accord. The key—I have heard this time and time again in recent discussions—is that this is about having a very visible pipeline of opportunities for schemes to invest in, and it is about getting the structures right. In particular, I have heard that local authorities are not as used to dealing with pension schemes as they perhaps are with banks. Getting the structures that work with pension schemes right is part of the equation.

Ultimately, it is about performance, so seeing the performance delivered as well will help. The fact is that US equities have outperformed UK equities hugely over recent years, particularly when we have seen a shift to passive global investment.

Jesse Griffiths: One promising thing is that the Government are taking a more activist approach and have even threatened mandation as a tool to get the industry to invest more. That is welcome, because for too long, we have assumed that the only purpose of the pension system is the returns that savers get on their savings. But actually, when you think about it, for pension savers the returns they get matter; how the economy does matters a lot because it affects employment prospects, and that is the biggest impact on likely retirement outcomes; and how the environment does matters an awful lot, given the fact that we are heading towards very significant financial and economic losses caused by climate change and nature destruction.



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It is the right that the Government should take a broader perspective than just having a system that delivers good returns for savers. It also needs to work for the economy and the environment. Part of that will be pushing the pension funds to do more of the investment that is good for the economy and the environment, and part of that will be helping them to do that.

There are two elements, of course. The first is the industrial strategy that we are awaiting—that will need to be effective and put in place a sensible way of supporting investment in key priorities. The second, as I said, is the National Wealth Fund, which we will need to scale up dramatically if we are going to get the kind of investment scale-up that we need, particularly to meet our climate commitments.

William Wright: The value of the Mansion House accord and of the Mansion House compact from a couple of years ago is that it keeps the conversation going about the different options for pension funds and the potential benefit to them, their members, and the wider economy from investing in a wider range of assets. A lot of the industry seems to default—no pun intended—into a fairly vanilla, straightforward, low-cost asset allocation. That is partially about structure, and partially about culture, habit and incentives. It is important that Government and other actors have come together to keep this on the agenda and keep the conversation going.

It is also important not to view this in isolation, but in the context of all the other reforms going on. It is less likely to succeed if we do not see more consolidation in DC, and we probably need more accelerated consolidation in LGPS and other reforms around the value for money framework, and so on.

Q7 **David Pinto-Duschinsky:** That is what I was going to ask. I am hearing that it is necessary, but what else is sufficient? To take the example of private markets, we know that 80% of the delta of UK private equity issuance has been in private rather than public markets. That has been the explosive growth, and yet there has been a reluctance to invest in them. I realise there are also regulatory things. Are there any other measures—aside from consolidation and, as you mentioned, the value for money framework that I am sure we will come back to—that would go with this to help make it a success?

William Wright: Can I reflect on that and come back to you? I am very happy to do that. I am sure there are, but none come immediately to mind.

Jackie Wells: One thing we hear a lot about is the planning system being a barrier to some investments—so planning, planning, planning is what comes up in discussions. Of course, there are those who advocate for fiscal incentives for investing in the UK, and that is a whole other bag of issues that has complexity around it.

Jesse Griffiths: As we said, there are a lot of issues on the industrial strategy side. Do we have the pipeline of assets, and is it as easy as it



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would need to be for pension funds to do that? We have talked about the scale. The nature of the fund matters a lot, and if we can have either a revival of DB schemes if we increase contributions, or a move to collective schemes that have a longer-term horizon and are trying to deliver a higher return—and, therefore, will be more interested in a wide range of assets—that is also important, as well as the other things that people have mentioned.

Q8 John Milne: It has always been a very high principle that under their fiduciary duty, pension funds must act in the best interest of savers. On the face of it, mandation is a potential conflict or contradiction. How would you react to that challenge?

William Wright: The best interests of members under fiduciary duty is a term that would include many other decisions taken by pension funds, their investment committees and their trustees. That is not just their asset allocation and investment decisions, but whether or not they adopt a passive or an active strategy; whether or not they will even consider going into generally higher-cost private market assets; which managers they choose to run their money; and most importantly perhaps for smaller schemes, whether they should even continue to exist in their independent form or whether they should think about folding themselves into a much bigger, more efficient scheme.

We looked at this with LGPS across 86 schemes. If you ask 86 different schemes in the context of their fiduciary duty to invest in the best interests of their members, you will get 86 very different answers. In UK equities, it ranged from just under 1% of total assets in UK-listed equities to just over 30%, and in private markets, from 0% to 25%. I struggle a little with the fiduciary duty argument, because there is so much variability already and so many other factors that have an impact on fiduciary duty.

John Milne: Very interesting, thank you.

Jesse Griffiths: I agree with everything that has been said. First, it is worth saying that while the fiduciary duty should be paramount for the schemes, the Government has a different and broader mandate, and it needs to look at the collective interests of all pension savers as a whole, which are not necessarily the same as being always aligned to just getting high financial returns for the schemes. In particular, when you think about the deep inequality that is embedded in the system, the ONS estimates that the bottom half of the population holds just 1% of all pension assets and the top 10% holds almost two thirds. If you just focus on growing the financial returns, most people will not benefit from that. I would argue that a system that also supports a stronger economy and the green transition would benefit most people more than a system that is focused on higher returns.

Having said that, I do not think there is necessarily any contradiction in fiduciary duty, because we know that fiduciary duty does allow for considering impacts on the community, the environment and the economy, and also the views of members, which have been shown many



times to be strongly in favour of more sustainable investment. The main issue is it is interpreted quite broadly, so we do need to clarify it. I know ShareAction, for example, is proposing amendments to the Bill to do that. Somewhere that we could have a more consistent definition that recognised the broader issue would be helpful.

Jackie Wells: It is clear there is no appetite for mandation among trustees and providers at the moment, and there is an interest in driving things voluntarily. I would agree with everything that has been said there. What trustees, in particular, value is clarity around the rules that apply to them. If there were mandation, it would clearly override some of the issues of fiduciary duty. What is necessary is clarity around the guardrails that would exist for mandation into UK assets to ensure that there was not the compromise on members' interests to any excess, and some guidance from the regulator about how to apply that. I come back to there not being an appetite at the moment among any of the stakeholders.

Q9 **John Milne:** I think you partially touched on this, but do you think it would be helpful to have a more formal definition of what fiduciary duty consists of? Clearly it is already being interpreted very widely from what you said, William, but would it be beneficial to give clarity to the industry?

Jesse Griffiths: Absolutely, yes. There are two different ways; one is through the guidance and the other is by clarifying the law. There is a reasonable amount of consensus that we need better clarity, and I would support ShareAction's proposals to use the Pensions Bill to gain clarity. If you cannot do it through the Pensions Bill, you would need to do it through other mechanisms.

Jackie Wells: I have not done a huge amount of fiduciary duty research recently, but I think one thing that I have observed—I think the Committee has heard this before—is that trustees are generally satisfied with the review from the Financial Markets Law Committee that took place recently. That has come up in a few conversations, so maybe coming back to some of that would be helpful.

Q10 **David Pinto-Duschinsky:** Thank you for your comments; this is obviously a very fraught issue. I want to come back to something Jackie said. You mentioned that there is uniform opposition within the sector. Conversations I have had suggest it is a bit more nuanced than that; it depends on what bit of the sector. You said asset managers are utterly opposed. Some of the larger companies, especially those with already deeper asset investments in the UK, are relatively relaxed, and then there is a kind of spectrum of master trusts and stuff in between. Is this not also slightly chicken and egg? In the US, there is huge domestic investment that drives higher returns. This is fundamentally an argument about two things: returns and what the duties are on trustees, and how they avoid having low performance and then an FCA investigation a decade later. But on the low returns, isn't one of the key things to drive up levels of UK investment and get the investible pipeline going, because



that will drive up UK returns—to Jesse’s point—which will help to solve this problem?

Jesse Griffiths: Yes, but it works both ways. One is having the pipeline of investible opportunities that deliver the right kinds of risk return that pension funds, in this case, and other investors are looking for, and that is why I think an industrial strategy approach is the right one. Of course, it is not easy to do an effective industrial strategy, so we will need to see the details of that. It is also true that the availability of capital is important, so I think encouraging pension funds to do more investment in the UK voluntarily will help initially, too. The pipeline of investible assets is not just out there; it also depends on the financial institutions to help develop those.

That is why I would argue that the National Wealth Fund has been the missing part of the infrastructure in the UK—a national development bank that both helps to aggregate capital, so coinvesting with private investors, including pension funds, and actively goes out there and builds the pipeline of investible assets, creating the deals that people need to do the investment. That is one of the key things that we have been sorely missing in the UK, and hopefully, if we could scale up the National Wealth Fund, that would help the whole ecosystem to do better investment.

William Wright: If I may go on with the chicken-and-egg analogy, there is a fundamental structural issue going on in UK-listed equities because the UK started with a bigger, more developed pension system that had a higher allocation to UK equities. Over the past couple of decades, there has been a shift that has accelerated from the sort of UK-centric approach—from maybe having 30%, 40% or even 50% of your assets in UK equities—to a global market-weighted approach, where, given the UK’s weight, you are likely to have 3% or 4% of your equities allocation in the UK.

That may have been in the individual interests of each pension scheme that made the switch, but the collective impact of lots of large schemes making that switch over the past 10 to 20 years has sucked an awful lot of natural demand, if you will, out of the UK equity market. It has helped with lots of other factors, but it is has helped to keep returns lower than they have been historically, which starts to create a sort of doom loop of lower demand, lower valuation, lower interest and lower weighting—and back around you go.

Q11 **David Pinto-Duschinsky:** That is exactly right, but I suppose that also flags up the extent to which, because our funds have been very heavily focused on public markets rather than private ones as well, you get into that doom loop pretty quickly. As IPOs and stuff drop off a cliff—I think there were only 18 IPOs in the UK last year—you then get into that doom loop, so clearly, there is something about getting a pipeline going. Clearly, there is something about encouraging people to shift towards private markets. We talked a bit about the role of mandation, and this is a voluntarist approach, although I note that the FT had a story yesterday suggesting that there might be a reserve power to mandate if stuff was



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not met. What role does consolidation play in driving not just better investment, but better investment specifically in the UK?

William Wright: In the UK more broadly?

David Pinto-Duschinsky: Public and private.

William Wright: On the public equity market side, the lesson from consolidation is that it could accelerate the shift to reducing allocations to domestic equities. We have seen that in Canada and the Netherlands, which are two of the examples where they have highly consolidated systems. They are the only two pension systems that, on virtually every count, have a lower allocation to domestic equities than UK pensions.

On the private market side, consolidation in and of itself is not enough to deliver more investment in private markets, unlisted equity and infrastructure. You need capacity and skill that go alongside that. That takes time, but I do think that consolidation is a requirement—it is a threshold capacity. If we do not have it, I do not think we will see a significant increase in investment in these assets in the round, or investment in these assets in the UK.

Jackie Wells: I agree. Scale is critical for private markets, particularly, and therefore for UK private markets, but it is important to recognise that we already have quite a lot of consolidation in DC. We have only 20 players in workplace DC—if you exclude and put to one side single employer trusts—and around seven of them have DC assets of more than £40 billion each, and they control about 80% of DC assets. You already have concentration in that part of the market, so the question is why that is not acting adequately to drive more UK and private market investments. You have some underlying structural issues within there.

The proposals to allow bulk transfer of contract-based members into other schemes, perhaps into master trusts, might help with some of that, particularly where a provider manages both contracts-based and trust-based arrangements. It is hopefully a fairly simple transition for them to move everyone into being trust-based. Things that might help that could be in the Bill. Limiting the number of default arrangements might also help. I have not investigated that in great detail, but there are many default arrangements within an individual provider, partly because large employers like to run their own default with their own advisors, which is a legacy of them having run their own trust-based arrangements in the past and moving into master trusts. There are some other structural issues that you may come back to in other discussions.

Jesse Griffiths: I agree. Consolidation is a kind of necessary but not sufficient condition. The basic issue is that, largely now, asset managers are very dominant in the UK system and are not looking to do sophisticated investment strategies, so we need larger, more competent professionalised funds that can take a lot of that responsibility. But it also matters what types of funds they are and what promises they make to their members.



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That is another key part of it: we want funds that are focused on delivering high returns for members, and that means ones that have more collective and less individual promises. There is also some evidence that whether they are for profit or not for profit can matter. I note that a study in Australia showed that not-for-profit funds invested 18% of their portfolios in unlisted assets, whereas for-profit funds invested only 4%, and that is partly because they were more focused on delivering a higher return for their members.

There are quite a few different things that would contribute to a shift in the system. All of that would need to sit alongside, as we discussed, the economy changing, the Government's industrial strategy creating the investments to invest in, and the National Wealth Fund providing better vehicles for that.

Q12 David Pinto-Duschinsky: One of the issues that goes with that is the value-for-money framework. I have a separate question I would like to pick up, although I don't think we'll have time, about the level at which consolidation happens. You talked about companies—is it at company level or at master trust level? Where does consolidation actually occur?

The other thing you hear a lot about is the value-for-money framework and people being told, for instance, that we are always ranked purely on our cost base rather than on returns, out-turns and impact. Do you agree with that, and what would you like to see change in the framework to help unleash some of the stuff you have talked about?

Jackie Wells: We have to separate out a number of things. When trustees and IGCs look at value for money, they are not just looking at cost, but the way the market works is that employers and their advisors very often focus on cost, so that is what drives the selection of schemes. And it drives schemes and the providers to seek to bring their prices down and to compete on price in part. If the value-for-money framework shifts the focus—and it has to shift the focus of employers and advisers primarily—towards net returns being the key discriminator, that will change the dynamics in the marketplace.

Alongside that, there is a worry that it will also move everyone—so there is the reversion to mean idea, where everyone replicates everyone's investment strategies because nobody wants to be an outlier. That is claimed to have happened in Australia. Whether that then leads to greater investment in the UK, it is hard to join the dots up at that point, but it comes back to the things we talked about earlier relating to opportunities.

Jesse Griffiths: I agree. It is about the focus on the net returns and then recognising that the other issues that I have mentioned also link into that. The promise you make to your members affects the kind of return you are aiming for, and the nature of you as a fund and your capacity to do that also affects it. I do not have anything specific to add.

Chair: That concludes our questions for this panel. Thank you so much for coming along today; it has been an interesting session.



Examination of witnesses

Witnesses: Rachel Croft, Chris Curry, Joe Dabrowski and Yvonne Braun.

Q13 **Chair:** A very warm welcome to our second panel in this one-off session on the investment in the UK economy and the Pension Schemes Bill. We have with us today Rachel Croft, Chris Curry, Joe Dabrowski and Yvonne Braun. Would be kind enough to introduce yourselves and the organisations you represent?

Rachel Croft: My name is Rachel Croft; I am the chair of the Association of Professional Pension Trustees. We act as the collective voice for individuals who fall under the definition of professional trustee, as set out in the Pensions Regulator policy document of August 2017. Our members act as trustees of DB and DC schemes, including DC master trusts. Together, we govern around £1.2 trillion of pension scheme assets.

Chris Curry: My name is Chris Curry; I am the director of the Pensions Policy Institute. We are an independent research organisation with the remit to provide an evidence base across all pensions and retirement income areas.

Joe Dabrowski: I am Joe Dabrowski, the deputy director of policy and regulation at the Pensions and Lifetime Savings Association, a 101-year-old trade association representing pension schemes and providers. Our members look after over 30 million savers and over £1 trillion-worth of assets.

Yvonne Braun: I am Yvonne Braun, the director of policy for long-term savings, health and protection at the ABI. We are only 40 years old, but we are the voice of insurance and savings for the UK. We represent the big insurers and the big master trusts—very similar to the PLSA.

Q14 **Chair:** Thank you so much. I will kick off the questions for you. A key aim of the Bill is to drive consolidation and scale in the pensions market. What role do you think the Government have to play in that, particularly to encourage defined contribution schemes to consolidate? It was interesting to listen to the first panel, and I think you heard them saying that that is already happening. What more do you think the Government should be doing?

Yvonne Braun: Very helpfully, there were some new figures out yesterday from *Corporate Adviser*, and it is true there is already a lot of consolidation in the UK market. The biggest 12 UK master trusts and insurers together have 95% of the assets. It is a great deal better than in Australia, where the 25 largest have 96.3% of the assets. Nevertheless, we fully endorse the Government's drive for scale and consolidation. It is important for a lot of the reasons that the previous panel set out. The reforms that Government are taking forward, particularly around value for money and the contractual override—which I want to come back to, as it is super-important—will help with that.

I will briefly say why. The contractual override is important for the contract-based schemes. Often, that is not talked about much because it



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is all about master trusts, but that is and will remain a huge part of the market, getting about half of the in-flows—so about £6.4 billion and the other side gets £6.3 billion, so that is roughly the same. What happens is that these are individual contracts with the saver, so if a provider wants to move a saver to a more modern fund, they cannot do it without getting that person's individual consent and say-so. As we all know, engagement is pretty low in pensions.

The contractual override—always in the best interests of the customer—is really important for consolidation almost, if you like, inside providers. The value-for-money reforms are also incredibly important. As has already been said by William Wright and Jackie Wells earlier, there is a huge focus—dare I say an obsession—with keeping things as low cost as possible, and using that as the yardstick when choosing a pension scheme. That is a huge problem for the industry, because we are only the supply side. We also need changes in the demand side, and we hope that the value-for-money reforms will drive some of that, because it will be much easier to compare schemes. Also, it will be focused on long-term value rather than merely on cost. Cost is important, but that is not the most important thing; the net returns are more important still.

Chair: We have some questions on value for money in a moment but, Joe, what do you think?

Joe Dabrowski: As the previous panel said, consolidation in the DC sector is quite a long-term trend. There has been a 40% reduction in the number of DC schemes in the system over the last five years. I think some data dropped yesterday or today from the Pensions Regulator saying that there has been a 15% decline in the number of DC schemes in the system just last year. This is the kind of thread that has been happening and a push in the market, in part also following the authorisation regime for master trusts.

On the face of the Bill at the moment, we have the value-for-money regime, which will be supported by the FCA, DBP and TPR's consultations thereafter. What we also expect from the response from the Mansion House consultations is the potential introduction of scale tests in the master trust space, particularly to try to drive some of that at scale by 2030. We should hear about the detail of that over the next couple of weeks, and I think that will probably make its way through to the Bill. Those things will push this consolidation agenda further and faster.

Overall, I think the benefits of consolidation are well known and well rehearsed—the ability to generate economies of scale, diversity of investment performance, and also provide better or different services to members as you get scale. There are some questions still to be answered about how you make sure that the system continues to have innovators and new entrants if you get to scale. We do not want to end up in a market that is very narrow when you lose some of that competitiveness. You see that in other sectors of the economy where you have very few providers, and innovation and customer service has not been at the forefront of progress. We will see those elements and overall, we are



supportive of that general direction, but a lot of nuance needs to be considered.

Chair: Chris, do you have any additional points to make on the Government role around that?

Chris Curry: This is an observation more than anything else. Clearly, consolidation has been either implicit or explicit in much of the policy that has happened over the past 10 years or so. But even when we are comparing with other markets, we have to be careful not to assume that consolidation is automatically scale. The differences between the UK market, for example, and the Australian market is that we are talking about consolidation in a part of the UK market. The UK market is still fragmented. It is not just trust-based DC; there is still contract-based DC.

Putting some of those things together might be another way to consolidate and get scale, but we still have the defined benefit private sector and defined benefit public sector. As we heard in the last panel, those are all large. When we are making comparisons with what happens overseas, they generally have much less fragmentation and are a much more singular market. Consolidation is important, but the focus for the Government at the moment is much more on scale rather than necessarily just consolidation.

Chair: Good points; thank you.

Rachel Croft: To add briefly to the comments from other panellists, it is clear that consolidation is a trend that has been in place for some time and looks set to continue. We can, of course, see the argument for scale, but I think it is important to note that scale of itself does not necessarily guarantee better returns for members. There are plenty of smaller master trusts, for example, delivering good returns, and own-trust DC schemes also delivering good returns.

Q15 David Pinto-Duschinsky: Thank you all for taking the time to come and talk to us. I would like to return to the issue of value for money. There have been lots of interesting conversations about scale, not least around what level consolidation should happen at, but value for money seems to be a key driver, as we heard in the previous session, whereas the framework allows for a multitude of factors to be factored in. The reality is that it is very cost-driven. We have talked about Australia with its league tables, but you then have the risk of convergence. There is lots to unpack there. First, do you think the industry is equipped to implement the value-for-money framework?

Rachel Croft: Good question. Since 2021, schemes with £100 million of assets and less have had to do a form of value-for-money framework. It looks as if the new requirements that are likely to be in the pensions Bill will add quite an onerous new set of requirements on schemes with multiple new data points—therefore, taking time to carry out that exercise. That is likely to achieve further consolidation in and of itself.



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Chris Curry: Value for money, a bit like consolidation, has been on the agenda for most pension schemes for quite a long time. At the PPI, we have done some research looking at international comparisons of what happens in other countries—what works and what does not work. Obviously, with international comparisons, it is very difficult because each system has its own unique features. The cultures are different and the politics around things are different as well. But a number of important key things came through.

There is always a tendency for whatever is measured to get the attention. We have to be very careful that we do not just set up something that, on the face of it, is quite onerous—all of it looking at things that are probably worth looking at but, in a way, do not change behaviours and just lead to more transparency in some things. Transparency is important in what you do on value for money, but it is only helpful if people can make any decisions or take action based on value for money. At the moment, that generally means cost, because that is the only thing that is transparent. It is easier to understand, even if it does not give you the full picture on value for money.

While the framework is helpful in starting to broaden out that discussion into different things—so that it's not just about cost—the real test will be whether you can take that information and make it is easy to present and understand. This is where we will struggle, because each different pension scheme across the different sectors will have different advantages and disadvantages. Being able to say, "This is a good pension scheme in terms of value for money, but this is not such a good one," may well depend on what you look at.

Net returns are obviously another area that has come up in the international experience as being very important, but one of the challenges is over what time period you measure those net returns. When we are looking at some of the discussions around scale and consolidation, and especially investment in private markets, you may not see—if you are measuring over one year or three years—that you are getting the right outcome compared with others. But if you looked over 10 to 15 years—we are looking at very long time horizons for investing for pension schemes—it is hard to factor that in to how you look at what you are doing. Looking at all these things is important, but the challenge is how you weight them, present them and get people to understand what it is that you are trying to tell them.

Joe Dabrowski: It will partly depend on how practical the final proposals are. I am confident that wherever we end up, the industry will be able to meet the challenge, but where we are, in terms of process, is that we expect to see the headline limbs in the Bill and more detail from the FCA and TPR on the specific consultation proposals. There was a lot in the last consultation from the FCA and TPR. They have engaged positively with the industry over the last couple of months, so I think we will end up with a further set of proposals that should be streamlined and much more practical and implementable. Previously, it may have led to some of the largest providers having to provide thousands of data points, which is of



no use to the regulator to read. Nobody is going to do anything with it and it does not help savers.

There is another important point to think about: where does the value-for-money-framework make a difference? Consolidation and the other high standards at the top end of the industry are likely to mean the impacts of value for money will be reasonably limited in that space. Those are good providers, they have high standards, there is an authorisation regime—and all the rest of it. Where value for money will probably make the biggest difference, and where the regulatory focus should be, is on the smaller end of the market, where we know already that the engagement with the value-for-money assessments from TPR have been fairly modest, to put it generously. That is where value for money can probably have the biggest impact in making sure that everybody gets a good-performing scheme with the highest standards. That is where we would like to see some of the focus shift a bit.

Yvonne Braun: I would equally have no doubt that providers and schemes can implement the value-for-money framework, but it is important that it is practical and focused on what is most important, which is the point about giving the supply side the ability to compare schemes appropriately, and that it captures net returns, in particular. As Chris said, it will be very important to decide exactly what you present, how you weight it, and so on. We are fairly confident—much like Joe said—that the regulators are listening.

A general point that I would make in this context is that it is important that the cost-benefit analysis is borne in mind, because we have often observed, particularly with the FCA, that the cost is often underplayed in their assessments. It will be very important that the cost of the scheme justifies the benefits that we expect.

Q16 **David Pinto-Duschinsky:** That is helpful. It sounds like it will drive a bit of consolidation at the bottom end through its cost impact, but you are absolutely right about getting the cost-benefit right. I want to come back to your point, Chris, because this is obviously about how market actors use the information to drive their behaviour. You said that it was difficult, and I want to ask a follow-up question, because it seems like other countries have cracked it. Of course, each system has its strengths and the behaviours it creates. For Australia, if I understand their system correctly, there is a league table, and if you are bottom for two years in a row you have to write to your members explaining why. Obviously, there will be detail, but wouldn't a system like that help? If we are trying to get away from something based purely on cost towards something based much more on returns and medium-term performance, wouldn't something like that be useful?

Chris Curry: It can be, but it depends what your objective is. In the Australian system, there are lots of similarities in the superfunds; it is a superfund market. I think this was alluded to by the previous panel. There was quite a big disparity in returns coming through from those that are run as not for profit and those that are retail, and there were



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systematic differences there. They have tried to remove that volatility. They are making the returns much more consistent across the different providers. That is a positive outcome, and it is one thing that you could do.

As I was pointing out, however, if you are taking a long-term investment strategy, which might be different or contra to those taken in the market, one of the challenges is that you can find yourself at the bottom of the league table for short periods—two, three years even—even if in the longer term, it would have produced a better outcome for your members. Trying to understand how important that is compared with any other factors is really important.

I can give two examples of something that would be really helpful. In the current employer market, through automatic enrolment, it is the employer that chooses the scheme that individuals are enrolled in. As we heard, and there is plenty of evidence about it, that is generally based on cost. Value for money replacing cost would probably give better outcomes for members.

Wearing a different hat, I work on the pensions dashboards programme. If you could have a value-for-money indicator in future iterations of pensions dashboards, that might also help people to determine what they want to do. It is a bit like the simplicity of the outcome in Australia, but just making sure that we are covering all the different factors that we think are important in the UK market.

Q17 David Pinto-Duschinsky: Definitely. That is presumably relatively easy to design—even a league table that says “Here is your return over one year, five years, 10 years”, right? People can then adjust their risk appetite and pick on the basis of their risk appetite.

Chris Curry: It is easy to design but it can be harder to interpret, and that is where the challenge lies.

Q18 John Milne: This has turned into a bit of a topical question, but do you think that pension funds can invest effectively in the UK market? In particular, do you think yesterday’s Mansion House accord will have a positive or negative effect on that?

Rachel Croft: As trustees, our primary duty is to focus on achieving the best possible outcomes for members. When looking at investment decision making, we will look at what investments in front of us are likely to give the best risk-managed returns for our members, taking into account the appropriate levels of liquidity for the schemes in question.

Forcing us to invest solely in the UK may run counter to that primary duty and focus, unless there is a pipeline of suitable investments in a format suitable for pension schemes to invest in. If that is the case, we will invest in them; if not, our primary duty will make us look elsewhere.

We welcome yesterday’s Mansion House accord. Again, we suggest that with a suitable pipeline—the Chancellor referred to the need for Government to develop the pipeline of suitable investments for pension schemes—we can see that working very well.



Chris Curry: I will keep this relatively brief because I know that Joe and Yvonne will have plenty to say, and we heard quite a bit on this in the previous panel. For me, what is really important is how the discussion that is happening at the moment is changing the parameters around pension scheme investment. Historically, the challenge has been either about scale being a barrier or there being other barriers to access to markets for organisations, so it has not been in their interests, especially with the focus on cost, for example, to be looking to invest in those private markets.

For the reasons that William mentioned, the challenges around UK compared with global returns—with a focus purely on returns—has meant a shift to global investment. We are now recognising that there can be more benefit from investment. It still has to work in the interest of members—that is important—but if we are removing the barriers and making it easier to invest, and at the same time, providing more of a pipeline for investment and trying to package it so that it works well with how the pension system can operate, you are creating opportunity.

What is really important about the Mansion House accord is the commitment to explore that opportunity, and to make sure that there is an opportunity that not only can represent the best interests of members but can broaden that out. There has been a lot of good discussion about fiduciary duty recently and about what that requires. An understanding of the broadening of that and how it has changed—it has been changing over the past few decades anyway, with long-term investing, climate and investment in ESG—is already starting to impact the fiduciary duty elements. I see this as a further extension of that.

Joe Dabrowski: I agree with Chris's point that fiduciary duty is, to some degree, a living thing. It grows and changes over time with a variety of things. In its current form, it works well to ensure that savers' interests are protected. There are no obstacles to pension funds investing in the UK as part of their fiduciary duty.

We heard some of the stats earlier, but pension funds invest about £1 trillion of the £3 trillion assets that they manage into the UK in a variety of forms. We need to recognise that they are not homogenous, as I think William and others on the previous panel said, so the needs are different. We are somewhat in that transition phase that the first panel talked about, with the shift from DB into DC and into DC scale. Also, the shift in the LGPS from the funds to the pools and to greater scale in the LGPS has been happening over the last five to 10 years. So we are in a significant moment of change.

There is recognition from schemes that investing in the UK has broader societal benefits where those investments are good and offer value for money. We think that is really positive. That is partly getting into some of those supply-type questions.

We think working voluntarily is probably the best starting point. There has been a lot of initiative over the last few years to remove some of the barriers, whether from introduction of LTAFs or changes to the way that



the DC charge cap operates and works. We are really pleased with the accord. We have had really constructive, positive discussions with Government and industry in the last many months, and I am confident that we will make this a success. The parties that have signed up are committed to trying to deliver the objectives that we set out yesterday, and we think that constructive engagement with the Government to support pension funds and insurers to get there will be crucial over the next five years.

Yvonne Braun: I echo that. We have worked with the City of London Corporation and PLSA colleagues to galvanise members and to orchestrate the accord, so we are absolutely delighted with where we landed yesterday.

Let me just recap the key points. Seventeen providers will invest 10% of their default fund into private markets, with 5%, so half of that, in the UK. We think that is really exciting, because it will be investment in growing businesses. It will be investment in major infrastructure projects and clean energy. It will be investment in affordable housing, retirement homes and science parks here in the UK. We think this is really important, and it is 2030, subject to the fiduciary duty and the consumer duty for the FCA-regulated providers, as Joe said.

We also said in the accord that it is important that the Government put in place the enablers that are critical to deliver this. We have called out in the accord particularly the value-for-money framework and the contractual override that I spoke about earlier, and of course a pipeline of investments. We believe that the long-term strategy that Government are putting in place around infrastructure and planning reform will make all of that much more feasible. We are very excited about it, and we think it is going to be good for the country and for savers.

Q19 **John Milne:** Yvonne, you partially answered my next question: do you think it is doable by the 2030 deadline or target? Would everyone agree that that is feasible? Rachel, you were talking about the need for a pipeline.

Rachel Croft: I see no immediate reason why it would not be possible. Can I take this opportunity to come back to what another panellist mentioned around the fiduciary duty having changed over recent years? There is a subtle but important difference—I think fiduciary duty itself has remained the same, but the factors that trustees must take into account in what can be very complex decision making have moved on as the world has moved on. For example, when pension schemes were first put in place, I am sure not very many people thought about climate change and climate risk, and now they clearly do, because it is one element of financial risk that could prevent members from receiving their benefits. It is a subtle but important difference.

On your original question, yes, I see no immediate reason why the target of 2030 could not be achieved. There is a lot of enthusiasm and energy in the industry at the moment on this topic. I think that generally, as



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professionals working in the UK, we would want to engage and help with that as much as we could.

Q20 John Milne: From the sound of it, it was an amicable agreement, an amicable accord.

Rachel Croft: Indeed, it was.

John Milne: It sounds as though threats of mandation were not necessary, and we ended up in a happy place. If the Government were to subsequently include powers to mandate in the Bill, how would you feel?

Yvonne Braun: It is not desirable. Where we really want to get to is for pension providers to, if you like, overweight the UK component in their default fund. So it is a rational choice—that the UK is an attractive environment for investing and that is why providers put more of the default fund there than they would, perhaps, in terms of the geographical allocation, which is 4%, if you compare it with world markets in total.

We would always advocate for incentives and reasons to invest in the UK, rather than mandation. The Government are in quite a similar space, if I may be so bold as to suggest that, because the Chancellor spoke yesterday about the importance of long-term certainty for policy, for the policy environment, and for pension schemes in particular. Everything referred to around planning reforms, infrastructure strategy and so on points in that direction.

Joe Dabrowski: I agree with most of what Yvonne said. It is a complicated change to make if you want to introduce it. If there was a proposal, I would want to see the details and the specifics in the guardrails—the term that Jackie used earlier.

I would call out maybe three threads of things to think about. On the question of how you overcome the supply issue, you need the strong pipeline of investable assets. If you do not have that and you have a mandation, or you have schemes competing against each other for the same assets, it would risk asset bubbles and poor value for money. There are a number of incentives that we think would work better, which we have set out, and I am happy to share the reports we have produced on that with the Committee.

There is an important question of trust. Trust in the pension system is sometimes fragile and I think the risk of people perceiving Government interference in their investments is a real one. When they are asked, savers generally support investing more in the UK, but they do not typically support the Government directing that investment or being perceived to direct it in any way. As we heard, most savers today are also saving in a DC environment. So savers will carry the downside of any underperformance of an allocation that is perhaps suboptimal as an option in comparison with its peers or competitors. That is something to think about.

There is then the question of the application of any power. How is it applied to protect savers' interests and fiduciary duty? A lot of fairly dull, practical questions come with that. For instance, what is the definition of



a UK investment? Is listing on the FTSE necessary? A company that is listed here may operate mainly overseas, for example. Assets can be in complicated wrappers, too. How does the regulation reflect the fact that markets might move? If you had a 5% portfolio today, in two weeks' time, it could be 4%. Does the regulator intervene and tell you, "Wind up or you are going to be fined," or something else? A lot of nuanced, complicated stuff comes with this, and you would need solid answers to understand how that would work.

Chris Curry: We heard from Jackie in the previous session about undertaking the PPI research, and we have heard about the transition time that it will take to build this up—it is not going to be quick. You can see why the Government might want things to happen more quickly and therefore look at mandation, but I want to add a couple of things about that. Mandation can be very blunt, it can be very inflexible, and you have to watch out for unintended consequences. It is important to understand those things before you start to head down that route.

Rachel Croft: Perhaps unsurprisingly as trustees, our focus is on seeking the best possible member outcomes, so we would be against any form of mandation that might prevent us from achieving that objective. I believe that the risks of mandation have been set out already by the other panellists.

Q21 **Chair:** Chris, on possible unintended consequences, would you like to name a couple?

Chris Curry: Yes. I think this partly relates to what Joe was saying. For example, if you must have a certain proportion of your overall assets in a certain asset class, first, there is that definition but, secondly, there are market movements. We have recently seen, even in the early part of this year, quite significant market movements—not necessarily here, but overseas—that will affect the overall size of your portfolio. If it is working one way, it could increase your weighting in the mandated asset; if it works the other way, it could reduce it.

A good example potentially—this is not identical, but there were similar unintended consequences, and maybe the wrong type of action having to be taken—was the LDI issues, where people were forced to take actions. That was not mandation in that sense—it was the type of product that they had—but you can see the similarities.

Q22 **Damien Egan:** I want to take us forward to retirement. As part of the King's Speech, the Government announced measures to require pension schemes to offer default retirement solutions. Do you think default retirement solutions will improve outcomes for savers?

Rachel Croft: In principle, I hope that it would. It is a very complex decision for a member to make currently—how to take their benefits at retirement, often across a number of different pension schemes—and anything that could ease the complexity and pressure of that decision is bound to be helpful, subject, of course, to the right design of the default, which is the million-dollar question.



Damien Egan: We will come to that one.

Chris Curry: This is a very timely question because we are publishing research today, sponsored by the Pensions Regulator, on issues around default retirement solutions and what is currently happening in the marketplace. What is really interesting is that a significant proportion—somewhere between two thirds and three quarters—of people are going through this process without any guidance, advice or help in what they are doing.

We see two behavioural defaults come through. One is people cashing in their pension—so taking money out of the system completely. The other is inadvertently going into drawdown because they are taking out their tax-free lump sum and leaving the rest invested, so by default it goes into a drawdown solution. A lot of people are not making active choices about what they do. There is definitely scope for there to be a lot more help and support for people in that situation.

The challenge that the industry faces around this is that there is a lot of uncertainty about what it is possible to offer under the current arrangements. That is where the work that the FCA is doing on the guidance and advice boundary review is really important. The targeted support ideas coming forward are looking to get a bit more of an understanding of what this means.

The real challenge, as Rachel alluded to, is that when you are building up your money, a default is quite obvious—everybody needs to put money into a pension—but at the other end, when you are taking money out, the right approach is not always as clear-cut, and generally there is not a single right approach. You probably want a combination of different things and what you want might change over time. It is really important that when we look at defaults, we look at ways that they may be tailored towards different groups rather than a single overall default. It has to be something that is capable of being flexible and adapting as people change and their requirements change through their retirement. An obvious example is bereavement. You want to make sure that people can cope with those kinds of adjustments as well.

Joe Dabrowski: I agree with all the points that have been made. The guided retirement products proposal in the pension schemes book is very close to the guided retirement income choices framework that the PLSA developed and set out a couple of years ago. You might expect us to say that we are very supportive of the framework, and we are. We think it is important, for a lot of the reasons that Chris described. We know that a lot of people are now coming to retirement, certainly in a DC context, and not taking support—they cannot afford advice. They might use the Money and Pensions Service, but we think that that potentially has room for growth, and they might be supported by their employer, but that is a mixed bag of provision.

There is a lot of good support, but it is not universal, so we think it is about making sure that people, as they get to retirement, get defaulted, or that trustees have an obligation to think about the product that their



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member might go into retirement and then if that product is suitable. A lot of thinking needs to be done on product design. There is also a lot of innovation going on in the market around that.

We think it is an important step to change the at-retirement outcome for people, because we do not want people making sub-optimal decisions—taking the money, putting it in the bank at 0% interest and potentially drawing down too much. People need support. I think it is a really important intervention.

Yvonne Braun: I think a default retirement solution is a bit of a misnomer, because choice is always necessary. It is not like automatic enrolment and being automatically enrolled into a savings pot; it is different because there are tax consequences. There must always be an active choice by the saver, by the customer, and we should not dismiss engagement and choice in favour of default. Default is obviously an important part of the system, but wherever there is choice and flexibility, we think that is important that people have help through these decisions.

As Joe said, advice is great. Independent regulated financial advice is obviously great, but only 8% of people take it. Guidance from the Money and Pensions Service is absolutely excellent, but it will take you only so far. That is why we are excited about the work that Treasury and the FCA are doing on targeted support, which is a middle way, if you like, between a pure information guidance provision and the full regulated advice proposition. It is important that people get that support, because the circumstances in which people arrive at retirement can be so different—their health circumstances and their family circumstances, and also their dependants.

We think it is important that the thinking in DWP about guided retirement solutions and the thinking in the FCA and the Treasury are joined up. In the current proposition from the DWP, it is not quite clear where the guiding comes in. It talks about the retirement solution, and we can say maybe that it should be flexed and then fixed or whatever, but where is the guidance? Where is the element of help for people? We think it is important to help people make the most of their retirement finances.

Q23 Damien Egan: Do we have enough information about the outcomes for people who have sought advice once they get to retirement, compared with the outcomes for people who make their own decisions? Can we tell people that retirement has performed this or that much better for people who have had advice?

Yvonne Braun: There are studies about the benefits of advice generally. The International Longevity Centre said that it adds £40,000 to somebody's overall wealth. I would have to check whether there is something as specific as you suggest—the cost-benefit analysis, so to speak, of advice at retirement.

In general, we know that there are a lot of quite poor decisions being made, with people taking the money out, maybe in totality paying too much tax, or taking the money out and putting it into a bank account—



which is just mad—because they think it is more tangible. It is understandable, but we certainly know a fair few bad decisions are being made.

Q24 Damien Egan: It would be interesting to know whether particular demographics are more at risk of going down an unguided route.

Chris Curry: Interestingly, some research was published earlier this week—Aviva and Age UK were looking at it. It was all about non-advised. It did not have that distinction between advised and non-advised, but some really key themes came out from there about the lack of understanding of the risks that individuals face. The people in the study were in the age 75 bracket. The idea is about a mid-retirement MOT—so some way to try to help people when they are already through that process, because it is clear they are not just making one decision when they retire but that they need help with a series of decisions that last all the way through their retirement.

People were keen on the idea of some kind of support. For example, the sort of thing that the Money and Pensions Service already offers for people pre-retirement might be the sort of thing they might like during retirement as well. People did not understand how long they might live. They underestimated the associated longevity risk. They did not understand investment and inflation. They wanted some certainty in their income, but they did not want to buy an annuity.

We know all these things, but we also know that people are tending to avoid making decisions as long as they possibly can, and sometimes that leads to them having sub-optimal retirements up until the point that they do make a decision. They are either spending too quickly, which means that they are struggling in later life, or they are not spending enough, and that could be just as important. People are having a lower standard of living than they could afford because they are worried that they are going to run out of money at some point. Getting some help to this group is going to be really important.

Q25 Damien Egan: I will take us to the exciting question of what a default retirement solution could look like.

Rachel Croft: That segues nicely from what Chris was just saying about some emerging thinking around three elements. Obviously, every member is different and, as Yvonne said, it will be very difficult to design something that works for everybody. Broadly speaking, however, three elements look to be key.

The first is the ability to take, as many people already do, an element of cash at retirement. The second is a form of guaranteed income to deal with day-to-day expenses and to provide security of income. That is typically going to be an annuity, but could also be collective defined contribution, which is an emerging new option that could be put into place that would manage longevity risk for an individual member. The third is an element of drawdown, so that would be for the big items of expenditure—perhaps care later in life or to pass on.



Joe Dabrowski: I agree with Rachel's description. There is one other point that is worth making. The reason why it is also really important that this change happens now is that we are probably at the beginning of a switchover point, where most people coming to retirement today or over the last five years have come with a mixture of final salary DB and DC. Over the next five to 10 years, more and more people will be coming purely with DC, and therefore their choices and the support they might need to make will be quite different.

Yvonne Braun: That latter point is crucial. We really need to resolve this, because it is going to become ever more important for people to make these decisions with their DC pots.

Chris Curry: Just to burst the excitement a bit, the challenge for providers is that they only know what the individual has with them. We know that some people have multiple pots when they get to retirement. So trying to come up with a default where you think that this might be all they have to live on, when actually they might have other pots elsewhere and other forms of saving, along with the role of the state pension—all these things make it difficult for guidance to be done through the provider.

Another challenge that we do not often talk about in the retirement debate has to do with whether people own their own home or not. An increasing number of people coming into retirement will still be in the rented sector, and increasingly in the private rented sector, and they will have a different set of requirements from those who are homeowners.

Q26 **Frank McNally:** Thank you very much for joining us and for providing us with the evidence that you have. You just touched on there being multiple pots, Chris. I am going to focus this series of questions on some of the challenges linked to small pots. Obviously, there has been a significant increase since auto-enrolment, and we know the challenges that that has created. The PPI has estimated there are 20 million DC pots worth under £10,000 that are no longer being contributed to. We know about the expected growth in the number of small pots, if we do not take some action. I think we are all acutely aware of the £31 billion in assets linked to, I think, 3 million lost pots at present. It is a confusing and challenging landscape.

Would you support the Government's position and proposals to try to address that issue? What do you think some of the difficulties will be when it comes to implementation?

Chris Curry: Certainly, there is potential to improve outcomes through the consolidation of small pots. For the reasons you mentioned, small pots are more likely to be lost. If people have a number of different pots, it is harder for them to find them. But there is also an industry cost attached to administering those 20 million sometimes relatively small pots. Ten thousand pounds is actually quite large. There is a very large number of much smaller pots as well, and it is very uneconomic to manage and administer those pensions.



If we can make it more efficient for the providers to administer them, hopefully those savings can be passed on to the individuals. If we are talking about value for money, that all comes into it as well. The challenge is that lost and small pots are often combined, so there has to be a solution that does not rely on individuals doing it for themselves.

I mentioned working on the pensions dashboards programme. That has an element where individuals will be able to find that information, but it relies on individuals taking the first step and going to a pensions dashboard, and even then, deciding to take action after being there, which we know at the moment is probably two steps too many for many people. Some automatic solution probably has a lot of potential to get to a better outcome much more quickly than the pensions dashboards would.

It is a very difficult challenge. One of the big challenges with pensions dashboards is the quality of the data and being able to match individuals with their pensions when they give us their digital identity, when it has been verified. The big challenge for the industry will be how you can be absolutely certain that the pension pot you have in provider A belongs to the same person as in provider B, and to make sure that if any money is transferred—the levels of certainty are going to have to be much higher than we have on the pensions dashboards programme, where we are just sharing information, if you are actually moving money from one place to another. I can testify to the difficulties of trying to build big digital infrastructure in the pensions space at the moment.

Joe Dabrowski: An incredible amount of work has been done to consider the small pots issue by DWP with industry and co-groups that ABI, the PLSA and PASA also led on a couple of years ago. Recognition of the difficulty with this, and the need to find a solution, is widespread. We support the small pots default consolidator model that is being introduced in the Bill. There is a lot more work to be done, as Chris said, on the technical solutions, how to learn lessons from the dashboard, and how to make it ideally as light-touch and digital as possible. We are working with DWP presently to understand what it might look like. We think there will be more work to come over different phases, but that it will lead to better outcomes for savers, ultimately, and a more efficient and more effective system.

We have talked a lot today about timing and practice. The sequencing of when some of the solutions come in will be important. It may be a few years before we introduce a solution because some of the other elements that are in the Bill and around consolidation will probably need to come first to enable it to work most effectively and efficiently. We can then take into it as many lessons as possible from the dashboard that will have been up and running for a couple of years.

Q27 **Frank McNally:** There is a broad consensus that we would get positive outcomes for savers. Has there been any analysis done on what that might look like?



Joe Dabrowski: There has been some analysis done by DWP when they published their recent response. I am happy to ping it through separately.

Yvonne Braun: We completely support the Government's objective on this, because we need to help savers to find all these small pots and consolidate them into one place. It is a matter of record that the small pots default consolidated data was not our favourite policy solution for this, but we are now focused on getting the practical details right. A number of our members, both in the contract and the trust-based side, are interested in becoming default consolidators.

Joe alluded to this already, but this is a very, very significant tech build. We know—Chris knows this better than anyone from the dashboards project—that these things are pretty arduous and can take quite a number of years. It is important, with all of the reforms we have been talking about, that we think about how we can execute them in the most ordered, logical and efficient way.

Perhaps I can just suggest the order that we at the ABI think is sensible. We think we should start with the contractual override, for the reasons I mentioned already. That will also, by the way, help with small pots consolidation and mega funds. We should then go to the value-for-money assessments, because the contractual override will enable us to essentially get rid of the not well-performing, not modern funds—so the value-for-money assessment, and then move to mega funds, and then move to small pots consolidation. I think that way would make maximum use of the synergies that exist between all of these proposals, because we should not forget that the industry is also, at the same time, absorbing the dashboards infrastructure, the tax support proposals and the changes to pension inheritance tax.

Rachel Croft: I will make some final comments. From a trustee and a member decision-making process basis, small pots is a difficult issue because as a trustee looking at pots of even under £1,000, which are relatively common in many schemes, we have no visibility over what that member has elsewhere. On one end of the spectrum, they could have a huge DB pot in another scheme, and on the other end of the spectrum, they could have little or nothing elsewhere. It is difficult to design an investment strategy and a retirement process on that basis.

If I put myself in a member's shoes, perhaps if I have five pots of £10,000, I might be tempted to take more cash than if I have one pot of £50,000, where I might take some advice on how to manage it. We support a solution being found. In line with comments made by other members of the panel, there is a sequencing point, I think, for Government to consider. Certainly, it would appear sensible for pensions dashboards to be implemented and well and truly up and running before a solution to small pots can be found, because in some respects, it starts to provide a bit of the solution.

Q28 **Frank McNally:** I will move on to surplus extraction, and perhaps I will maybe start with you, Rachel. The Government have outlined their



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position. What is your assessment, from a trustee's perspective, of the trustees having the powers that they would require to ensure that savers benefit if employers can more easily extract surpluses from DB pension schemes?

Rachel Croft: The first, very important point to make about DB scheme surplus is that a surplus is in some ways theoretical until either the last member in the scheme dies, years and years in the future, or the scheme is bought out by an insurance company. Until then, we are only working on estimates of funding levels. It is very important to bear that in mind, because, of course, an element of regret risk could come into play should surplus be used while the scheme is ongoing, and then it subsequently transpires that there is not enough to provide members with their full benefits. That is the first very important point to make.

Every scheme will then have its individual rules on how surplus is to be used and who can determine that. Sometimes it is the trustees, sometimes it is the employer, and sometimes it is an element of both. We are all in different circumstances. A number of factors must be considered jointly by trustees and sponsoring employers before a surplus can be used, and the barrier should be set relatively high for the reasons that I outlined.

The factors to consider include the scheme's ultimate long-term objective and timeframe, because the decision is not binary as to whether to run on in order to use surplus or to buy out—it is more, how long to run on for before eventually buying out. I think most schemes will be on that journey eventually. Also, it is about the ability of the sponsoring employer to continue to support the scheme post any use of surplus, the investment strategy, any buffer that should be there before surplus can be used, and then how to govern and monitor the arrangements that are in place.

Another important point is that, in some cases, trustees already have the power to determine the use of surplus unilaterally without recourse to any other party. So any statutory override that is introduced should respect that and not undermine it.

Frank McNally: Does anybody else have any thoughts on that?

Chris Curry: PPI has not done any research on surplus extraction. All the work we have done on DB over the past 10 years has been on how to make sure that we can pay the benefits that are due, due to underfunding situations. Without the research base, I have just a couple of observations. As Rachel said, the strength of the employer covenant is really important, if you are thinking about continuing in a situation that you might not have expected to be in a few years ago.

We do have to be careful. The industry as a whole, and experts within the industry, tend to believe that the current situation, the current circumstances and the current environment will continue forever. That generally gets us into difficulty at some point. Even if there is a surplus at the moment, considering how many years you have just spent



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underfunded, how certain are you that it really is a surplus and that it will be there at some point in the future? You need to be very careful about how you consider that decision.

Q29 Frank McNally: That is a very fair point. Ultimately, the safeguards are critical. What are your thoughts on what those safeguards need to look like?

Rachel Croft: A number of factors should be considered jointly by trustees and the sponsoring employer before surplus can be used. They include, first of all, achieving a pretty prudent funding level and then taking into account a buffer before surplus is used, looking at the investment strategy to ensure that reflects the changed situation in the scheme, and looking at the strength of the sponsoring employee covenant, as Chris mentioned. In some cases, it may be appropriate, if there is going to be use of surplus, particularly by the sponsor, for that covenant to be strengthened in return. Of course, you do not just set these things up and let them run. You need to have arrangements in place to govern and monitor them.

Q30 Frank McNally: If surpluses are not returned to the employer, how else should they be used?

Rachel Croft: Of course, there is a consideration as to whether members should benefit from the use of the surplus, either together with the sponsor or alone, and there are provisions in many schemes' rules for members' benefits to be increased. Those provisions could be used. It would be helpful in these discussions if another option was possible, but that would require legislation, as I understand it. That is the ability to provide members with a one-off lump sum rather than increasing scheme liabilities by increasing pensions.

Joe Dabrowski: I agree with everything that Rachel and Chris said; they set it out very well. It is worth saying that there is a debate and some schemes have the facility under their scheme rules now to use surplus to improve DC contributions, and potentially allowing that, given the relatively low level of DC contributions versus DB, and some of the intergenerational issues that potentially represents within employers and their workforces, is worth looking at. We are expecting the DWP response on the surplus consultation in the next couple of weeks.

From the conversations that we have had with the Department, we are positive that they are going to land in the right place with a suitably permissive regime—but one that also has the important safeguards that Rachel and Chris set out to make sure that members are protected, and that trustees, if there is a statutory override, essentially have the whip hand on the decision and can engage therefore with employers about some of the trade-offs, whether by increasing member benefits first, taking additional contingent assets, or asking for extra guarantees as part of the surplus. It is important that the regulator publishes supporting guidance to give trustees confidence around their decisions. Also, the employer perspective must be clear, because the regulator now has fairly draconian powers to intervene if they think there has been any employer



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abuse. Employers should also know where the safeguards are for them. We would like to see those two things come together.

Yvonne Braun: The Government must proceed with extreme caution in this area. Ultimately, the purpose of DB schemes is to pay members their retirement income for as long as they live. In our view, the surplus should only be returned once trustees have very high levels of certainty and funding so that member benefits can be secured if the sponsor fails. We would argue that the best way to do that is through insurance buy-out.

We would also highlight that it is not necessarily certain that the Government's objectives with surplus extraction will be met. The Government was very much talking about productive investment, and if a security buffer is taken away from the trustees, they may not necessarily be inclined to invest more aggressively and equally.

Of course, it is desirable if employers take the money and invest it, for example in R&D, but they could equally invest it in share buybacks. So there are a fair few questions that I think need to be answered around that. As has been said by others, we believe it is most important that the trustees have a crucial role in all of this, and of course, we recognise also that the rules will very much vary from scheme to scheme, so there will also be differences there.

Q31 **Chair:** Thank you. Can I quickly follow up on the buffer point? Is there a consensus on that? Does it need legislation, or is it something that could be implemented by schemes?

Rachel Croft: It may be too early to tell if there is a consensus. No doubt, one will emerge. I would caution against prescription in that area because every scheme will be different.

Chair: Any other points on that?

Joe Dabrowski: It would need to be consistent with TPR's funding code so that people can look across the piece together.

Q32 **Amanda Hack:** The Bill is expected to include legislation for superfunds, and the first pension scheme to transfer to a superfund was announced about a year and a half ago. Is legislation needed, or is it too late?

Yvonne Braun: Yes, legislation is necessary. Superfunds are sophisticated financial institutions for profit. There must be a legislative basis for financial institutions, just like for banks and insurers. It is not appropriate to carry on on an interim basis, with interim rules from the Pensions Regulator. We think that is important.

Joe Dabrowski: We first set out how we thought superfunds could work back in 2018, or maybe even 2017. I worked on that project, so I am really keen to see the superfund regime put on a statutory basis. I think it is very helpful in ensuring that you have a regulatory basis for operators and to ensure that security for members. The regulatory regime is then fixed and set. I think it will also encourage new entrants to the market, because the interim regime has shifted and moved over



several years and it will help that market to grow and potentially flourish over time. So yes, I would be keen to see this on the books finally.

Chris Curry: I agree. Certainty and clarity are very important in any area of pensions. So far, superfund transactions are a particular type of transaction—a particular type of superfund. As Joe said, I do not think we have attracted all the potential options into the market at this point. Something that clarifies exactly how they would work, rather than having the moveable feast that we have had with the regulations set by the regulator over the past few years, would certainly help with that.

Rachel Croft: From a trustee perspective, anything that provides an alternative option for trustees to be able to secure members' benefits in full is to be welcomed. Therefore, we welcome the initial transactions and agree that a legislative framework would be helpful.

Q33 **Amanda Hack:** At the moment, a superfund will only profit when a scheme secures buy-out. Is there a model where a superfund makes a profit before a buy-out is sustainable?

Rachel Croft: If that were to happen, trustees would need to understand, before transferring members' benefits to such a superfund, that the members' benefits would be suitably protected. That points even more towards the need for a legislative and regulatory framework.

Yvonne Braun: Could I add to the broader point about the need for a legislative framework? With superfunds, there is a risk of regulatory arbitrage. We know that it will be a cheaper way to secure members' benefits than buy-out. We completely appreciate why, because it is intended for a situation where the employer covenant is weaker and the employer cannot secure buy-out. The structures in place must prevent gaming. That is why we believe it is important to have a gateway. That means that this is tested, that an employer could go to buy-out—we note from the TPR's latest report that 54% of employers could. Of course, that could change, as we know. However, it is important that they use that route because that route will deliver the most security for their members.

The other thing that we think is really important is that it is possible for trustees to make an apples-to-apples comparison. I am not saying that there should be the full weight imposed on superfunds—that is clearly nonsense, because otherwise we would not make any progress on the current situation. But it needs to be possible for trustees to make sense of the level of security they are getting for their members here and the level of security they are getting for their members there. I believe that is crucial.

Joe Dabrowski: A variety of models could be operated in the superfund space, provided that the protections are there. I disagree slightly with Yvonne, as she knows, on this point. I think this is about adding choice into the system. It is not about regulatory arbitrage. This is a pension fund solution for a pension fund problem, per se. Superfunds will be under the supervision of TPR and also have the backup of the PPF at the back end of that process and the regime that wraps around that.



There is also no obligation on pension funds to go to buy-out. There is a different set of things and we must recognise that. We must ensure that the safeguards are in place to ensure that if there is a profit element to new incoming superfund models, the member protections are there. Trustees and employers who will be engaging with the process must have a clear sense of what that means.

We should also recognise that profit comes in lots of different ways. You could have profit from operating the administration of superfunds, which would be a lower level than the profit from gaining or sharing investment outperformance. There are lots of different ways of cutting the cookie, but it is important that people can understand what that means. I am also confident that trustees, and of course, the professional investment advice they will have to take to make those choices, can do so.

Amanda Hack: Rachel, I don't know if you want to add anything.

Rachel Croft: I reiterate what I started with in response to the question, which is that it is helpful to trustees to have a full range of options to consider. The circumstances of each scheme will differ. There will be schemes for which buy-out is suitable and others for which it is not. Therefore, a superfund regime is very helpful.

Chris Curry: I think it is clear that there will be different circumstances. People will make different choices and there are always trade-offs in pensions between the price, the certainty and anything else. I think that as long as those things are made clear and explicit, and people are aware of the option they are taking and the consequences, I can see this being a positive addition.

Q34 **Amanda Hack:** Is there a risk of weaker protections without the regulation for superfund transitions?

Joe Dabrowski: The regulator can operate within the regime that it has. The certainty of primary legislation and a full regulatory regime underneath it adds a lot more ballast to the system and gives trustees, employers, savers and providers a clear sense of the operating regime. Having that on the statute book is important.

Rachel Croft: I think it demonstrates that the drive from the various entities involved in those first transactions has been paramount in driving forward the regime. There is innovation everywhere in the industry and it would be helpful if the legislative and regulatory framework could mirror, parallel and keep up with it. The next example is, potentially, collective defined contribution schemes where there is lots of drive to make a real difference for members, and not a regime yet.

Q35 **Amanda Hack:** How does easier surplus extraction fit into the superfund debate?

Yvonne Braun: This is the sort of gaming situation that I think it is important to guard against. If you have an employer funded above buy-out—so as you know, you have technical provisions, that is the base level, assessment liabilities, and then you have a capital buffer and you



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can be funded up to buy-out. So that is three, if you like. If you are funded up to buy-out, you should secure buy-out, because your members are in that position and that will be the best outcome for them.

What could happen with the surplus extraction is that an employer just extracts surplus to stay underneath, so that that system can be gamed and they can get a cheaper and less secure option for their savers, which I think would be a poor outcome. It goes back to the gateway, and so on, that I described earlier.

That is why a legislative regime is so important, because you want to ensure that these things are clear, and that they are not, as somebody said, a moving feast, and that they have had the legislative scrutiny that goes along with primary legislation.

Joe Dabrowski: The point about choices and informed choice is important. Employers and schemes can make choices about the surplus returns or the trade-offs that they might want to make about extraction. The same choices would apply to thinking about whether you go to a superfund and extract some surplus, or whether you go to an insurer. You will be moving from your pension fund to a superfund on the basis that you are as good or better off, and the insurance regime will be further to the right of the more secure on that basis. But actually, you might be very comfortable and feel that the superfund regime is robust enough for you, and that some of the surplus choices that you could make in this theoretical world might be better for your employees and for the business generally, or you might be able to increase or enhance the benefits in the scheme as it went into the superfund. You have to make other choices about whether you might get other increases by negotiations with the insurer, for example, but with less headroom, it is likely to be less generous.

A set of choices will emerge in that space, but we are not there yet with any of it, so let's see the detail.

Amanda Hack: Does anyone else have any further points?

Rachel Croft: To Joe's earlier point, there is, of course, no obligation on trustees or employers to secure an insurance buy-out for the pension scheme. That needs to be recognised. That said, it is a very common option where schemes are sufficiently well funded, because it does achieve the ultimate security for members.

Where there is a discussion going on between buy-out or run-on, it is because a scheme is going to be well funded already on a prudent basis. I do not think those types of schemes will be the types of schemes typically considering superfunds. I think the superfund option is largely going to be for schemes where they simply do not have the funding level to approach a buy-out. I hear what Yvonne is saying, but I do not necessarily see the same risks that she has outlined.

Chair: Thank you so much. That concludes the questions for our second panel.