House of Commons

Work and Pensions Committee

Defined Benefit Pensions Schemes: Government Response

Second Special Report of Session 2024–25

HC 870

Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via www.parliament.uk.

Publication

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Committee reports are published on the Committee's website at www.parliament.uk/workpencom and in print by Order of the House.

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Second Special Report

The Work and Pensions Committee in the previous Parliament published its Third Report of Session 2023–24, Defined benefit pension schemes, (HC 144), on 26 March 2024. On 24 April the Department for Work and Pensions provided a Response to that Report. The Committee issued its Report during the previous Government. The new Government has responded to the Report. The Government Response is appended below.

Appendix 1: Letter from Torsten Bell MP, Minister for Pensions

I want to thank the previous Committee for their valuable report on defined benefit (DB) pensions schemes and the Chair for her sustained focus on this area. DB pensions are fundamentally important, so it is right that I and my predecessor Emma Reynolds MP have taken the time necessary to consider carefully the matters raised.

This government is committed to maximising the retirement income of current and future pensioners. We also recognise that the pensions system has a vital part to play in securing economic growth. For both these reasons, this government is prioritising pension reform.

In our first months in government, we launched the landmark Pensions Review and announced the Pension Schemes Bill, which will drive economic growth through increased UK investment and increase people's retirement income.

DB schemes are a core part of the UK's financial plumbing holding £1.2tn in assets. They play a key part in our mission to secure economic growth and ensure prosperity for all.

The positive funding position across much of the private sector occupational DB universe presents new opportunities for schemes, with many now in surplus. We have announced that we will pave the way for well-funded DB pension schemes to share surplus funds with sponsoring employers and members to fuel growth, unlock investment into the economy and ensure members remain protected, with stringent funding safeguards. We will set out details as we respond to the 'Options for Defined Benefit schemes' consultation this spring. We are also taking action on recommendations from the Committee's report on the Pension Protection Fund Levy. We will consider proposals to give the Pension Protection Fund (PPF) greater flexibility to reduce the levy it collects from DB pension schemes, when it is not required. Together, these changes create opportunities for DB schemes to support growth, freeing up capital for investment in their sponsoring employers and benefitting members.

While we are making positive changes through these already announced reforms, we want to go further. Reflecting on the Committee's recommendations, we will explore ways to strengthen trustee capability and governance, to ensure we safeguard member benefits and maximise economic growth in a consolidated landscape.

This year marks the 20th anniversary for the PPF–a great UK pensions success story, providing crucial pensions protection against employer insolvency. We are working closely with the PPF as we look to the future for DB pension compensation as the DB landscape matures, including on key issues like the erosion of real value for pension accrued before 1997.

Our pensions market is one of the largest in the world. Both open and closed DB pensions play a key role in providing retirement income for many individuals. We want to ensure they continue to do so, for many years to come.

24 April 2025

Appendix 2: Government response

The Government thanks the Committee for its valuable report on DB pension schemes. The DB landscape has continued to develop since the publication of this report in March 2024. We have addressed all of the Committee's recommendations, taking into consideration recent policy developments and the latest available data.

This response relates only to Great Britain, since pensions are a reserved matter in Scotland and Wales and are devolved in Northern Ireland.

The Current Funding Position

DB schemes provide a secure retirement income for 9 million people within around 5,000 DB schemes.[1] Overall DB funding has improved significantly in recent years, with over 4 in 5 schemes in surplus and an aggregate funding level of 120% on a technical provisions basis.[2]

Recommendation 1

We welcome that scheme funding has improved substantially since the mid-2010s. However, the PPF and the ONS have produced different estimates of the extent to which the value of the assets in DB schemes reduced over 2022. The PPF acknowledges that its figures do not fully reflect the effects of market disruption during the LDI episode. It is important to have as accurate a picture of funding as possible.

The Pensions Regulator and the Pension Protection Fund should continue to work with the Office for National Statistics to reach an understanding of the funding position of DB schemes and publish the results. (Paragraph 19)

The Office for National Statistics (ONS), TPR and the PPF have worked together to understand the differences between their respective datasets on DB pension schemes, particularly since autumn 2022. On 4 December 2024,

1 Purple Book 2024 – https://www.ppf.co.uk/-/media/PPF-Website/Public/Purple-Book-Data-2024/PPF-The-Purple-Book-2024.pdf

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

the ONS published a joint statement with TPR and the PPF to acknowledge nd summarise the different approaches taken to both data collection and how the data are used by the three organisations, making this as clear as ossible to their users and stakeholders.[3]

Both TPR and the PPF have recently made revisions to their annual DB publications[4] which have shown a downward revision in both asset and liability values.

Despite the revisions, the overall funding position across the DB universe continues to be strong. ONS, TPR and the PPF have committed to work together on an ongoing basis and we continue to collaborate with them to ensure the best available statistics and evidence.

Recommendation 2

There is sufficient evidence of improvement in the funding position of DB schemes to justify a new policy approach. However, it is imperative that there is no return to a world of deficits. Policy changes therefore need careful thought so that they grasp the opportunities offered by improved funding levels, while being agile enough to respond to future challenges. One of the opportunities is to support DB schemes to remain an active feature of the pensions landscape, helping to deliver adequate retirement incomes.

The Government to set out how it plans to promote retirement income adequacy in the future and the role it sees DB schemes, particularly open schemes, playing in this. (Paragraph 22)

The State Pension provides a secure foundation for retirement and any saving into a private pension will build on this. Automatic enrolment has been hugely successful in addressing under-saving, with more than 11 million workers enrolled into workplace pensions by November 2024, and the participation rate of eligible employees in the private sector increasing from 42% in 2012 to 86% in 2023. Around £132 billion was saved into workplace pensions for eligible individuals in 2023.

The Government is committed to making further changes to enable tomorrow's pensioners to have security in retirement. This is why we announced the landmark Pensions Review days after coming into office in July 2024. The second phase of this review will explore longer term

3 Please see: Office for National Statistics (ONS), The Pensions Regulator (TPR) and Pension Protection Fund (PPF) issue joint statement on defined benefit pension scheme data

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

challenges, including retirement adequacy, to ensure our pensions system is fit for the future. We will set out the full scope and timetable for the second phase in due course.

Most of those saving into an automatic enrolment pension scheme will be saving into a defined contribution scheme. Through the forthcoming Pensions Schemes Bill we intend to make value for money the foundation of all defined contribution pension schemes. However, the government does not specify the type of pension that employers should offer their employees as part of their remuneration package, provided they meet the minimum standards set by law.

There are billions of pounds in surplus funding in private sector occupational DB pension schemes. These schemes continue to be used by many employers to provide quality pensions for large numbers of present and future pensioners. Within the new DB funding regime, we have sought to achieve an appropriate balance between employer affordability and member security for open DB schemes. We continue to ensure DB pensions remain properly protected, that schemes have ways of managing and securing the liabilities of their closed schemes, and that open DB schemes can continue to thrive, alongside other choices for employers.

We also recognise there is an opportunity for the assets held by these schemes to bring greater benefit to employers, scheme members, and the wider economy. We will pave the way for well-funded DB pension schemes to share surplus funds with sponsoring employers and members. Bringing forward these flexibilities can fuel growth, provide benefits for the economy and ensure members remain protected, with stringent funding safeguards.

The Scheme Funding Regime

When the original 2005 scheme funding regime was implemented, there were more open DB schemes than there are now. The legislation was framed in terms of schemes operating in a steady state - there were no requirements to consider the effects of increasing maturity, nor to plan for end game strategies. The regime was extremely scheme-specific and flexible - this was one of its strengths, but also one of its weaknesses. While most schemes were operating effectively, some were not. TPR found it difficult to impose standards to protect members and the PPF, as the requirements lacked sufficient clarity for enforcement.

This was brought into sharp focus by several high-profile insolvencies of companies with underfunded DB pension schemes. These caused widespread concern and threatened to undermine confidence in the funding regime. While the 2018 White Paper, ‘Protecting Defined Benefit Pension

Schemes' concluded there were no systemic problems with the regime, it did recommend that the system be improved for members, trustees and employers by introducing greater clarity on scheme funding principles.

Whilst higher interest rates have driven an improvement and an aggregate surplus in DB funding in recent years, just under a fifth of schemes remain in deficit on a technical provisions basis. The new scheme funding code was designed to ensure the security and sustainability of DB pensions by building on the existing regime and was refined by the Department for Work and Pensions (DWP) and by TPR through extensive discussion and consultation.

Recommendation 3

Plans for the new DB funding regime were forged in a different era when the vast majority of DB schemes were in deficit and amidst concern that employers were seeking to evade their responsibility to underfunded schemes. Despite significant changes since then—improved funding levels and what these mean for future policy—the fundamental principles underpinning the new regime are unchanged: schemes are expected to target a position of low dependency at the point of significant maturity. While we welcome the changes made by DWP and TPR to allow more flexibility in the investment approach, it is unclear what the overall effect will be. Schemes have not yet seen the final version of TPR's Funding Code. It is unfortunate that Parliament has been asked to vote on the Regulations before this was published and stakeholders have had the opportunity to evaluate and comment on the full picture.

In future, DWP should commit to ensuring that Parliament has the material details it needs to make an informed judgement on the legislation it is being asked to vote on. (Paragraph 35)

This Government supports the principle that Parliament should be provided with the details it needs to make a truly informed decision on legislation it is being asked to consider. We remain committed to positive engagement with Parliament on all appropriate matters.

TPR's DB funding code was laid Parliament in July 2024 and came into effect in September 2024. The code was well-received by pension schemes who welcomed the clarity and flexibility it provides.

The roots of the current reforms were established under the previous Government at a time when the funding landscape looked very different. Nevertheless, this Government supports the principles of these reforms in seeking to make DB funding standards clearer and keeping members' hard-earned pensions safe for the long term.

TPR will be monitoring the effectiveness of the code through supervisory activity and data returns from pension schemes. DWP, alongside TPR, will also monitor how schemes' funding and investment approaches develop in response to the new code and legislative framework. The Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 will be reviewed within the next five years, and the code will be reviewed and revised where appropriate.

Recommendation 4

Open DB schemes help meet two important objectives: providing adequate incomes in retirement and investing in UK productive finance as they have greater capacity for this than closed schemes. Those responsible for running DB schemes have long expressed concerns that the Funding Code would force them to de-risk unnecessarily, increasing the costs to employers and resulting in their premature closure.

While we welcome the additional flexibility in the revised Funding Regulations, it is essential that DWP and TPR work with open schemes to address the remaining concerns—particularly around the employer covenant horizon—and report back to us on how they have done so before the new Funding Code is laid before Parliament. (Paragraph 45)

DB schemes will remain an important part of pension provision for significant numbers of future pensioners. Members of schemes that continue to admit new members should be able to rely on the benefits they build up, in the same way as members of schemes that are now closed and in the run-off phase.

TPR's new funding code includes a new chapter specifically for open schemes and extensive guidance on the assessment of covenant support and the time horizon over which employer support can be relied upon. In December 2024, TPR published updated covenant guidance for trustees of DB pension schemes. The guidance aligns with the DB funding code and provides the market with greater certainty over how TPR expects trustees to assess their employer covenant. It embeds good practice and encourages consistency across schemes. Both the code and the covenant guidance were developed through consultation with open schemes. We will work with TPR to monitor the effectiveness of the new regulations, code and associated guidance as it is implemented.

Recommendation 5

TPR's approach to scheme funding has been driven by its objective to protect the PPF. We agree with those who told us that the objective now looks redundant, given the PPF has £12 billion in reserves. Two

decades of regulatory policy caution have almost entirely destroyed the UK's DB system. DWP and TPR need to act urgently to ensure they do not inadvertently finish off what few open schemes remain by further increasing the risk aversion, even while the risks of default have reduced substantially. Open and continuing schemes need confidence that the additional flexibilities that have been promised will be reflected in the actual approach regulators take in future.

To signal the change in approach needed for this, the objective to protect the PPF should be replaced with a new objective to protect future, as well as past, service benefits. TPR should work with the pensions industry on what the change would mean in practice and what capabilities it will need to deliver on it effectively. (Paragraph 52)

The Government agrees it is important to ensure that the regulatory framework does not influence schemes to be too risk averse. However, we do not believe that TPR's PPF objective is a key factor in employer decision-making. There are multiple drivers behind decisions to close DB schemes in favour of defined contribution provision, such as improvements in longevity increasing scheme liabilities.

TPR's objectives were thoroughly considered by Mary Starks in her independent review, which was published in September 2023. This acknowledged that TPR's objective to reduce the risk of schemes ending up in the PPF could increase risk aversion but also noted that "it will be strongly in the interests of affected savers to be paid out by their scheme rather than be compensated by the PPF–the more so for those still in accrual." Accordingly, that review did not recommend changing this objective.

TPR already seeks to balance its objective to reduce the risk of schemes falling into the PPF against its objective to minimise adverse impacts on the growth of the employer's business, recognising that the best protection for a DB pension scheme is a strong and profitable employer.

Against the backdrop of an evolving DB landscape, we will continue to work with TPR to ensure that it has the regulatory framework and powers it needs for the future. We will continue to monitor this and take action where necessary.

Scheme Surplus

Overall, DB schemes are in a positive funding position, with billions of pounds in surplus funding across the DB universe. As the Work and Pensions Select Committee (WPSC) report highlights, many schemes are moving to buy out with insurers or have taken other measures to secure their liabilities. Many schemes are banking the gains of surplus funding and in aggregate, member pensions are better protected. There are also opportunities for these assets to bring greater benefit to employers, scheme members, and the wider economy. With this changing DB landscape, it is vital that trustees can access a variety of options. Member security is of utmost importance, and our overriding priority is to ensure schemes pay out the full value of pensions.

DWP's 2024 consultation on 'Options for Defined Benefit Schemes'[5] sought feedback on the treatment of scheme surplus. We have considered the feedback received and thank those who contributed their expertise. The Government will respond formally to this consultation in the Spring.

Recommendation 6

Many trustees and scheme sponsors will want to enter an arrangement to buy-out scheme benefits with an insurer, and we welcome the security for scheme members this provides. However, not all will be able to do so, at least in the short-term. Well-funded schemes should also be supported to run on as there are potential advantages for scheme members, sponsoring employers, and the economy.

As part of its work to take account of financial stability considerations, TPR should monitor trends in demand for buy-out and its alternatives and work with financial regulators to understand the implications. (Paragraph 59)

As a result of the positive funding position for most DB schemes many more schemes are able to consider how they can meet their obligations to members and reduce or transfer their future liabilities to insurers, including through buy-out. TPR's research has shown that over 62% of schemes have a long-term objective to buy out.[6] This objective has been stable for several years and is likely to remain a key objective for many schemes. In 2024, 27% of schemes had a long-term objective to run on with low dependency on the employer and 7% of schemes had a long-term objective to run on and generate a surplus.[7] We also appreciate that the DB pensions landscape is dynamic and that trends need to be monitored continuously to ensure policy is informed and effective.

Through its market engagement, TPR has visibility of current and future buy-out trends enabling it to model how the DB market is likely to develop. While the insurance sector is highly regulated, TPR is committed to working

5 https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes/options-for-defined-benefit-schemes
6 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2024.ashx
7 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2024.ashx

with partners across regulators and Government to manage any systemic risk that arises from pension schemes transitioning to the insurance market. TPR is keeping this risk under review, and is working with the Prudential Regulation Authority (PRA) to support an orderly transition by:

- ensuring that trustees are prepared for and making good decisions on buy-out; and
- modelling the likely future annual demand for buy-out and the impact this may have for different asset classes, in particular gilts.

We are confident that TPR is well-placed, working alongside the PRA, to continue to monitor trends in the buy-out market and the alternatives available to DB schemes.

DWP will continue to work in partnership with TPR to monitor and anticipate changes in the DB pensions landscape.

Recommendation 7

We note the further consultation launched in February on options to support DB schemes. Given that the aim of the funding regime is for schemes to be well-funded when they are significantly mature, some will be in surplus.

We agree that if running a scheme on is to be an attractive option, it is important to explore ways in which such surplus could be used to the benefit of the sponsoring employer and scheme members, provided member benefits are protected. However, recent experience has demonstrated the volatility of scheme funding levels, and we heard the 'jury is out' on the extent funding gains have been 'locked in'. DWP is consulting on what a 'safe' funding level threshold would be. However, it acknowledges that other factors are relevant, such as investment risk and the strength of the sponsoring employer. These are among the issues on which the trustees would need to take a judgement, before deciding whether surplus extraction is 'safe' in line with their fiduciary duties, so strong governance will also be essential.

DWP should conduct an assessment of the regulatory and governance framework that would be needed to ensure member benefits are safe and take steps to mitigate the risks before proceeding. (paragraph 70)

The security of DB member benefits is paramount, and we will ensure that we prioritise that when making any decisions within the DB pensions landscape. DWP is actively assessing the regulatory and governance framework as it develops policy and considers future legislative change.

On 28 January 2025, this Government committed to giving pension trustees and sponsoring employers the flexibility to use DB surplus to increase the productivity of their businesses–to boost wages and drive growth or unlock more money for pension scheme members.

This follows the 'Options for Defined Benefit schemes'[8] consultation, which has further helped us understand how various organisations and DB schemes operate within the existing regulatory and governance framework in practice.

Protecting member benefits is crucial. We consulted on a range of potential safeguards, including on funding thresholds for surplus extraction and the legal means by which a statutory override could take effect, to ensure that additional flexibilities for trustees do not threaten member security. We have carefully considered the valuable feedback received.

As we develop the policy relating to surplus flexibilities, the Department will continue to actively engage with TPR and other key stakeholders within the DB pensions landscape to ensure that any changes to the regulatory and governance framework are consistent with the core responsibility to secure DB member benefits.

Recommendation 8

We remain to be convinced that the PPF underpin would be an effective incentive to trustees to consider increasing their investment risk.

DWP and TPR should consider whether there are changes to the funding regime that could give trustees confidence to take appropriate investment risk. (Paragraph 74)

The amount of risk that is taken in a scheme's investment allocation is based on many factors. Sponsors and trustees must agree the scheme's technical provisions, which involves making assumptions about investment returns. This therefore sets a planned risk budget for scheme investment. Actual investments are controlled by trustees.

This means trustees have significant flexibility to adopt scheme-specific investment strategies and invest in a wide range of assets, including growth assets and private markets, where that risk is supportable by the employer covenant. TPR's 'fast track' approach[9] to assessing valuations allows for assets to be up to 60% in growth for immature schemes, and higher

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

9 https://www.thepensionsregulator.gov.uk/en/document-library/consultations/draft-defined-benefit-funding-code-of-practice-and-regulatory-approach-consultation/response-to-our-draft-db-funding-code-of-practice-consultation

allocations may also be possible under its ‘bespoke’ approach, which many schemes will choose to follow. Even at low dependency for significantly mature schemes, TPR has suggested that up to 30% allocation to growth assets could still be appropriate in some circumstances. There is further flexibility on how schemes invest the surplus generated.

Based on the evidence, we are not persuaded that merely allowing more risk to be taken in the regulatory regime will be sufficient to persuade trustees to adopt a higher risk asset allocation. Trustees are aware that ultimately the employer is responsible for funding DB benefits. The main effect of better returns is to make paying those benefits less expensive for the sponsor. The sponsor will also be acutely aware that if higher risk investments do not perform, and a deficit emerges, not only will the sponsor then have to pay more, but this deficit must be shown on their balance sheet.

It is against this wider context that the Options for Defined Benefit schemes consultation explored changing the mix of incentives for trustees and sponsors. The Government will respond to this consultation later this year.

Recommendation 9

Some pension scheme members are dependent on discretionary increases to ensure their pension payments keep up with the cost of living. Where these have not been awarded the effect has been, over time, to erode their standard of living. This can be particularly the case for those with rights built up before April 1997, when there was no general requirement to index-link pensions in payment.

TPR should undertake research to find out: how many schemes have provision for discretionary increases on pre-1997 benefits within their rules; whether the discretion is for the trustee, sponsoring employer, or both; the number of years in which they have paid discretionary increases on pre-1997 rights; and in the years they have not done so, the reasons for this. (Paragraph 83)

The Government takes the concerns raised very seriously. Members of these pension schemes are now understandably concerned at seeing inflation erode the value of their retirement income. Pension scheme trustees and sponsoring employers need to think carefully about the impact inflation has on members’ benefits when they are making decisions about benefit increases.

TPR has undertaken research on the provision of discretionary benefits via their Defined Benefit 2024 survey, which is conducted with a representative sample of 200 occupational pension schemes. TPR conducted this survey last autumn and the findings were published on 25 March 2025.[10]

The findings showed the following:

- 67 per cent of schemes allowed in their scheme rules for the provision of discretionary benefits to their members. This ranged from 83 per cent of large schemes, to 53 per cent of micro/ small schemes.
- Of those that allowed for the provision of discretionary benefits, 32 per cent had provided these benefits to members in the previous three years.
- Where discretionary benefits had been provided, 15 per cent were for pre-1997 accrual.
- The size of the scheme did not appear to correlate with the likelihood of discretionary pre-1997 benefits being paid: 15 per cent of large, 18 per cent of medium, and 11 per cent of micro/small sized schemes had provided discretionary pre-1997 benefits.
- Where discretionary benefits are allowed under the scheme rules, 72 per cent of schemes required the consent of both the trustees and the employer.
- The requirement for consent of both the trustees and the employer was more likely among larger schemes (92 per cent) than smaller schemes.

In summary, this research shows that two-thirds of schemes allow for the provision of discretionary indexation and that in the majority of cases the trustees and the employer have to agree to pay these benefits.

The Department plans to work with TPR to understand the reasons why schemes are not making discretionary pre-1997 payments and monitor trends. The Government’s recently announced reforms on the use of surpluses in defined benefit schemes will make it easier for individual schemes to make decisions that improved outcomes for both sponsoring employers and members, which could include discretionary benefit increases.

Pension trustees and employers will have more flexibility to unlock this money to invest in the business and unlock more money for pension scheme members. TPR’s guidance already requires trustees to consider the situation of those members who would benefit from a discretionary

10 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/defined-benefit-schemes-survey-research-report-2024.ashx

increase and whether the scheme has a history of making such awards. Following our reforms, trustees will continue to consider the correct balance of interests between members and the sponsoring employer when making decisions about surplus funds. Trustees will be responsible for determining how members may benefit from any release of surplus and have a suite of options to choose from–for example, through discretionary benefit increases.

Recommendation 10

Improvements in scheme funding have given new prominence to the question of how to treat any surplus in the best interests of scheme beneficiaries. For example, there may be discretion after benefits have been secured on buy-out to enhance benefits before returning any remaining surplus to the employer. There may be options allowing scheme members and employers to benefit from surplus in a continuing scheme. Decisions can be for trustees, the employer, or both, in accordance with scheme rules. We heard from scheme members concerns that their interests would be overlooked in this process.

DWP and TPR should explore ways to ensure that scheme members' reasonable expectations for benefit enhancement are met, particularly where there has been a history of discretionary increases. (Paragraph 89)

The Government is committed to ensuring that schemes pay out the full value of their pension to each member, as set out in legislation. Some schemes go beyond the legislative requirements and, where requirements are set out in the rules of the scheme, these levels of indexation must be paid. Some schemes provide additional indexation on a discretionary basis, as set out in the Committee's report.

We recognise that improvements in the funding position of many schemes raises questions about how surpluses will be treated and whether the interests of scheme members are being overlooked, particularly in relation to discretionary increases. This may be particularly relevant when schemes are looking to buy out or reduce surplus. Employers and trustees must consider a range of factors, and act in accordance with scheme rules and legislation, when sharing surplus. Both may wish to consider the significant erosion of some pensions based on pre-1997 accruals, over recent years, when considering how members can benefit from surplus sharing.

TPR has considered this issue in detail and has addressed the subject in its Annual Funding Statement 2024. TPR recognises that, with schemes experiencing better funding levels, trustees face a range of calls about how that funding could be put to its best use. TPR is carrying out more research into how scheme surpluses are being applied. For example, some employers are asking to reduce or suspend contributions, while members are requesting discretionary increases. When considering these requests, TPR's guidance sets out that trustees should be mindful of the scheme's overall funding position, the resilience of their investment strategy and the level of employer covenant support. When considering discretionary increases, TPR's guidance states that trustees should consider the situation of those members who would benefit from a discretionary increase and whether the scheme has a history of making such awards.

Governance

Good governance is key to ensuring pension schemes are well-run in the interests of their members. Many are set up under trust, including most DB and many DC pension schemes, such as Master Trusts. This means that the role of trustees is vital. As well as being responsible for securing members' benefits, trustees have a vital role to play in delivering growth, since they are responsible for deciding how scheme funds should be invested.

We know most trustees are knowledgeable, well-equipped, and committed to their roles.[11] However, there is always room to support trustee capability better. Against a landscape of fewer, larger, consolidated pension funds, with greater potential for systemic risk, it is particularly important that we work with TPR and wider stakeholders to consider how to give trustees additional support. To explore further changes in this critical area, we intend to run a public consultation later this year.

Recommendation 11

We welcome confirmation from TPR and Ministers that the interests of pension savers are paramount and that investment decisions are for trustees in line with their fiduciary duties to act in the best interest of scheme beneficiaries.

The Government should continue to work with the industry to create an environment that supports investment in the UK economy. (Paragraph 96)

The Government remains committed to working with industry when assessing options for generating investment in the UK economy. We understand that initiatives undertaken by the Government to stimulate economic growth to date have been well-received; however, we are actively considering what more can be done to ensure the regulatory environment continues to position the UK as a leading destination for investment. We are

11 https://www.gov.uk/government/calls-for-evidence/pension-trustee-skills-capability-and-culture-a-call-for-evidence

considering how further to bolster areas suffering from underinvestment, such as major infrastructure projects and capital investment for growing UK firms.

There are £1.2 trillion in assets under management[12] in DB schemes. The Government believes that these assets can work harder to benefit members, employers, and the broader economy.

To enable this, we will legislate to establish a legislative authorisation regime for Superfund consolidators. This is a key reform that will increase employers' options for dealing with their DB legacy liabilities, while enabling members to benefit from better governance and greater security through consolidation. By providing an option for employers to break the link with their scheme, Superfunds will support the consolidation of DB schemes–helping to increase opportunities for investment in UK businesses and improving member security.

We are also looking at ways DB schemes choosing to run on can be incentivised to deliver for savers and the wider economy. On 28 January 2025, following the consultation on 'Options for Defined Benefit schemes',[13] the Government committed to give pension trustees and sponsoring employers the flexibility to use DB surplus to increase the productivity of their businesses–to boost wages and drive growth or unlock more money for pension scheme members.

The consultation reflected the current landscape in which DB funding levels are generally high and many schemes are in surplus. The Government's response to this consultation will be published this spring.

The Government has been clear that it wants to encourage investment in fast-growing businesses and infrastructure, and these are key examples of the sorts of investment that greater scale in pensions can unlock.

To this end, the Government published the Interim Report of the Pensions Investment Review at the Mansion House event on 14 November 2024. The Pension Investment Review's final report is due to be published in Spring 2025, ahead of legislation being introduced in the Pension Schemes Bill.

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

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

Recommendation 12

The use of sole trustees is increasing. While they can bring knowledge and expertise, there is the potential for conflicts of interest. We are concerned that employers often have a unilateral power to appoint sole trustees in the place of the existing trustee board, including member nominated trustees.

DWP should introduce measures to improve the accountability of sole trustees and to enable scheme members to be involved in their appointment. (Paragraph 101)

As the WPSC highlight, there is an increase in usage of professional sole trusteeship. This trend is not only affecting DB schemes but is being experienced across all types of trust-based pension scheme.

Research from Lane Clark Peacock suggests there has been a 30% increase in the number of professional sole trustee appointments over the last year, and that the number of such appointments has doubled since 2021.[14]

The professional sole trustee model can be a way to bring expert capability to the running of schemes, and be a cost-effective way to manage, for example, small or legacy schemes. However, such models do raise areas for consideration, such as trustee diversity and members having less of a voice in decision-making. There are also concerns about real and perceived conflicts of interest, which must be effectively managed.

The Association of Professional Pension Trustees' Code of Practice for professional sole trustees[15] outlines how firms providing professional sole trustee services should act in terms of independence and conflicts.

Pension scheme trustees play an essential part in securing member benefits. All trustees regardless of whether they are a lay or professional trustee must comply with the rules of the scheme and legal requirements, including a duty to act in the best interests of all beneficiaries, both now and in the future.

There are already safeguards in place to hold professional sole trustees accountable for their actions. TPR has powers to remove and replace trustees, or add an independent trustee to a trustee board, should it have concerns about existing trustees' capability or behaviour. These powers are applicable to professional sole trustees and all trust-based pension schemes.

14 https://insights.lcp.com/rs/032-PAO-331/images/LCP-Sole-Mates-September-2024.pdf?utm_campaign=Solemates&utm_medium=bitly&utm_source=website

15 https://appt.org.uk/wp-content/uploads/APPT-CoP-for-Sole-Trusteeships-final.pdf

TPR has also announced[16] they will be extending their engagement with the largest professional trustee firms to identify and mitigate any risks to pension savers. TPR is looking to have a clearer understanding of the risks and benefits of the sole trusteeship model to identify if further safeguards and interventions are required.

There are already significant safeguards in place in this area. Through consultation we will establish what, if any, further action might be needed for the future as the pensions landscape changes.

Recommendation 13

Despite strong support from TPR and trustee bodies for accreditation as a way to improve governance standards, they can only encourage it.

DWP should set a date by which it intends to make accreditation mandatory for professional trustees. (Paragraph 108)

There is already much good practice on voluntary accreditation with significant numbers of professional trustees[17] choosing to become accredited. In a 2023 TPR survey 74% of professional trustees reported they held, or were working towards, trustee accreditation.[18] Stakeholder responses to the 2023 call for evidence on trustee skills, capability and culture[19] were broadly supportive of mandatory accreditation for professional trustees. The previous Government's response to the call for evidence strongly encouraged voluntary accreditation, while TPR's new General Code of Practice, which came into force on 28 March 2024, included an expectation that anyone acting as a professional trustee should be accredited.

TPR is restructuring its supervisory approach to facilitate more direct engagement with trustees on an expert-to-expert basis. The goal is to check and challenge the quality of decision-making across the market in a way

16 TPR Press release of 2nd April 2025 https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2025-press-releases/tpr-extends-its-oversight-to-professional-trustee-firms#:~:text=TPR%20found%20a%20variety%20of,influence%20better%20outcomes%20for%20savers

17 Definition of a professional trustee https://www.thepensionsregulator.gov.uk/en/trustees/professional-pension-trustee-standards#:~:text=We%20consider%20a%20professional%20trustee,than%20just%20in%20certain%20areas).

18 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/trustee-diversity-and-inclusion-survey-2023.ashx

19 https://www.gov.uk/government/calls-for-evidence/pension-trustee-skills-capability-and-culture-a-call-for-evidence

that is tailored to the specific circumstances of individual schemes. TPR's work will help to understand whether current accreditation arrangements are robust enough.

We intend to consult on the framework of accreditation and governance in our public consultation later this year.

Recommendation 14

Member-nominated trustees play a vital role in representing the interests of scheme members and providing a link to the workforce.

As part of its planned engagement with stakeholders, DWP should explore ways to support lay trustees with the time and costs needed to become accredited and report the results. It should set out plans for ensuring every trustee board has at least one accredited member, lay or professional and a timetable for achieving that. (Paragraph 109)

The Government appreciates the time and commitment member-nominated trustees devote to the pension schemes they are involved with. Many of the 2023 call for evidence responses noted the positive contributions lay trustees make to scheme governance. They offer a different viewpoint in decision making and are able to reflect the voice of scheme members to the rest of the trustee board. We have heard the challenges that closed schemes can sometimes face in recruiting member-nominated trustees where fewer members are part of the current workforce. The responses also suggested that the overall effectiveness of scheme governance is not dependent on individual knowledge, but rather on having a diverse board with a range of skills, experience, and expertise. Such diversity can often be provided through lay trustees.

We know from the call for evidence that the support lay trustees receive often depends on their scheme sponsor. Some receive extensive support in the form of access to qualifications, ongoing trustee education and sufficient time away from their everyday role to maintain and develop their skills as trustees. Those lay trustees who are unable to meet the required standard are usually poorly supported by the scheme sponsor. It was also suggested that small schemes governed only by lay trustees may be less likely to meet the requirements expected of them and may require more support to fulfil their obligations.

We are planning to consult on measures to improve governance of trust-based schemes later this year. This consultation will consider how TPR and DWP could provide additional support for those lay trustees who require it.

Recommendation 15

We welcome the introduction of a trustee register as a way to improve TPR oversight of trustees and to communicate directly with them. We also welcome TPR's decision to update the Trustee toolkit.

We recommend that TPR should use the register to report annually on the number of trustees who have completed the toolkit. (Paragraph 113)

The trustee register is still under development as TPR focuses on centralising trustee information. The ability to link records of trustee toolkit use to specific trustees would give TPR a clearer view of areas in the pension landscape, or schemes, where support and intervention may be required.

When the register is up and running, it should be possible to publish anonymised aggregated data such as:

- the number of schemes who have an accredited trustee;
- the number of schemes who have a professional trustee;
- how many schemes have no accredited trustees; and
- how many trustees have completed the toolkit.

Recommendation 16

TPR sees consolidation, including through Superfunds, as one of the main ways to improve governance, providing advantages of scale in terms of investment and governance. The Government committed to legislating for this in Mansion House as did DWP's 2023 response to the consultation on pension Superfunds but there was no Bill in the King's Speech at the start of this parliamentary session. It will be challenging for Superfunds to get off the ground without legislation.

The Government should consult on the detailed proposals of the Superfunds legislative framework to protect member benefits and then introduce primary legislation for pension Superfunds as soon as possible. (Paragraph 125)

The Government is introducing provisions for a dedicated authorisation and supervision framework for Superfunds in the forthcoming Pension Schemes Bill, to support this form of consolidation. It is anticipated regulations made under these provisions will provide further details of the regime after they have been consulted upon. Superfunds will increase opportunities for investment in UK businesses and improve member security through better governance. This legislation is being developed in collaboration with key partners across government, regulators, and the pensions industry, and builds on the learning from TPR's interim regime. The regulatory regime set out in the Pension Schemes Bill will support the growth of Superfund consolidators, while ensuring members' benefits are protected.

Recommendation 17

There may be a good case for a public consolidator. However, there are complex issues to address, particularly in relation to who would underwrite the risk, the impact on member benefits and how its introduction would be justified.

In response to this report, the Government should explain whether the core aim of a public consolidator is to rescue stressed schemes likely to enter the PPF in any case or is it for small schemes who may face challenges accessing the buy-out market. (Paragraph 130)

The Government is committed to improving outcomes for DB pension scheme members by ensuring that they receive the pensions promised by their schemes, supporting employers in finding ways to secure their legacy closed DB pension liabilities, and driving economic growth by opening up investment opportunities.

A private pensions market that encourages consolidation will play a key role in supporting the Government to deliver on this commitment. The commercial market will offer solutions through buy-out, Superfunds and consolidation.

However, this may not work for everyone. The PPF could play a valuable role in DB consolidation, particularly with its track record of investing in UK productive finance and its experience of consolidating over 2,000 schemes into the PPF and Financial Assistance Scheme (FAS). We continue to explore whether a small, focused Government Consolidator, run by the PPF, could be an option for schemes less attractive to commercial providers.

Stakeholder feedback to the 'Options for Defined Benefit schemes' consultation will help shape what we do, and the Government will respond to the consultation this Spring.

Recommendation 18

Given the improvements in scheme funding, trustees must ensure they secure benefits for members, be that through consolidation, buy-out or letting schemes run on. TPR should be proactive in encouraging trustees to assess the potential costs and benefits of different options rather than assuming this assessment is taking place.

TPR should consider requiring schemes to set out why they have pursued a particular approach and why it is in the best interests of scheme members. (Paragraph 131)

The requirements of the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024 will encourage trustees to take a long-term approach and think about their end game strategies. Reporting on their approach in a statement of strategy will also encourage them to articulate the risks to their long-term funding strategy, improve transparency and provide oversight over how trustees manage their end games.

Schemes' funding and investment strategy must set out the way that pension benefits will be provided over the long term, which could be through buy out with an insurer. There is no requirement for schemes to seek buy out or enter a consolidator. Continuing to run on with an employer will still be an option available to schemes.

The statement of strategy, which must be submitted to TPR, will include the trustees' assessment of implementation of the scheme funding and investment strategy as well as reflections on key decisions and lessons learned. This will encourage greater transparency in decision making in DB schemes and help TPR to assess whether schemes' risks are being managed effectively.

TPR will be considering how it updates the information it publishes to the market in light of these new requirements, for example through providing aggregated information in its annual scheme funding publication.

Pension Protection Fund and Financial Assistance Scheme

PPF's success in building reserves has led to calls from industry to review how the levy is collected. In anticipation of the twenty-year anniversary of the foundation of the PPF, the Department is working closely with the PPF to examine how we can future-proof the DB pension compensation reflecting the current changes to the DB landscape.

That is why, on 30 January 2025, this Government announced that we will consider giving the Board of the PPF greater flexibility to adjust the annual pension protection levy it collects from private sector occupational DB pension schemes.

This Government has heard significant calls to review the level of compensation received by PPF members and assistance from the FAS, specifically in relation to the award of pre 1997 indexation. The Minister for

Pensions has met PPF and FAS members who have been affected by the lack of protection from inflation and has heard firsthand the very real impacts and difficulties they have experienced, particularly for pensions accrued before 1997. Any change in this area has significant implications on public finances for both the taxpayer funded FAS and for the PPF which is levy-funded. Assets and liabilities for the PPF are reflected within the Government accounts, and any use of the PPF reserve and increases in future liabilities have an impact on the public finances. Ministers continue to take advice on options, we will need to work through the issues to ensure a balance can be struck between all parties, including the interests of members of failed schemes, the levy payers who support the PPF and taxpayers. This is an important issue, and one where we will continue to work with PPF.

Recommendation 19

The Government should find an early legislative opportunity to give the PPF more flexibility in how it sets the levy, allowing it to reduce it to zero and then increase it again if necessary. (Paragraph 139)

The PPF is now in a strong financial position, with a reserve fund of more than £13 billion. Clearly the PPF should not have to charge a levy when it is not required.

Currently restrictions in the legislation prevent the PPF Board from significantly raising the levy beyond 25% of what it collected the previous financial year. This has been a barrier to the PPF board reducing the levy. That is why the Government announced on 30 January that it will consider giving the Board of the PPF greater flexibility to adjust the annual pension protection levy it collects from private sector occupational DB pension schemes.

This will reduce costs for levy payers who have helped to fund the PPF over the years. Giving the Board of the PPF greater flexibility to adjust the pension protection levy will help to unlock millions of pounds for schemes, enabling employers to invest in their business and grow the economy.

Recommendation 20

We applaud the fact that the PPF is now reasonably confident that it has the funds it needs to meet potential claims on it. This is a significant achievement. There is now an opportunity to consider how the £12 billion in PPF reserves can be used to the benefit of PPF levy payers and scheme members. For scheme members, the priority is indexation on pre-1997 rights.

DWP should bring forward its promised consultation on levy changes and PPF compensation levels without delay. (Paragraph 142)

The existing PPF reserves ensure that current and future members can be confident of the fund's financial resilience and therefore its longer-term sustainability. However, we are aware of the issues raised by members of the PPF about the level of compensation offered, and the Minister for Pensions has met with stakeholders and affected members to discuss these issues in detail. The Pension Protection Board has announced that the levy estimate for 2025/26 will be £45m. This is less than half of the 2024/25 levy. In addition, the PPF has included a new provision in its rules that would enable the Board to calculate a zero levy if appropriate legislative changes that would give the PPF greater flexibility in setting the levy are brought forward.

We are committed to consider and reflect on what we have heard on the issue of PPF and FAS rules on pre-97 indexation and recognise DB pension scheme members income in retirement may have been significantly eroded by the recent period of high inflation. These are complex matters requiring a balanced approach for those receiving compensation, levy payers and taxpayers.

Recommendation 21

Non-indexation of pre-1997 benefits has had a significant impact on PPF members and disproportionately on older members and women, reducing the value of their compensation in real terms. Given the £12 billion in PPF reserves, the potential impact on levy payers is no justification for continuing this policy. We welcome the fact that the Government will be consulting on levy changes and PPF compensation levels.

It should legislate to provide indexation on compensation in respect of pre-1997 rights where scheme rules provided for that. It should work with the PPF to consider other changes to compensation—such as raising the cap on indexation of post-1997 benefits above 2.5%—as part of its forthcoming consultation on levy changes and PPF compensation levels. (Paragraph 151)

We are aware of the issues raised by members of the PPF and the FAS about the level of compensation offered for benefits accrued before April 1997. The Minister for Pensions has met with relevant stakeholders to discuss this issue, and this Government recognises that the rules on pre-97 indexation on PFF and FAS have been the subject of much discussion.

Assets and liabilities for the PPF are reflected within the Government accounts, and any use of the PPF reserve and increases in future liabilities have an impact on the public finances. Ministers continue to take advice on options, we will need to work through the issues to ensure a balance can be struck between all parties, including the interests of members of failed schemes, the levy payers who support the PPF and taxpayers. This is an important issue, and one where we will continue to work with PPF.

Recommendation 22

Financial Assistance Scheme (FAS) members are likely to have more of their service before 1997, so are particularly likely to be affected by non-indexation of pre-1997 benefits. Any improvements for PPF members should also apply to FAS members.

Given the age of many FAS members, the Government should legislate as a matter of urgency to provide indexation on FAS compensation for pre-1997 rights, where their schemes provided for this, funded by the taxpayer. The Government should review the Financial Assistance Scheme, including looking at the case for removing other discrepancies in FAS compensation, compared to the PPF, such as the continued application of the compensation cap and lack of interest on arrears. (Paragraph 161)

It is worth noting that both the PPF and FAS are compensation schemes that operate differently and have different qualifying and eligibility conditions.

The Department understands that the lack of indexation of PPF and FAS payments based on pre-97 benefits is important for the affected members. There are a number of cross-cutting issues which require detailed review and include implications for the Exchequer as mentioned above. The Government is considering how it might address this issue and will provide further detail in due course.

Following the conclusion of the litigation in the domestic courts, the PPF identified its members and FAS members affected by the Hampshire Judgment and increased their payments to comply with the terms of the Judgment. The payment of arrears was backdated, but there is no legal basis for awarding interest on any arrears of FAS payments. The award of interest in the form of ex gratia payments is only considered where there is maladministration by the Department or in exceptional circumstances. This is not the case here as payments were correctly paid under the law as it was understood at the time.

The cap on payments from the FAS has not been the subject of legal action, unlike the cap on PPF compensation. The PPF compensation cap was disapplied by the Court.

The removal of the cap on financial assistance would significantly increase costs to the exchequer and has not formed part of our considerations.

Recommendation 23

We support the recommendation of the Public Accounts Committee that the Government should "ensure that members' complaints about the AEAT pension case can be independently reviewed, for example by a relevant ombudsman." We agree with the pensions minister that it is important for a sense of justice and fairness that people should have an adequate means of redress.

The Government should report back to us by the summer recess on how it intends to ensure an adequate means of redress for AEAT pension scheme members. (Paragraph 165)

The Government is aware of the issues raised by former members of the AEAT pension scheme. We recognise that these individuals are in a difficult position, and we are sympathetic that many are receiving less than they expected from their pension. However, there have been various investigations over the last ten years, and complaints on this matter have been considered previously by relevant government bodies.

As well as a determination on the case brought to the Pensions Ombudsman (TPO), there have been two Parliamentary Adjournment Debates, one in 2015 and another in 2016. The issue has also received detailed consideration by the relevant government departments. In March 2023, Tom Josephs, the then DWP Director of Private Pensions and Arm's Length Bodies, gave evidence on this case alongside other colleagues at the Public Accounts Committee (PAC) inquiry.

Whilst it is noted that the WPSC supported the PAC's recommendations. It will be for the response to the PAC to consider whether routes of appeal against Parliamentary and Health Service Ombudsman or TPO decisions are clearly articulated for the general public.

The AEAT case is extremely complex and spans the responsibility of several departments. As stated in the Government response to the PAC report, this matter has been extensively investigated. There are no plans to offer specific redress to AEAT members.