Pensions Investment Review: Unlocking the UK pensions market for growth – Hymans Robertson's response

Executive Summary

Hymans Robertson is one of the leading pension and investment consultancies in the UK and has, for many years, championed the improvement of retirement outcomes for members of defined contribution pension (DC) arrangements. We are pleased to provide our response to the consultation on Unlocking the UK pensions market for growth.

We are broadly supportive of the consolidation of pension arrangements to achieve better member outcomes. We do, however, believe that it is important that any requirement to consolidate does not stifle innovation in the DC marketplace. The DC market is moving forward quickly, and it is often the smaller, more nimble organisations which can drive positive change, particularly in areas such as member experience. It will be important not to lose this innovation as we move forward.

We note that the objective of the Government is to achieve scale and drive investment into UK productive assets. Scale (at some level) is required to invest in private assets but it does not in itself compel investment into these areas – it is a necessary but not sufficient condition for investment in UK productive assets.

In summary we believe the best way to meet the Government's policy goals, while allowing providers to innovate and thrive and to deliver the best outcomes to members is to:

- Set a clear policy goal around how providers structure their default arrangements such that it enables their collective scale to be leveraged to invest in the best interests of members – with fewer, larger defaults.
- Provide guidance on the expected level of investment in UK private markets that you would consider "best practice" – scale alone will not drive the outcome this policy sets out to achieve.
- Mandate a minimum size for Master Trust arrangements of £5bn by 2030 (and growing thereafter). This will provide a floor to avoid a proliferation of smaller arrangements but will not crowd out those providers who have proved to be nimbler and more innovative than some larger arrangements to date.
- Operate a comply or explain model for Trustees, IGCs and/or providers to justify how the structure of their arrangements and investment approach delivers the best outcomes for members while satisfying these policy goals.

We agree that "mega-funds" will be an important part of the solution to UK private market investment. The consolidation journey that the industry is on already, together with the above, will result in several very large arrangements with many of the attributes required to deliver the investment desired. We do not believe it will be necessary or desirable to eliminate smaller arrangements (£5bn plus), who are large enough to invest in private markets in some form and deliver good value for members as they will only make up a small proportion of the total UK DC asset pool in any event.

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In our response, we have focused on several aspects which we believe need to be considered including:-

1) The ability of smaller, more nimble Master Trusts (or indeed new market entrants) to achieve better investment performance and deliver a better overall experience to DC members than larger arrangements.

2) The need to focus on forward-looking investment performance indicators, rather than purely using historic returns and volatility. We note that the investment strategies of most of the major master trusts and GPP providers have developed significantly over the past five years and are likely to continue to do so. This should be recognised in the assessment of value.

3) There should be sufficient flexibility in the number of default arrangements to be offered. This should, at least in part, be to allow for individual companies' needs in relation to aspects such as aligning their pension strategy with their net zero targets more widely.

4) In terms of consolidating arrangements, it's vital that proper consideration is given to any guarantees members would lose if their arrangement was consolidated. This is particularly the case in relation to aspects such as guaranteed bonuses on With Profits arrangements and guaranteed tax-free cash elements. The FCA must play a key role in ensuring this happens.

5) We agree that companies should be required to assess the value of their pension arrangements on a regular basis. Where we work with companies which have ongoing governance frameworks, there is clear evidence of them being able to deliver better value for their members.

6) Placing the burden on IGCs to assess value in relation to a large number of arrangements is likely to lead to either a slowdown of the process of consolidation (due to the volume of arrangements to be consolidated) or a shift away from other vital areas of development. We have proposed an alternative solution as part of this response.

Finally, while investment performance is one of the key drivers of member outcomes, the biggest impact comes from the level of contributions. We note Phase Two of the Pension Review, which would have considered retirement adequacy, may be delayed. We appreciate the need to avoid additional costs for UK businesses at the present time. However, Phase Two, and follow up recommendations, are likely to be measured in years not months. We would emphasise the need to start building a framework now to avoid storing up problems for the longer term.

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Question 1: Do you think that providers should be restricted to a limited number of default funds, and if not why? Please consider any equality considerations, conditions and to what extent saver choice could be impacted.
We believe that restricting the number of defaults to a very small number could mean that providers cannot serve the needs of all DC members and employers. For example, from an employer's perspective, there may be a desire to reflect specific sustainability criteria in their default arrangement to bring it in line with the company's net zero plans or there may be a situation where an investment management company wants to use its own funds in its default arrangement as members have indicated a preference for this. For members, there may be specific religious or other sustainability desires e.g. a Sharia-compliant lifestyle (although arguably these could be offered as self-select rather than default options).

Providers should also be allowed to offer defaults that cater for different member needs at retirement e.g. one strategy targeting cash and one targeting drawdown to cater for small and larger pots. This will also be important for trust-based hybrid schemes and schemes with AVC arrangements moving to Master Trust arrangements where a switchback facility into the DB scheme is required to allow the DC assets to be taken as tax-free cash. This will be needed to allow the trustees to sign off a transfer to a Master Trust arrangement for the DC section and could otherwise slow down the consolidation within the single-trust market. Strategies for these types of arrangement normally target cash at the point of retirement.

As highlighted above, we believe that individual employers should be allowed to offer company-designed default strategies if they have a good reason behind them and the employer (backed by professional advice) can prove to the Master Trust trustees or IGC that the strategy delivers Value for Money against the Off the Shelf default arrangement. The new VFM provisions should support this type of analysis.

We would also note that some employers are heavily unionised and pricing for bespoke default strategies may have been agreed for a period of time e.g. 3 or 5 years. Therefore, in practice, it may be difficult to allow for changes to default strategies over a shorter time.

However, we believe that having more than, say, six defaults (excluding employer designed strategies) is potentially unnecessary and may cause confusion i.e. drawdown, cash, annuity, Sharia, lower price point, scope for one other if required.

Question 2: The proposed approach at default fund level could mean that the number of default arrangements would remain unchanged. Will imposing the requirement at this level have any impacts on the diversity of investments or the pricing offered to employers?

Currently there are significant differences in the fees paid for the same Off the Shelf default arrangements by different sized employers. If all schemes use the same default arrangement, in theory the pricing point should be the same for all.

One of the key questions would be where a single pricing point would be set (if this was the preferred option). Clearly some members would benefit from lower fees (generally smaller employers) and some would pay higher fees for others. In aggregate, across the industry, fees may rise in total.

If the number of default arrangements was not limited, this would, for example, allow multiple employers in a Master Trust to maintain a bespoke strategy. Given DC schemes are invested in pooled funds, we would like clarity on whether the proposal is that if the single pooled fund is over £25bn then it qualifies? If so, then the risk is that there will be a smaller number of bigger schemes all using similar strategies. Employers may move Master Trust due to not having the choice of investment available to them in one Master Trust due to the restriction. This feels unduly restrictive and penalises members in terms of transfer costs.

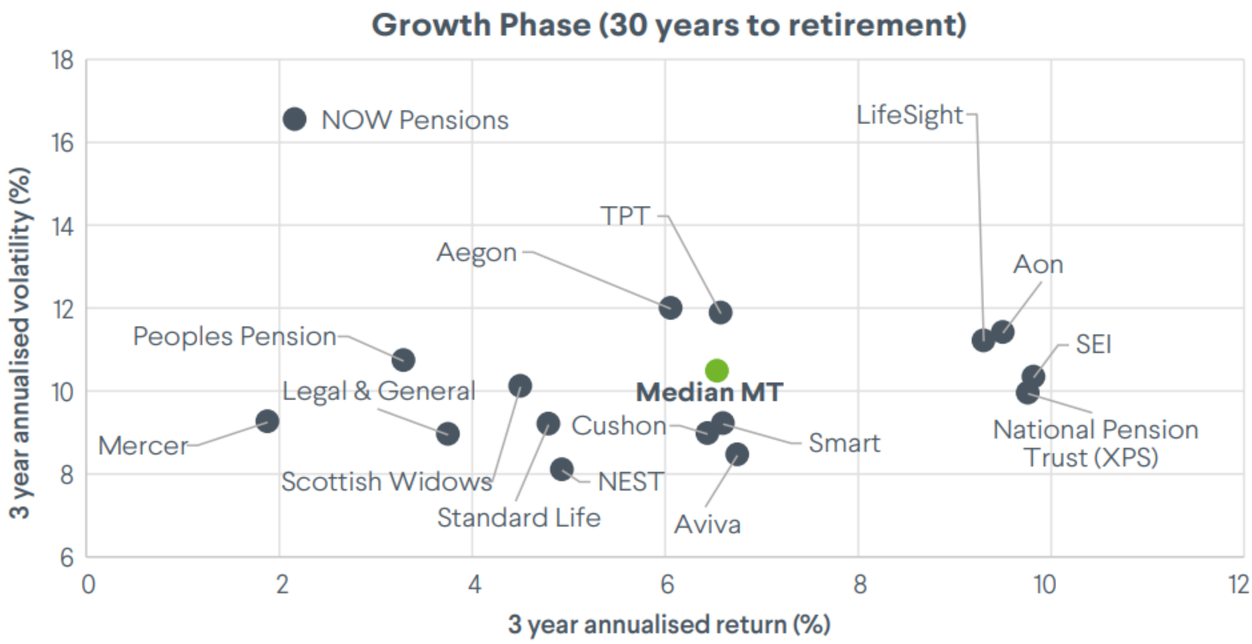
Scale can facilitate diversity of investments, but it does not compel investment into private assets (and in particular UK private assets). Imposing the requirement of a specified AUM at overall default level will not therefore necessarily lead to higher investment in UK productive assets. As points of evidence, many Master Trusts currently invest in private assets and are well below £25bn in AUM. Additionally, our view is that a diversified allocation to private assets can be achieved for single-trust schemes with much lower assets – see answer to question 3 below). As a further point, some LGPS funds currently have scale and do not (currently) choose to invest heavily in UK private assets.

Question 3: What do you think is the appropriate minimum size of AUM at default fund level within MTs/GPPs for these schemes to achieve better outcomes for members and maximise investment opportunities in productive assets?

We believe that, to allow innovation in investment strategies and deliver good outcomes for members, assets under management of around £5bn are typically needed in the Master Trust marketplace (noting we believe that the number is lower for single-trust schemes). For example, we've seen significant investment innovation (including investment in private markets) over recent years from Master Trusts such as Cushon (£2.6bn) and Smart (£5.8bn). It would be a long time until they reached £25bn unless there was significant consolidation into them, and we do not believe that they should be required to consolidate over the reminder of this decade as this could mean a loss of innovation.

For brand new Master Trusts, we believe that they should be required to reach a minimum of £5bn within a specified amount of time after launch (e.g. 5 - 10 years).

We would also highlight that many of the smaller Master Trust arrangements (as well as many single-trust schemes) have outperformed their larger counterparts over recent years. If consolidation is required, this may mean moving members from good performing to poorer performing arrangements, which would go against the VFM proposals.



1. Chart is based on net performance and volatility to 30 June 2024, supplied by the providers and relates to their default lifestyle option. Please note that the performance figures are actual performance, except for those from Cushon which are based on a static allocation. Fidelity is not included in the performance charts due to their default lifestyle only recently having been launched.

Source – Hymans Robertson Master Trust Insights Report – June 2025

Whilst single-trust schemes are not directly covered by this consultation, we would note that there are some very well governed single-trust arrangements that have had investments in private markets for many years and have delivered investment performance ahead of many players in the master trust marketplace, particularly in the “Growth” phase of default strategies.

If a minimum level is to apply, we believe that this should be at default arrangement level i.e. combined fund level as opposed to applied to individual funds. Individual fund level would increase the ability of schemes to merge differing funds together however would eliminate potentially funds which are performing well due simply to scale.

Question 4: Are any other flexibilities or conditions needed regarding the minimum size of AUM (for example, should it be disapplied in circumstances at regulators discretion for example to enable an innovator to provide competitive challenge in the market or be disapplied in case of a market shock or another specified circumstance)?

Whilst we see the benefits of scale, the consultation itself recognises that this can be achieved at a far smaller size of assets (e.g. £5bn), and we are supportive of a smaller number to begin with to set a policy ambition.
We believe that flexibility is needed to retain smaller, better performing providers. Otherwise, as highlighted above, we run the risk of losing innovation and potentially moving members from better to worse performing master trusts.

Also, where new ideas are introduced which are potentially market changing (for example developments in technology that could deliver better member outcomes), the initial size of assets should be disregarded provided there is a pathway to sufficient scale evidenced by the provider. The basis of determining which smaller providers remain should be transparent to all and would need significant power for the Regulators to determine. It must also be subject to public scrutiny.

A minimum size of assets may preclude any new participants into the market. Had a minimum of, say £25bn been in place over the past few years, we would have missed out on some of the newer, more innovative Master Trusts (and particularly those which have technology developments as a key part of the offering) as these would not have come to the market.

Consideration would need to be given to what happens to contracts when a Master Trust is taken over – for example would existing employers need a new contract with the new provider?

Special circumstances should have regard to market shocks and scheme design peculiarities which are beneficial to the market. For example, Master Trusts which have the ability to take on members with GMP underpins or With Profits benefits (where existing contracts are often some of the poorest Value for Money and hardest to move benefits) should be allowed to continue to operate to allow for improvements in member outcomes, even where they do not meet the current size threshold.

Consideration also needs to be given to "accidental" Master Trusts and hybrid arrangements such as USS and SAUL. We question whether the arrangements are intended to apply to them. Many have the backing of large sponsors and DB arrangements sitting alongside and do not have the intention of reaching £25bn as they weren't designed to do so. Costs of setting up and approving these Master Trusts will have been large. To set policy to remove them shortly afterwards does not seem consistent.

Question 5: Do you think there should be targets for (i) achieving a reduction in default fund numbers down to a single fund and, (ii) setting incremental minimum AUM?

We expect there to be some natural consolidation of Master Trusts in the period to 2030, but we believe that 2030 is too early to get many of the smaller, more innovative Master Trusts to £25bn. We believe a figure of £5bn at default arrangement level (i.e. combined overall arrangement level) is more realistic and still achieves policy aims of investment in private markets and raising the bar on levels of meaningful investment.

For single employer arrangements including GPPs, we believe the number to be even smaller than £5bn and would encourage a comply or explain process for these schemes. Where schemes can demonstrate Value for Money, we see no reason to close them or move members as this may be costly.

As highlighted above, we don't agree there should be a single default as this will stifle innovation and could cause "herding" in the market.

Additionally, there is not sufficient evidence at present to show that members will be better off in strategies over £25bn or from investment in productive finance. There are good examples of schemes with assets below £25bn which have performed well for members (in both the Master Trust and single trust markets – see above chart). Whilst acknowledging the benefits of scale, we are wary that setting an artificially high bar for AUM will lead to worse outcomes for some members.

Question 6: Are there any potential barriers/challenges that should be considered in reaching a minimum size of AUM at default fund level before a future date, such as 2030?

Capacity - this may be an issue. Experience has shown us that it takes significant time to merge Master Trusts and move single employer arrangements. Specialist advisers are needed (investment and legal) to sign off any moves and the number of firms with relevant experience of Master Trust consolidation are limited (and needed due to the specialised nature of the transfer).

Supply - with the focus on productive finance and investment in UK, there needs to be sufficient supply to drive this. At present it is not clear where this supply will come from.

Potential lack of innovation – while Master Trusts are under the threat of consolidation, they may be unwilling to invest in new developments (e.g. member engagement). This may lead to poorer member outcomes.

Transfer of private market investments – there needs to be ways to easily facilitate the transfer of private market assets between Master Trusts to avoid members losing value when a Master Trust is taken over.

Legislation and guidance - this will take time to finalise and be enacted (similar to dashboards and new VFM framework – multiple consultations needed across different parts of chain and regulators)

Underpins and Guarantees – Whilst designed to protect, these unfortunately make moving members costly and difficult. Actuarial calculations are required to prove better value, certification may be needed and this is not without cost.

Design Quirks – Some schemes are designed for specific purposes e.g. SAUL is a feeder Master Trust for their DB arrangement. It was never intended to be a mega-fund, as per the policy intent.

Question 7: Given the above examples, what exclusions, if any, from a required minimum size of AUM at default fund level and/or the maximum number of default funds requirement should government consider?

The regulatory framework to apply for consolidation of Master Trusts needs to be evolved as this currently doesn't allow for merging Master Trusts which aren't distressed.

Areas which should also be considered in terms of exclusions include:-

- Green rated Master Trusts/GPPs on VFM
- Performance in the top half of Master Trusts over the previous 3 or 5 years and/or on a projected basis
- "Accidental" Master Trusts (e.g. Master Trusts that have been created due to a small number of associated employers, for example the FCA), or consideration of a pooling mechanism for these should be given similar to LGPS schemes.
- Cases where there is a lack of alignment for merger of Master Trusts from a responsible investment perspective.
- Decumulation only products

Question 8: With regards to the proposals in this chapter, we anticipate the need for mechanisms to encourage innovation and competition, and for safeguards to protect against systemic risk. Are there other key risks that we need to consider? How do we mitigate against them?

We see some of the key risks as being:-

- As per Q6, capacity of advisers/legal advisers to advise on the consolidation
- Potentially poor member outcomes being achieved from unsuccessful investment in private markets following a legislative push to move in that direction
- Breach of fiduciary duty for trustees
- Supply side risks – e.g. not enough private market opportunities available
- Competition and impact on new business (AUM could become a key differentiator rather than quality of proposition)
- Investment herding / concentration in a small number of defaults

Question 9: Under a minimum AUM model, competition in the market could be more restricted. Would additional exceptions be required to ensure innovation can continue to flourish?

Consideration should be given to how potential new entrants into the Master Trust market would be dealt with. The current proposed model would effectively stop future market entrants as they would not have the minimum assets under management, or be under pressure to get to £25bn more quickly. This potentially stifles new ideas/innovation. The measurement of VFM needs to allow for differing strategies to be measured differently over potentially different time frames e.g. for example investment in private markets should be measured over at least a 10-year period, rather than anything shorter.

Emerging solutions or market entrants with attractive new technologies or market changing ideas which will benefit members should also be given time to build to scale.

Question 10: We would welcome views on what further interventions or regulatory changes might be necessary or beneficial to accelerate this process?

Potentially, the use of blended finance, tax incentives or incentives more generally.
We also note that progressing with Phase 2 of the Pensions Review, and in particularly increasing scale by increasing contributions, would support the wider aims of these proposals.

Question 11: How would moving to a single price for the same default impact positively or negatively on employers, members and providers?

Large employers currently benefit from lower fees than smaller employers. A single price for the same default is likely to lead to a higher pricing point for large employers and a lower one for smaller employers. As there are more members in larger employer schemes, the total amount industry-wide paid in fees by DC members could increase. Any increase in fees more widely should be considered at a time when fees are already likely to go up to accommodate investment in private markets, so would need to be carefully managed.

Within GPP arrangements in particular, a single default arrangement fee should mean equal treatment to smaller and larger employers. The proposal would mean that members in smaller schemes with poor value for money, who cannot currently be moved without consent, would benefit from the proposed removal of the consent rule for GPPs. Providers, in reality, currently “price out” business which isn’t commercially viable for them, so it’s likely that this could happen with a single default fee.

Question 12: Under what circumstances should providers be able to transfer savers to a new arrangement without their consent?

We believe that transfers without consent should be allowed as long as better value can be demonstrated in the new arrangement. This, for example, could be based on either lower fees for the same expected outcome or a higher expected outcome with a higher fee (in terms of projected investment performance and or/a better member experience overall).

Some members, particularly in GPPs, are in old contracts which are often expensive and invested in outdated strategies. There is a strong argument to move members in these contracts to arrangements with more modern pricing and investment strategies, and with better governance. Currently some members remain in schemes which are deemed poorer value than newer strategies due to an inability to move under the GPP rules.
For any bespoke strategies, the employer should be required to demonstrate the reasons why members should not be moved into an Off the Shelf strategy (e.g. a fund management company wanting to invest in its own funds/a company investing in line with its own net zero plans).

Schemes/Plans with any form of guarantee should not be moved automatically. The need for actuarial certification, as exists for With Profits, for example, would still allow for assessment and movement if it was considered members would be better off elsewhere post analysis or if employers wish to “top up” the transfer value to move members. We would recommend that this area is given focus to provide a practical, easier and cost-effective way to move members without fear of future remediation for future outcomes which are unknown.

Schemes where employers currently pay expenses/fees should not be automatically moved as there would be a need to demonstrate better value for money in the new arrangement if there was no ability for employers to pay fees.

Question 13: Do you think that an independent expert, such as an IGC, should be responsible for undertaking the assessment of whether a transfer is appropriate?

Yes, however we don’t believe that the IGC is the correct body to make this assessment given the large number of legacy schemes which currently exist. This would place a huge governance burden on them and potentially prevent them from undertaking other aspects of their role. We would recommend independent advice from a regulated adviser is taken for any transfers with or without consent and consent to the transfer obtained via a nominated committee or individual at the employer based on the advice.

Making this a regulated activity would allow the Regulator to define what is expected from any review. This will establish best practice around an assessment of a provider’s capabilities, carried out in a robust, objective way. In particular, it will help mandate an approach for assessing value not just charges and assist in this policy objective. It feels like an anomaly that recommending a pension scheme to an individual customer is a regulated activity but recommending a scheme to an employer with 20,000 members is not. Addressing this should lead to better outcomes for members overall.

It will also be important to consider and clarify the role of GAAs where these exist and what role they should play in consolidating arrangements.

Question 14: What, if any, changes may be needed to the way an IGC’s role, or their responsibilities/powers for them to assess and approve contractual overrides and bulk transfers?

We do not believe that IGCs should be the responsible body for this. An override should be set in legislation, with appropriate caveats as needed. This could be supported by independent advisers supporting a Governance Committee at an employer specifically set up and govern the scheme or a particular transfer analysis project. Where there is lack of resource, financial or otherwise to set up a Governance Committee, we believe an individual at the employer should be responsible for ensuring value for money. Where that is not available, consideration should be given to moving members to an arrangement where robust governance processes are in place.

Question 15: What, if any, role should the employer have in the transfer process?

The onus should be placed on the employer with active schemes to establish whether their chosen arrangement represents good value for money. It should be mandated that this should be supported by independent benchmarking advice.

Employers should be mandated to have either a person or committee (dependent on scheme size) to govern VFM for their employees from their chosen arrangement.

For legacy schemes where there is no employer involved, these individual policies should be dealt with collectively by the IGC.

Question 16: For active schemes, would a transfer require a new contract between the employer and provider?

This will depend on how the contract is currently written. Any transfer between providers is likely to require a new contract. As highlighted above, this could be a time-consuming and costly exercise. It would also be important to consider any change in the security of member assets.

Question 17: What procedural safeguards would be needed to ensure that a new pension arrangement is suitable and in the best interests of members? What other parties should be involved and/or responsible for deciding the new arrangement?

We believe formal advice should be required for all transfers. This should involve clear VFM assessment criteria, independent advice and group sign off by non-conflicted parties (potentially including members) at the employer. We have highlighted above the benefits of this approach.

Question 18: Do you foresee any issues with regards to transferring savers from contract-based arrangements to either other contract-based arrangements or trust-based arrangements? If so, what issues?

- VFM assessments should help the transfer process, although we strongly believe that forward-looking performance metrics should be included in the VFM assessment (as the provider market has changed dramatically over the past 5 years and past performance in these circumstances is absolutely not a guide to future performance).
- Consideration should also be given the security of members' assets and access to compensation from the FSCS as the structure of funds will potentially be different in a GPP and Master Trust arrangement.
- A policy would need to be set to deal with self-selectors, as their assets would need to be transferred too if a new contract is set up. The issue of the creation of inadvertent defaults and fund mapping could potentially come into play here.
- Many members are likely pay the costs of any move to a new contract. This could be significant when moving out of old-style contracts. Members would also be exposed to out of market risk during the transition.
- Transfers from one contract-based arrangement to another potentially create the same issues and concerns of lack of value for members, especially where VFM isn't enshrined with a person or body at the employer (see our comments above).
- GPPs also have a very wide choice from a self-select perspective which isn't often necessary from a fund selection perspective and goes against what productive finance is trying to achieve. It can also be confusing for members and this point should be borne in mind.
- Tracing missing members is potentially a significant task for contract-based providers, especially if data is poor. Consideration would also need to be given to how to deal with lost pots.
- Data protection issues may be relevant if intra-provider transfers are taking place.
- Different tax relief regimes between contract-based and trust-based arrangements (Relief at Source v Net Pay) should also be considered.

Question 19: What safeguards and measures should be put in place to ensure that consumers are protected?

We need to ensure, if a scheme is moving between contract-based arrangements, that VFM is enshrined in a person or committee at the employer which is required regularly (say, triennially) to review value (including independent assessment of this).

Question 20: Are there any specific circumstances in which a transfer should not be allowed to take place, or savers should be able to opt out?

- Members who are “in flight” at the time of the move (e.g. death claims, transfers out) may benefit from being excluded from the move.
- Careful consideration should also be given to those who are close to their retirement date to avoid creating significant transition costs for them which will not be recovered by better performance/lower fees etc. in the new contract.
- Where VFM identifies potential benefits from protected/guaranteed benefits, but the employer is unwilling to pay a top up to compensate for the loss of guarantees.

Question 21: What complications could arise if savers have the choice to opt-out of a transfer and remain in their current arrangement?

Fees in the current arrangement are extremely likely to go up after the transfer and may no longer represent good VFM as remaining members would not benefit from a “group” fee. However, it would be inefficient and impractical for providers to be left running lots of arrangements with a handful of members left in them. We would recommend that old arrangements are closed.

There would also be an increased governance burden on employers of managing multiple schemes if members opt out of the move. We also believe that this would be counter-productive to the productive finance agenda.

We would note that administrators may have out of date addresses/email addresses so any communication around the move may not reach everyone impacted.

Where protected / guaranteed rights are involved and an alternative is not feasible, providers could be left with a default fund with very low membership, unable to close them unless they have the contractual power separately to do something. Therefore, the problem of numerous legacy pension arrangements isn’t fully solved.

Question 22: In what circumstances do you think that consumers/savers should have the right to compensation or an individual right of recourse enforceable in court?
If monies are moved and this means that means savers lose valuable guarantees without this having been considered as part of the transfer (e.g. with profits guarantees/guaranteed retirement ages and any compensation paid).

Question 23: What safeguards from trust-based bulk transfers may be appropriate for contractual overrides, so that similar consumer protections apply?
All schemes should be reviewed for member protections before they are moved (e.g. with profits/protected retirement ages etc). The new arrangement must offer at least as good VFM as the existing arrangement. Requirements of acting prudently, independently, honestly and responsibly should be enshrined as they are in the bulk transfers without consent: money purchase benefits without guarantees – guidance for trustees

Question 24: Where the transfer is into a trust should the duties of the receiving scheme trustees be extended to ensure terms and conditions balance both the interests of incoming and current members?
Yes.

Question 25: How should the cost of the transfer be borne?

Ideally, the cost of transfer should be borne by the receiving provider (this is often the case with bulk transfers of large schemes currently) or the employer. With smaller arrangements, it is likely members will bear some or all of the costs of transfer (see question 26).

Care would need to be taken if any “compensation” is paid to members to cover the costs of transfer (e.g. to compensate for any losses due to being out of the market during the transfer period). It will be important that any compensation is not treated as a “contribution” as this could impact members who are close to annual allowance limits.

Question 26: What costs do you expect to be involved in a contractual override/bulk transfer and what factors may influence the level of costs?

There will be two sets of costs for members – costs of buying and selling units (this will depend on the underlying assets but likely between 0.5% and 1.0%) and out of market costs (which can’t be estimated ahead but could be significant in times of market stress).

It will be important that market conditions are reviewed ahead of any transfer to avoid periods of significant market volatility (e.g. Covid, Ukraine crisis). A yes/no meeting should be scheduled before all transfers take place to ensure out of market risk is minimised.
Other costs which will be incurred include legal costs, advisory costs and the cost of member communication.

Question 27: What benefits may a member lose out on because of a bulk transfer? What benefits could they gain?
As highlighted above, many members are likely to bear the costs of the transfer. These costs could mount up if they are in a scheme which is consolidated more than once due to poor VFM.

Members may lose any guarantees which are in place – e.g. with profits bonuses which potentially may not be adequately compensated for.

Benefits that members may gain are better investment performance, improved servicing and access to modern digital and tech solutions (i.e. overall a better member experience)

Question 28: What role should the FCA, and where appropriate TPR, have in contractual overrides and the bulk transfer process?
The FCA must provide clarity on what is, and what is not, allowed through legislation and give clear guidance including examples. It should also mandate that independent advice is needed for any transfers. It has a key role to ensure that members don’t lose valuable benefits/guarantees and should perform ad hoc checks on transfers that are taking/have taken place.

It’s also vital that the FCA provides consistent VFM benchmarking criteria including forward looking metrics and outlines who bears the cost of transfers e.g. members, providers etc. and how any compensation should be paid.

Cost and charges

Question 29: Do you think establishing a named executive with responsibility for retirement outcomes of staff could shift from the focus on cost and improve the quality of employer decision-making on pensions?

We agree that there should be a named individual responsible at each employer for ensuring Value for Money from the pension arrangement who has relevant experience and is unconflicted. It should also be mandated that independent advice should be taken on a regular basis for schemes over a certain number of members/assets under management.

There are benefits of having this at Board level (or similar) as many organisations may not have a dedicated pensions team. While fulfilling this responsibility would be through a department or individual, such as Human Resources, having that senior oversight would ensure it gets due focus and attention. There are many examples of where businesses are required to do today in other areas e.g. anti-slavery policy.

In addition, members interests would be best served with well-advised a Governance Committee for each company. Requirements for this should be based on size of the company to manage the cost and time commitment of this.

Question 30: What evidence is there that placing a duty on employers to consider value would result in better member outcomes? If such a duty was introduced, what form should it take? Should it apply to a certain size of employer only? How can we ensure it is easier for employers to make value for money comparisons?

We work with lots of employers who review their arrangements on a regular basis (typically every one, three or at the extreme five years) and have seen successes in improving Value for Money in a range of areas (including better member support etc) through their regular reviews. Most poor value schemes do not have effective employer governance in place in our experience, which is mainly at the smaller end of the market (100 employees or less). We believe all large schemes (1000 members +) should have Governance Committees that meet at least once a year to review the provider's value and service. All schemes over 100 members should be required to review every 3/5 years (and on any change/merger of the provider). The benefits of doing this include greater interest in pension provision as well as a focus on member outcomes.

Contributions and adequacy are excluded from this review – but have the biggest impact on member outcomes. We look forward to seeing developments on these from the government in future.

Question 31: What evidence is there that regulating the advice that some employers receive on pension selection will better enable them to consider overall value when selecting a scheme?

Regulated advisers typically have greater resources available to them than non-regulated firms to benchmark providers on multiple criteria. The depth and breadth of the research and time taken means they have a deep understanding of all the elements which make up Value for Money. In addition, many have forward-looking modelling tools which will assist in assessing long term value from a member's perspective. Regulated advisers also have a key role to play in assessing arrangements more widely and not simply on fees.

For example, as a regulated firm, our process takes into account eight aspects of a provider's offering (including admin, investment (for which we have regulated investment consultants in place), communications, commitment to market, at and through-retirement support) and allows clients to weight these aspects to what they believe is most important for their members.

Most importantly, bringing this activity into the scope of regulated advice would allow for a set of rules and principles to be constructed when firms carry out this activity, and help ensure conflicts of interest are identified and managed to better serve the interests of members.

Question 32: What evidence is there that regulating the advice that pension schemes receive on investment strategies would enable more productive asset allocation? What type of regulation would be effective?

All advice on investment strategy is already carried out by a FCA regulated person at Hymans Robertson. At our firm, benchmarking of investment strategies is also always carried out by FCA regulated individuals, and in our view, should be. It ensures quality and a deep understanding of investment strategies, and in particular the potential incorporation of private market assets into strategies.

Overall, we do not have evidence that regulating the advice that pension schemes receive on investments would enable more productive asset allocation. We also note that while there is evidence that illiquid assets have outperformance potential above listed assets by capturing the "illiquidity premium", there is no guarantee that this will always be the case, or that the illiquidity premium will persist at a stable level in the future. There are various examples from DB where this has not been the case and exiting these investments has been problematic.
In addition, it is not clear at all that there is sufficient supply of attractive UK based investment opportunities to satisfy potential demand in reasonable asset allocation size. UK based investment opportunities would need to be at least as attractive as global private market investment opportunities in order to be included within the portfolio. The current LGPS investment market is a clear place to compare in terms of demand for UK based investment in a regulated investment advisory context. LGPS have scale and capability to invest in UK productive assets and are mostly advised by regulated investment advisors but do not currently invest in UK productive finance in large size.

We therefore think that advisers should be encouraged to use their investment expertise to recommend investment in assets that will provide the best expected outcomes for members – regardless of the asset class – rather than pushed to recommend illiquid assets in every case.

Question 33: How many AE workplace default arrangements and default funds do you have?

- n/a

Question 34: What is the total AUM you have across all these AE workplace default arrangements and default funds?

- n/a

Question 35: Do you have a small number (for example 3-5) of AE workplace default arrangements/funds that cover the majority of these assets and if so, how many of these are there?

- n/a

Question 36: Have you previously combined default funds or arrangements together within the same organisation?

- n/a

If 'yes', do you have an estimate of the cost of this (overall or on a per pot basis)?
If 'no', do you have an estimate of how much you think this might cost (overall or on a per pot basis)?

Question 37: Have you previously consolidated Single Employer Trust assets into a MT or GPP?
Yes – we have advised a range of single trust clients who have moved into master trust arrangements.

If ‘yes’, did you experience any barriers in this process? If so, could you set out what these were, if and how they were overcome, and how long the process took?

Barriers have included;-

- Gated funds delaying the transfer (all other members transferred and members in gated funds – e.g. property funds - transferred later)
- The need to allow “switch back” to the DB scheme for hybrid schemes which allow DC pots to be taken as the first part of TFC
- Schemes with GMP underpins on the DC assets in the trust arrangement
- Members with guaranteed pension ages/historic tax-free cash limits
- Projected investment returns in proposed provider lower than those in the existing trust-based arrangement
- Transfer of With Profits Funds (particularly in relation to AVC arrangements). We have recently developed a With Profits modeller to help trustees weigh up any compensation that would need to be paid to those members losing guarantees.
- Project management and communication support is often needed to supplement what the provider does on this front to ensure consistent messaging on pensions from the employer
- Transfers usually take at least 6 – 9 months for the consolidation process which may not fit with other priorities
- For AVC arrangements, lack of response and information from some providers, particularly in relation to legacy contracts. This has been a major issue in terms of our advice to many clients and is something that needs to be addressed urgently by the Regulator.

Question 38: Do you currently charge different price levels to different employers for the same default fund?
If so, what is the average price charged to members compared to lowest decile charge and 90th decile charge?
- n/a

Question 39: Do you have experience of bulk transfer of pots within the same organisation?
If ‘yes’, do you have an estimate of the cost of this (overall or on a per pot basis)?
- n/a

For those who run both a Master Trust and a GPP:

Question 40: Do you use the same defaults across the two offerings?
What has been the comparative investment performance and average cost/charge between the two for young (30 years before retirement) and older savers (1 day before retirement)?
Do you see a noticeable difference in the offer between your Master Trust and GPP product?
- n/a

Employer Duties

Question 41: What is the estimated cost to an employer of reviewing a pension scheme every 3 to 5 years?
The cost of a high-level review of a pension scheme, every three to five years, would be around £6k - £8k. A more in-depth review would be around £15k - £20k. Any detailed analysis of investment strategy would be in addition to this.

Question 42: What proportion of employers are estimated to use formal advisers when choosing, or switching, a pension scheme?

We do not have data to answer this - by nature, the majority of our clients do this with us