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Pensions Investment Review – Call for Evidence

Response from the PMI



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Response to the DWP Pensions Review Call for Evidence from the PMI

Introduction

The PMI is the professional body which supports and develops those who work in the pensions industry. The PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 7,500) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

The PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

We trust that the feedback in the following pages proves helpful.

SECTION ONE - Scale and consolidation:

1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?

On this question, The PMI is not clear on the Government's interpretation of what "more consolidated" means here. The impacts of consolidation are very different depending on whether the end-game vision is of, say, half a dozen commercial providers or a greater number.

In the PMI's opinion, the benefits of scale are extremely well documented. Larger schemes typically provide better governance for members and represent larger investment opportunities which can access different types of asset class than smaller schemes. This in turn is likely to lead to a benefit that a more sophisticated suite of investment optionality is likely to present better or broader options to larger schemes. However, there are some systemic market risks for British savers and for the UK economy as a whole to consider. Our belief is that stifling innovation through herding (setting a non-ambitious average level) creates the biggest risk. If you set minimum standards, even if the initial threshold for those standards is reasonably high, what incentive for profit making entities will there ever be to raise that bar still higher and do better for the consumers over and above shareholders?

Similarly, we also believe there is a systemic risk by having fewer consolidated players i.e. failure risk becomes concentrated (too big to fail) as with the high street banks in the '08/'09 financial crisis, this may present a potentially big issue for Government through a similar crisis impacting the insurance sector. Given there are fewer than seven major insurers holding roughly 70% of the entire market assets for the accumulation phase of workplace pension savings in the DC system (source: [Broadridge](#) DC navigator data 2023 c.£700bn of assets in 2024) and that over half of those insurers use one common (FNZ) administration platform, there are further concentration risks to ensure we avoid, specifically an over-reliance on one profit-making organisation to deliver for the entire industry.

Linked market pricing and anti-competitive behaviours would also be a potential risk for Government to consider in encouraging or even incentivising further consolidation for the sake of scale.

On a similar theme, it is critical that Government considers whether too much consolidation would result in an oligopoly and prevent new entrants from entering the system. High hurdles of quality to entry are fine, but not at the cost of no innovation whatsoever and an impenetrable circle for fintech disruptors finding it impossible to gain traction.

In essence, the PMI believes a competitive market needs the right fundamental environment surrounding it to allow healthy competition to thrive.

Lastly, Government must consider that society can't simply debate consolidation without correlated customer outcome improvements, which are directly linked to the member journey (cradle to grave) a saver experiences in their lifetime of being a saver – whether inside or outside of the auto-enrolment regime. Without this focus, the Government further risks heavier reliance on the State pension system which is a GDP cost the economy would struggle to support.

As a point of reference in specific relation to this question, Government is likely to know that we currently have 34 authorised Master Trusts today¹ (both commercial and non-commercial) versus more than 80 when master trust authorisation was introduced in October 2018: i.e. the market has already shrunk by around two-thirds since the authorisation regime came into existence.

2. What should the role of Single Employer Trusts be in a more consolidated future DC market?

It is the belief of the PMI that large, well-run schemes, which are used to dealing with the governance challenges of our pension system and which represent good value for money for savers, should be allowed to continue. This is very different to many smaller sub-scale schemes with smaller sponsors, who are potentially stuck with a pensions servicing governance model they cannot support and who arguably may not wish to run pension schemes in their own right (although it should also be acknowledged that there are some very well-run smaller schemes). The latter behaviour has already been driving a mass migration towards Master Trusts to outsource the governance in its entirety to professionals.

Larger single employer trusts can be drivers of innovation equally as well as commercial Master Trusts. The focus of these single employer trusts is arguably more likely to be inherently on good member outcomes and value for money since they rarely face the same explicit commercial pressures as many Master Trusts.

It is also our belief the VFM framework will take care of any substandard governance concerns.

Lastly, we are aware that many single employer trusts are keen to invest in productive finance, but are stifled by the lack of opportunities to do so. Government should consider ways to encourage the ongoing growth and innovation of Investment Only (IO) platform adoption, which could in turn allow better access to private markets and better support of the productive finance agenda. This is harder to do within a wholly unit-linked

¹ [List of authorised master trusts | The Pensions Regulator](#)

operating environment of insurance companies, but is an important benefit of single trust based schemes.

3. (a) What should the relative role of Master Trusts and GPPs be in the future pensions landscape?
- 4.

The PMI believes that broadly speaking sponsoring employers are more likely to pick a Master Trust which arguably offers a more comprehensive and holistic governance model compared to that of a GPP.

The legal and fiduciary responsibility of the Master Trust Trustees is very different to the far narrower focus of regulatory reporting of the IGC bodies (to FCA) who oversee GPPs. That said, GPPs are further ahead in other ways – notably in the post-retirement space, where many contracts are already established as SIPPs and, therefore, the delivery of FCA investment pathways and post-retirement defaults are a far easier and natural path than to retrofit a post-retirement investment suite for Trustees to manage and govern.

- (b) How do the roles and responsibilities of trustees and IGCs compare?

GPPs are regulated products by the FCA and may or may not require advice for certain activities. Master Trusts are regulated by TPR for governance, but are differently regulated for advisors and advice. This creates a disparity and a mismatch between the types of activity members can undertake on their own – with or without advice depending on the type of pension scheme structure. This directly correlates to the roles and responsibilities the IGCs and Trustees have to serve as it impacts many areas, but importantly the tone and style (or even content) of member communications.

This in turn does nothing to increase pension engagement for savers as it creates a barrier for customers to proactively engage without a potentially significant advice cost – either to the member, employer or both in the world of GPPs.

It is the belief of the PMI that IGCs have a relatively narrower focus purely on VFM, often focused on older contracts which are not in regular use today – versus the legal and fiduciary responsibilities of asset ownership as a trustee. This is a significant difference. The PMI would note overlap in appointees to IGCs who are concurrently serving trustees of Master Trusts, often with the same provider. We would question whether or not this is a conflict and whether or not individuals fulfilling both roles are able to separate the differing roles and responsibilities for the different regulators appropriately. This conflict situation could also arise where a trustee sits on two or more Master Trusts/IGCs.

(c) Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?

It is the belief of the PMI that Master Trusts are more likely to adopt innovative, diversified investment strategies. However, the unit linkage to underlying administrative platforms is the biggest hurdle for both types of schemes to genuinely innovate in the investment space. Rules around daily pricing, daily liquidity and daily dealing are inhibiting private markets investments and the sheer cost of passive instruments mean that innovation is stifled by a race to the bottom on fees.

5. What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?

The PMI believe there are four major barriers for Government to reflect upon:

- i. Legacy schemes containing with-profits investments or older style contracts such as Section 32 policies pose barriers due to their unique rules and protections. Whilst the use and ownership of these policies is declining, there is still a very material amount of savers and assets wrapped within these types of vehicles which sweeping change must not ignore.
- ii. Protected Tax-Free Cash and Retirement Ages contain complexities, which would need legislative adjustments to facilitate consolidation.
- iii. Capital Market uncertainty and volatility. Political and regulatory uncertainty makes it difficult for stakeholders to make long-term decisions, stalling consolidation. This is particularly true during volatile periods of investment cycles, amplified by geo-political risk and rising regional tensions around the world and a recent credit crisis changing the behavioural characteristics of an asset class.
- iv. Difficulties surrounding transfers without consent from contract-based arrangements. This can stop providers moving savers into better-value and more modern pension arrangements. We note that the FCA has raised this as an issue in their current VFM Framework consultation².

5. (a) To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

The PMI is not best placed to comment on the specifics of asset allocation results in LGPS pools. However, we would caution Government against a sweeping consolidation of

² [CP24/16: The Value for Money Framework | FCA](#)

LGPS assets to form a quasi-sovereign wealth fund. This could create a two-tiered public sector and disparity from the pay as you go systems used elsewhere in government and requires detailed thought on downstream implications.

b) Are the hurdles high enough and equivalent enough that both can lead to consistently high member outcomes?

The PMI is not best placed to comment on the specific mechanics of LGPS pooling.

c) Should workplace pensions as a whole have a unified and consistent framework by which to govern AE irrespective of regime.

Yes. The PMI believe this would be incredibly helpful – aligned with joint regulatory support and approval, joint detailed guidance on execution from both regulators and an aligned strategy of what good looks like for member outcomes alongside VFM.

SECTION TWO - Cost vs value

1. What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?

It is the belief of the PMI that employers often focus on fees more than anything else when selecting a provider and this has led to a race to the bottom on fees and the resulting extensive use of passive instruments, leading to a stifling of innovation. There has been a reluctance by employers to consider other factors such as performance net of fees, quality of service and member outcomes in the decumulation phase. This is partly due to the tangible nature of fees whereas other areas cannot be easily quantified.

The PMI hopes that the forthcoming VFM Framework will eventually lead to a change in emphasis across both the contract and trust-based markets.

2. Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

The PMI would caution Government on mandation. Mandating specific investment strategies, particularly for UK assets, could harm fiduciary responsibility and member outcomes.

A more balanced approach might involve offering tax incentives to encourage investment in UK productive finance, rather than direct intervention and vice versa, to raise taxation on foreign investment (although due regard needs to be given to double taxation arrangement). Dividend income is an obvious potential source for exploration.

Lastly on encouragement, Government could raise the charge cap to give more scope for higher return investments, but owing to the race to the bottom on fees - it's already largely irrelevant that the charge cap even exists. Most modern, active schemes operate at levels charging less than half the current charge cap of 0.75bps.

SECTION THREE - Investing in the UK

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?

London's world-leading investment trust market delivers an additional pathway for asset owners to diversify sources of returns with productive finance opportunities in private markets, including infrastructure, renewables and high-growth sectors such as tech and life sciences.

NB The PMI notes material differences in the unit linkage required of the pensions industry and the obvious differences between the unit trust market(s) outside pensions.

Listed investment trusts have been an established source of long-term capital to vital areas of the UK economy due to the fixed-capital structure that allows investors to exit their investments without affecting the capital pool - by selling shares in the open market. Listed investment companies deliver a set of benefits to for large pools of institutional capital, including:

Private Market Exposure - liquid access to private markets and alternative assets, constituting over 1/2 of c.350 different investment strategies

Active Asset Management - access to actively managed portfolios, asset-specific investment sourcing and management expertise

Risk Diversification - Investment trusts must manage assets in a way that is consistent with spreading investment risk

Governance - oversight by independent boards holding the portfolio managers to account in representing shareholder interests

Transparency - regular disclosure aligned with the requirements of the public markets

Intraday Liquidity - Investment trust shares are traded, giving investors the ability to exit without affecting the capital pool

Most recently, the Government and the FCA have announced the much-welcomed plans to reform the legacy disclosure rules that have affected capital raising and performance of this asset class. This paves the way for this market to reassert itself as a contributor to UK economic growth and an instrument of broadening investor access to private markets and active asset management. Pension funds are under-represented in the current investor base and are well placed to consider investment trusts as a route to investing in private markets and alternative assets and delivering a broader range of returns to their customers.

More holistically for the pensions industry, as per our earlier comments, the PMI believes a market focus on a performance net of fees measure is absent from the market. Our system should support and demonstrate a member outcome focus across the entire

market rather than one which only considers cost management and regulatory/legislative servicing. In our experience, at the moment it is more likely that single employer trusts and non-commercial master trusts focus more on member outcomes than other providers do.

Pension providers make investment decisions on a global and diversified basis. A consolidated DC market will not in itself lead to greater investment in UK asset classes in percentage terms of total pension assets (but will do so in monetary terms). Investment growth opportunities specifically in the UK have to be considered against other options as part of the fiduciary duty. Listed UK equities have been stagnant i.e. yielding a recent average of c.6% growth as opposed to the US market yielding nearer 20% growth. As such, when you are prudently investing a member's assets in a diversified multi-asset, global equity portfolio, there is no justification (currently) for a UK focused growth strategy for listed equities. Conversely, the growth opportunities coming from the UK are likely to be in private markets and alternatives – specifically infrastructure and green energy in particular, private equity and venture capital and private debt. If there is any equity growth story for the UK, it is far more likely to come via small cap growth from the PE and FinTech sector.

It is also important to be clear as to what the intention for any policy here is. Is it to increase investment in UK-listed equity or to help the UK economy to grow? These are not the same since much of the income from UK-listed equities derives from outside the UK and so increased investment in this class would not necessarily have a direct effect on the growth of the UK economy (outside the City of London).

2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

As we outlined above, pension fund decisions are based on global views, taking into account diversification and long-term expectations. We believe there is a general high standard of investment advice and execution also present in the system.

However, current geo-political risks mean that capital markets are currently volatile and that the majority of accumulation pension funds and default strategies will be multi-asset in nature and global in coverage. Regional instability therefore presents market risks which impact market predictability e.g. the recent CDI/LDI crisis and the resultant impact on bond markets. Treasury instruments more generally versus inflation levels and the need for inflationary protection over the longer term for savers etc. Not considering these factors means a systemic market risk which damages consumer confidence.

When you also overlay ESG points and obligations on Trustees e.g. TCFD/TNFD etc. these factors now also have to be considered when constructing a portfolio. Capital

flows to where the attractive market opportunities exist to grow will always exist, but predictability on asset price performance can only be given retrospectively.

The PMI believes that fiduciary responsibility for asset owners and governors has to maintain focus on good member outcomes and performance net of fees.

3. a) Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth?

b) In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

While mandatory UK investment is risky as outlined above, offering tax breaks or other incentives for UK investments could drive more local investments without harming fiduciary responsibilities.

It is the firm belief of the PMI that the emphasis should remain on net returns for members, with a shift toward UK assets occurring naturally if they provide competitive returns compared to other global options.

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