Pensions Policy Institute
PPI

PPI Digest

Pensions Investment Review

What just happened? The Government has released the final Pensions Investment Review report. The report sets out reforms to the Defined Contribution (DC) workplace pensions market and the Local Government Pension Scheme (LGPS) in England and Wales.

What does it cover?

Consolidation into 'mega funds'

- Funds will be required to manage at least £25bn in assets by 2030. Extra time will be available in some cases and Collective Defined Contribution (CDC) schemes are exempt.

Mansion House 'reserve' mandate

- No immediate mandate will apply but a fixed-term legislative ability to mandate will be included in legislation.

Bulk transfers

- Funds will not require individual member consent to transfer their savings into the new 'mega funds'.

LGPS asset pooling

- Pooling must be completed by March 2026
- Legislation will allow Government to direct an Administering Authority to participate in a specific investment pool

What happens next? Legislation to implement the reforms will form part of the Pension Schemes Bill that is expected to be introduced before the summer recess.

Published by The Pensions Policy Institute (May 2025)
press@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk

Pensions Policy Institute

PPI

PPI Digest

What is the Pensions Investment Review?

Mega Funds

Under the new legislation, all multi-employer Defined Contribution (DC) pension schemes, and LGPS pools will be required to manage at least £25bn in assets by 2030.

An extension of time will be available for some schemes who will be unable to reach the minimum size requirement by 2030. Provided they are worth over £10bn by 2030, and can demonstrate a clear plan for growth, they have until 2035 to reach the £25bn target. CDC schemes are exempt from these changes.

PPI Analysis

The DC market has already experienced considerable consolidation but is not currently at 'mega fund' level. Between 2012 and 2022, the number of non-micro trusts fell by two-thirds from 3,660 to 1,220 and the average size of trust-based schemes rose from £6m to £117m over the same period. The average size of a master trust stood at £2.9bn at the end of 2022 and £8.8bn at the end of 2023, with the five largest reporting assets of £113bn.

The changes may result in fewer than 30 default funds across providers in the future along with a reduction in the number of customised default strategies typically offered in GPP arrangements. Market consolidation will reduce choice for employers.

The decision to exempt CDC schemes supports new entrants into this new market that already has high barriers to entry.

The creation of mega funds will be helped by the new ability to bulk transfer members into new funds without specific consent from individual members, where it can be demonstrated that this is in the members' best interests

Fairness - Reduced choice for employers but decreased variation between members as a result of the performance of their pension scheme.

Sustainability - Most multi-employer pension schemes are now unsustainable but this impacts only a minority of members due to previous market consolidation as the seven largest providers already manage 80% of DC assets.

press@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk

Pensions Policy Institute
PPI

PPI Digest

What is the Pensions Investment Review?

The government has indicated it expects the mega funds to boost investment and improve returns for savers with the average earner receiving a £6,000 "boost" to their pension pots.

PPI Analysis

Larger funds can benefit from economies of scale and have access to larger investment opportunities than smaller funds. In contrast, smaller funds can be more nimble, and change their investment strategies more easily. Overall, returns for savers will depend on fund performance and fees, but outcomes for savers in terms of meeting target income levels are most influenced ultimately by the level of contributions.

Adequacy - A positive but limited impact for members currently in smaller schemes.

press@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk
Published by The Pensions Policy Institute (May 2025)

Pensions Policy Institute

PPI

PPI Digest

What is the Pensions Investment Review?

Mansion House Mandate

The Mansion House accord will see greater investment by pension schemes in private equity under a voluntary agreement. The signatories committed to investing 10% of their assets in private equity with 5% being UK assets.

The new legislation will include provision for the government to mandate schemes to make these investments if they have not already done so voluntarily. It will also include provisions and safeguards to protect savers' interests.

The report states that any requirements under the reserve power will be consistent with the principles of fiduciary duty.

PPI Analysis

A pipeline of suitable investment opportunities will be necessary to ensure the success of this agreement. If this does not occur, pricing and return quality would be impacted, and consequently overall member outcomes.

A mandate may be considered a direct challenge to trustees' fiduciary duty but the government states they can both apply.

Sustainability - A lack of investments or concerns about fiduciary duty could impact the pension system as a whole.

press@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk

What is the Pensions Investment Review?

LGPS Asset Pooling

The requirement and deadline for LGPS pooling comes along with new government powers to direct an Administering Authority to participate in a specific investment pool where it considers it necessary to protect the interests of LGPS members and local taxpayers.

PPI Analysis

This change will increase the investment opportunities for LGPS, but could increase member costs during the implementation period, especially if assets need to be sold before maturity. Some pooling has already been occurring and local investment is expected to increase.

Adequacy - There is the potential for some short-term negative impact (from reduced returns and increased costs) but also some long-term positive impact (from higher returns) unless there is an insufficient supply of future investment opportunities.

Fairness - Decreased variation between members as a result of the performance of their pension scheme.

Sustainability - A lack of future investments would impact both member outcomes and the pension system.

press@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk

Pensions Policy Institute

The Extra Facts

Background

The Pensions Investment Review started in August 2024 with a stated aim of boosting investment, increasing saver returns, and tackling waste in the pensions system. An interim report was released on 14 November 2024.

The final report contains the government's final policy positions and reflects some of the feedback provided during the consultation period.

Mansion House

The original Mansion House Compact was announced in 2023. A voluntary, non-binding agreement was reached by nine providers to invest five per cent of assets in their default funds to unlisted equities by 2030. The signatories were Aviva, Scottish Widows, Legal & General, Aegon, Phoenix, Nest, Smart Pension, M&G and Mercer.

There are 17 signatories to the updated Mansion House Accord and include some, but not all, of the original group along with some new members. The signatories are Aegon UK, Aon, Aviva, Legal & General, LifeSight, M&G, Mercer, NatWest Cushon, Nest, now:pensions, Phoenix Group, Royal London, Smart Pension, the People's Pension, SEI, TPT Retirement Solutions, and the Universities Superannuation Scheme (USS).

Published by the Pensions Policy Institute (May 2025)

Pensions Policy Institute

PPI

The Extra Facts

References

Pension Scheme Investments – Published November 2024

Pensions Investment Review, Final Report – Published May 2025

PPI: Pensions Investment Review: Call for Evidence – Published September 2024

PPI: PPI Digest – The Chancellor's Mansion House Speech – Published November 2024

Pensions Investment Review: Final Report and consultation responses – Published May 2025

Published by the Pensions Policy Institute (May 2025)

Pensions Policy Institute
PPI

For further information or comment please contact…

Dr. Suzy Morrissey
Deputy Director
press@pensionspolicyinstitute.org.uk

About the Pensions Policy Institute: We have been at the forefront of shaping evidence-based policy for nearly 25 years.

The Pensions Policy Institute (PPI), established in 2001, is a not-for-profit educational research organisation. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

Our independence sets us apart – we do not lobby for any particular policy, cause or political party.

We focus on the facts and evidence.

www.pensionspolicyinstitute.org.uk

Published by the Pensions Policy Institute (May 2025)