PRESS RELEASE

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PENSIONS POLICY INSTITUTE
PPI

Megafunds do not guarantee bigger returns, PPI report finds

The Pensions Policy Institute (PPI), the UK's leading independent authority on pensions and retirement policy, has published a new report today highlighting that a move to consolidate UK pension schemes into megafunds will not automatically lead to higher investment returns.

The report, **"Assessing megafund pension reforms: Insights from international experience"**, sponsored by SEI Master Trust and now:pensions (part of Mercer), includes a fresh analysis of international evidence that finds economies of scale typically stem from cost savings rather than higher investment returns. The PPI study identified important differences in factors such as market conditions, corporate structures, and population demographics, revealing that it is not clear-cut UK megafund reforms would necessarily deliver better returns.

Passed in late April, the government's Pension Schemes Act requires multi-employer Defined Contribution (DC) schemes to consolidate into megafunds with at least £25bn of assets in their main default arrangement by 2030, with limited exceptions.(1)

The report provides a new independent evidence base to better understand the implications of the policy changes in terms of member outcomes, and to inform the details in final regulations, for stakeholders across the sector.

Key findings of the research include:

- **There is no guaranteed correlation between pension scheme size and level of investment return:** The growth strategies adopted by DC Australian Supers have led to lower returns during the five years to 2024 than those of their UK counterparts.(2) Where scale is beneficial, savings typically stem from cost reductions, and while administration and investment fees are falling in Australia, they remain on average higher than the UK charges cap. While the megafund reforms aim to increase investment in domestic private markets, other countries' experience suggests that the reforms alone may not be sufficient to achieve this.
- **While some UK DC providers already access the benefits of scale, others may not have harnessed the benefits already available to them:** UK pension providers may already access the benefits of scale because they are part of a larger organisation, or via investment opportunities through the use of asset managers with large pools of assets. Further issues to examine in this policy area include where providers fail to harness existing benefits of scale, typically due to not instituting structures enabling effective defaults and common investment strategies. Understanding how new regulations could build on efficiencies already achieved will also be important.
- **Even before the megafund reforms, there has been consolidation in the UK DC market**: Before the Royal Assent of the Pension Schemes Act, the megafund reforms prompted industry responses, with the number of Master Trusts decreasing from 38 to 31 between 2019 and 2025, and stakeholders expect this trend to continue.(3)

Melissa Echalier, PPI Research Associate and lead author of the report, commented:

"There is no guarantee that UK megafund reforms will achieve the better returns for savers targeted by government. The PPI's new international analysis of similar measures, alongside data from stakeholder interviews, paints a more complex picture for return levels and other implications of the reforms. While learning from other countries can be insightful, differences between pension systems make it challenging to draw clear conclusions. In the UK's fragmented system, the introduction of megafunds will likely play out differently to countries such as Australia and Canada.

"As the sector now prepares for the implementation of these pivotal reforms, this report delivers important new independent insights to the evidence base to support informed policy decision-making."

Steve Charlton, DC and Solutions Managing Director at SEI, said:

"This research makes a timely contribution to the debate on consolidation and scale in pensions. Too often, size is treated as a proxy for quality, when the evidence shows the relationship between scale, performance and outcomes is more complex than that. Scale can provide useful capabilities, but it is not an outcome in its own right. What ultimately matters is whether pension schemes deliver good value and more savings for members to spend in their retirement, and this research helps bring that focus back to the fore."

Lizzy Holliday, Director of PA and Policy at Mercer's now:pensions (part of Mercer), said:

"As the report shows there are lessons that can be learnt from international comparisons, but each country has differing systems, demographics and markets. The report highlights that scale, private market investment capabilities and cost efficiencies can be achieved in a number of ways. There are also a broader set of factors that influence domestic and private market investment that must be considered. It will be important to take these into account at the next stage of policy and regulatory development to support delivery of good member outcomes."

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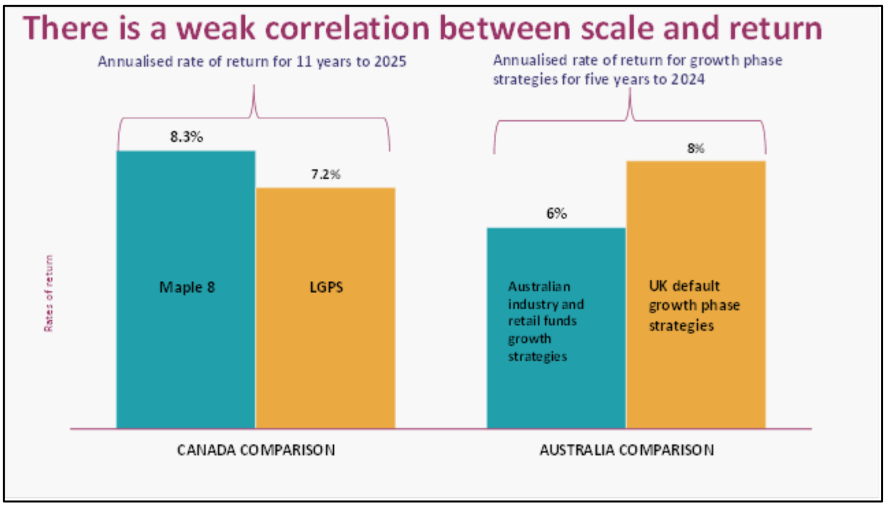
Note to editors

1. GOV.UK, Retirement boost of £29,000 awaits millions as landmark Pension Schemes Act becomes law, 29/04/26

2. It is important to take the following into account when considering the comparison of UK and Australian pension scheme returns shown in Figure 4 (p.10):
    - The time periods for which figures are available are not identical. The UK figure is the five year investment performance to 31 December 2024 while the Australian figure is the five year investment performance to 30 June 2024.
    - The UK figure shows returns before charges are deducted while the Australian figure is net of investment fees and tax but before administration fees.
    - Other differences in definitions, such as whether a fund should be defined as a growth fund, may also affect the extent to which it is possible to make comparisons.

   Despite the above, international evidence suggests a weak correlation between scale and returns.

   Figure 4



Sources: Pensions UK (2025) The Maple 8 and the LGPS in focus, KPMG (2025b) Super Insights 2025 Dashboard and Corporate Adviser Intelligence (2025) Master Trust and GPP Defaults Report

3. Professional Pensions, Master trust authorisation six years on: What has changed and what's to come?, 06/11/25

About The Pensions Policy Institute (PPI)

The Pensions Policy Institute (PPI) is the UK's leading independent authority on pensions and retirement policy. We conduct rigorous, impartial research to inform major policy decisions affecting millions of people's retirement security. Our evidence-based analysis is used by government and across Westminster – as well as industry and consumer groups - with extensive media coverage bolstering understanding of complex pension issues. Our work ensures that policymakers have the unbiased analysis needed to deliver better outcomes for those they serve.

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