

Response to the Call for Evidence on the Pension Schemes Bill 2025

Evidence provided by: **Association of Professional Pension Trustees**

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Executive Summary

1. Our evidence focusses on the key areas where professional trustees and trustees generally have a particular interest and involvement and covers in the following order:
 - **Powers to pay DB surplus to employers** (Part 1 - Chapter 2 of Bill)
 - **Loal Government Pension Scheme** (Part 1 - Chapter 1 of Bill)
 - **Defined Contribution Pension Schemes** (Part 2 of Bill)
 - **Superfunds** (Parts 3-6 of the Bill)
2. The **Association of Professional Pension Trustees (APPT)** acts as the representative body for trustees of occupational pension schemes who fall within the Pension Regulator's description of professional trustee as set out in its August 2017 policy document.
3. The APPT acts as the collective voice of the profession. Our 445 members sit on many trustee boards for defined benefit (DB) and defined contribution (DC) schemes including DC master trusts. Our members each typically work on multiple appointments and, across DB and DC are in total responsible for managing schemes with assets of well over £1.2tn.

1. Part 1 of Bill – Chapter 2 - The content of the Bill on DB Surplus release

4. The content of the Bill is relatively limited awaiting subsequent regulation. We concur with the need for a wide statutory override to enable surplus release (and sharing) as this will help navigate the variety of provisions within existing trust deeds and rules and allows all schemes to review viability of surplus release and sharing on a common footing.
5. We welcome the Government's recognition of the evolving funding landscape for defined benefit (DB) pension schemes and the opportunity to contribute to the development of surplus release policy. **As professional trustees, our primary duty is to safeguard the interests of scheme members while ensuring the long-term sustainability of pension arrangements.**
6. We support the principle of enabling surplus release where schemes are demonstrably well-funded, provided that robust safeguards are in place. This response

is in addition to our comments made in [our letter to DWP on dated 18 April 2024](#) (Options for Defined Benefit Schemes consultation).

DB Surplus release: Considerations for further regulation and guidance

7. We support the Government's intention to introduce greater flexibility in the use of DB scheme surpluses, recognising the significant improvement in scheme funding levels across the UK. However, any framework must:

- prioritise member security,
- maintain trustee independence and
- avoid unintended incentives that could compromise prudent funding or investment strategies.

a. Key considerations for surplus release

8. **Funding Thresholds and Triggers:** We recommend that surplus release should only be permitted where schemes meet a high bar of funding security, such as full buyout funding. A low-dependency approach could also be acceptable, subject to clear guidance on what this means and consistent connection to the new DB Funding Code and prudent buffers. Covenant will also be key. No trustees want to be in a position where they could have secured their members' benefits in full but decided to share surplus only for funding, investment or covenant to deteriorate, leaving both members and trustees vulnerable.

9. **Trustee consent:** Trustees must retain the final decision-making authority on surplus extraction. Any legislative framework should require trustee agreement for surplus release and allow trustees to refuse surplus extraction where they believe it is not in members' best interests.

10. **Use of surplus:** Surplus can be used in various ways, depending on each scheme's context. Our key message is that this is not a trivial matter to navigate and the guidance from the Pensions Regulator needs to make clear that Trustees must do their due diligence and go through a proper process. Sponsors should understand that the need to engage with trustees in good time about the possibility of returning surplus.

b. Safeguards and governance

11. We propose the following safeguards:

- statutory funding adequacy test before surplus release,
- independent actuarial certification,
- disclosure to members of surplus use and rationale and
- regulatory oversight by The Pensions Regulator (TPR) for large or complex cases.

c. Tax and incentive alignment

12. Elements of the current tax treatment are significant disincentives to responsible surplus management. We urge the Government to review the tax regime to align with

policy objectives and consider conditional tax relief where surplus is used to enhance member benefits. Specifically, member lump sums for surplus distribution and fund transfers to master trusts for employee savings should be included. We recommend the Government engage with HMRC early in the regulatory process.

13. If the government objective remains for DB surplus release to be extensively used to invest in UK PLC then that should also be reflected in tax treatment.

Conclusion on DB Surplus release

14. We commend the Government's efforts to modernise DB scheme regulation and unlock value in a prudent, member-focused way. Professional trustees are ready to play a central role in implementing a fair and transparent surplus framework that balances security, flexibility, and economic contribution.

15. We would welcome the opportunity to engage further as the legislation progresses and to support our written with oral evidence to the Committee.

Part 1 – Chapter 1 - Local Government Pensions Scheme

16. In providing this response, the APPT is applying its knowledge and experience gained in the private sector to the issues raised in the Pensions Schemes Bill, Chapter One: Local Government Schemes. We have provided responses for those clauses in the Bill where our input is relevant.

Clause 1: Pooling of assets

17. Pooling assets may enable local government schemes to access a broader range of asset classes and potentially reduce asset management fees. A combination of greater diversification of investments and lower fees should improve long-term returns.

18. Notwithstanding the comments above, we also have wide experience of smaller funds outperforming larger funds over the longer term. This is usually a function of nimbleness of decision making and swiftness of implementation.

Clause 2: Asset Management

19. This clause covers setting and implementing investment strategy. Professional pension trustees have significant experience in setting investment strategies for pension schemes. The strategies we set are tailored to the bespoke circumstances of our schemes and the trustees and investment advisers have important and well-defined roles in setting the strategy.

20. We believe our approach works well and that a similar approach can and should be used for local government schemes.

Clause 4: Governance Reviews

21. Private sector pension schemes have completed Board effectiveness reviews for several years and more recently these have become mandated through the recently implemented Effective System of Governance. We believe these reviews help support the Board's decision-making processes and help improve the diversity of thought on the Board.

22. The APPT is pleased to see similar arrangements proposed for the Local Government Schemes.

Clause 5: Mergers

23. Professional pension trustees are experienced in merging pools of assets. Such circumstances generally occur when pension schemes are consolidated or when one scheme is integrated into another. This process is not straightforward and if performed poorly, then it can lead to inefficiencies, excess costs and loss of investment returns.

Conclusion

24. Local Government Schemes do not currently use professional pension trustees in the same way as the private sector does.

25. We believe Local Government Schemes should take advantage by using professional pension trustees and receive access to:

- Knowledge of best practice used across the private sector,
- An understanding of value-for-money and a stronger view of a fair price to pay for a given service,
- Strong Governance experience – particularly identifying and managing conflicts of interest,
- An independent view from a professional with primary loyalty to the members of the Schemes rather than to third parties.

Part 2 of Bill – Defined Contribution Pension Schemes

Require DC scheme trustees to report on the scheme's value for money

26. We strongly support a VfM framework that applies to both trust- and contract-based DC schemes. In our view, every pension saver deserves the same standard of protection and oversight, regardless of the scheme's governance model. A fragmented system creates uneven outcomes—and this is a chance to fix that.

27. We agree that the framework should initially focus on default and quasi-default arrangements, as these hold most member assets. However, we caution against excluding non-default arrangements entirely, as some may still affect significant

numbers of savers and warrant scrutiny. Including non-default funds for Master Trusts / GPPs over a cut-off size of membership would address this issue.

28. In determining schemes and/or arrangements to which the framework applies, we would caution against a fixed member threshold as it risks excluding smaller schemes that may be underperforming or poorly governed. Worse, it could encourage schemes to limit growth to remain outside scope. We'd prefer a more nuanced, risk-based approach that reflects both membership and asset size. The VFM framework is an opportunity to improve member outcomes in legacy products, e.g. EPPs and SSASs.

29. We fully support the drive to publish clear, comparable, and standardised data on:

- Net investment returns
- Charges (including transaction costs)
- Service quality (e.g. administration, governance, member communications)

30. This will empower trustees, employers, and members to make better decisions. That said, data alone isn't enough—it must be interpreted within context, and we must avoid drawing unfair or misleading comparisons. It is also important to ensure the data disclosure requirements are proportionate and that the number of data points required is the minimum needed to achieve the policy outcome – in other words, that the VFM requirements themselves are value for money.

31. Although the framework is intended to achieve a holistic view of value, we are concerned that schemes might still be judged primarily on cost. While charges matter, low cost doesn't automatically mean good value. In fact, chasing the lowest fees can compromise investment strategy and governance. We believe long-term outcomes, net returns, and how well the scheme serves members must sit at the heart of VfM assessments.

32. The Value for Money framework is intended to be an assessment of the product. It is worth noting that the framework does not incorporate the value that employers provide in the provision of better member outcomes, e.g. time off to receive a workshop/presentation, the use of salary sacrifice, the benefits of a tiered contribution ladder with matching employer contributions etc. All of this aids investor engagement and employers supporting this should be recognised. Consideration should be given to how these factors are reflected in the framework particularly for single trust schemes when comparing with a master trust.

33. Though the framework and disclosures are initially intended for professional analysis, to the extent that the outcomes of VFM assessments become member facing in the future, any assessment needs to be read, understood and meaningful, and how it is communicated to members will need to be carefully considered. This will aid investor engagement, which is important to obtain meaningful data from Clause 13, the member satisfaction surveys and the inclusion of these as part of the VfM data metrics. Chairs' Statements have included VfM and more detailed VfM assessments for schemes of <£100m. However, very few investors have read them. The impact has therefore been limited.

34. Care needs to be given to the VfM data metrics selected and changes to the data metrics into the future e.g. the only data metric in 2001 was charges, which investors understood but we now know to have been a mistake. The more complex the data metrics, e.g. FCA's proposals on chain linking, the more challenging the assessment will be for investors to understand. Complexity also adds to the time and cost in the production of the assessment.

35. Assessing VfM for the member's contribution only potentially creates a moral hazard in diluting the value of the employer's financial contribution. This may inadvertently result in a reduction in overall value, with employers defaulting to the AE minimum.

36. Where a scheme fails to deliver value, any transfer to an alternative arrangement must be properly governed, transparent, and focused on long-term benefits for members—not just short-term metrics or commercial gain.

37. There is a potential moral hazard in Schemes assigning benefits to members, e.g. AVCs. The assignment would mean the assets are no longer held in the Scheme and therefore would not require a VfM assessment. However, the poor VfM perpetuates for the member which does not create better member outcomes.

38. We agree with the categorisation of schemes into:

- Fully delivering
- Intermediate
- Not delivering

We believe there may be a range in the 'intermediate' category and believe this should be carefully considered as secondary legislation is developed to ensure differentiation between those that are 'almost delivering' and those that are some way off delivering value for money.

39. We welcome the enhanced role of The Pensions Regulator (TPR) in reviewing VfM assessments, overriding poor-quality ratings, and taking action where governance fails. TPR's ability to wind up clearly failing schemes is critical to enforcing the framework's intent.

40. We believe in the ambition of this framework—but delivering it successfully means getting the detail right. We believe it is important for government and regulators to:

- Provide clear guidance
- Coordinate between TPR, FCA, and DWP to avoid duplication or conflict of requirements
- Allow for a phased rollout, particularly for smaller schemes that may need time to build capacity

Consolidate individuals' small DC pension pots through multiple default consolidators.

41. The proliferation of multiple small DC pots is arguably where the greatest leakage of value for members occurs. APPT is supportive of the measures to consolidate small pots.

42. However, the threshold of £1000 set for defining a 'small pot' is very low and risks many pots that most would consider to be small being exempt. This is a concern, particularly as the threshold is explicitly set in the Bill.

43. Whilst the logic for introducing consolidators after the creation of DC megafunds is sound, the trade-off is that there will still be at least another five years for small pots to continue proliferating, which is not ideal.

44. Consolidating small pots is welcome, however there are several challenges, particularly in legacy schemes, that may negatively impact the member. For example, a 5% Bid/Offer spread may have been levied on the contributions, in which case the member has already paid it. However, some arrangements provide the offer value at the point of claim. An automated transfer would therefore trigger the 5% charge.

Set a minimum size for multi-employer DC default pension funds to create DC megafunds

45. We cautiously support the consolidation of defined contribution (DC) pension schemes, particularly through the creation of larger funds, as outlined in the Pension Schemes Bill. While we recognise the potential benefits such as improved governance and greater access to a wider range of investment opportunities, we emphasise that size alone does not guarantee better outcomes for members.

46. Any consolidation must prioritise the interests of scheme members. This means ensuring that larger schemes maintain competitive charges, uphold high service standards, and offer investment options that are appropriate for members' needs.

47. While we support consolidation, we also want to preserve flexibility in the market to allow innovation and healthy competition. We are wary of creating an oligopoly that could limit new entrants or reduce diversity in investment strategies.

48. Finally, we call for clear and strong regulatory oversight of any consolidation process. Transparency and member-focused safeguards are essential to manage any systemic risks that may arise from large-scale consolidation.

49. In summary, we back consolidation where it demonstrably benefits members, but it must be carefully managed, evidence-led, and designed to maintain a diverse, competitive pensions market.

Allow contract-based pension providers to override a member's contract to change a member's contract or transfer them to a new arrangement. This would include measures to protect savers

50. Protections for savers in contract-based transfers should be broadly equivalent to those in trust-based bulk transfers, including requirements for independent advice. We support the requirement for an independent person to review decisions about contractual override.

51. Independent Governance Committees (IGCs) need clear parameters to avoid the impracticality of assessing individual contracts.

52. A safe harbour should be established for IGC decisions made within these parameters, with court recourse only if decisions fall outside them and cause member harm.

53. A Group Personal Pension is a group of individual personal pensions associated to an employer. When an employee leaves employment, the GPP provider will typically disassociate the ex-employee's savings from the GPP and it becomes a stand-alone personal pension. The override would therefore need to incorporate individual personal pensions, not just GPPs, to protect all savers.

54. Any assessment of a platform of GPPs or individual personal pensions, with a view to transfer them to a new arrangement, would be more effective if it incorporated a full market review, to ensure that appropriate market competition is delivered and Conflicts of Interest managed. The successful management of the conflicts of any IGC member employed by the provider is questionable owing to the commerciality of GPPs for the provider. This therefore needs appropriate safeguards.

Place a duty on DC scheme trustees to offer default retirement products to members known as guided retirement.

55. APPT is broadly supportive of this new duty. Outside of DC master trusts it is likely that the duty will be met by partnering with an external provider. It will be important to clearly articulate the boundary of the trustee duty in scenarios where a scheme partners with a pension provider rather than providing access directly.

56. It is also currently unclear how this new duty will interact with the FCA's targeted support proposals given that the default retirement duty appears to go further than the targeted support proposals, which are voluntary.

57. Ensuring suitable default options are available for unengaged members, either from within the DC scheme or through third party partnerships, mandating clearer communication, including support such as pre (and potentially post)-retirement workshops, online resources etc, to help members understand their options are all welcome initiatives. These should aid member engagement and provider for better member outcomes.

58. Support for engaged members is also critical. Gen X members, which will be mostly DC, are within 5 -15 years of wanting / needing to take retirement benefits. By this point, the infrastructure and frameworks need to be in place to help members to understand their pension choices. Focussing on the transitional period and decumulation is long overdue and builds on all the good work on accumulation in recent years. However, to help members to understand their pension choices needs education, understanding and engagement, which importantly needs to be based on a platform of trust. Without trust, there is no engagement.

59. Pension scams have been a challenge for the Government, regulators and the industry. The good news is that the protections in place now appear to be effective. However, the area that scammers are expected to turn to is where the money is no longer protected by a pension wrapper. Therefore, providing support for investors in the transition and full decumulation stages is critical as assets are withdrawn from pensions.

60. The transition stage is the period in which investors will accumulate and decumulate simultaneously. Research by Aegon in 2019 found that 49% of workers over the age of 50 reported they would like a 'pre-retirement' period with a lightened workload instead of taking a more traditional approach:

<https://www.peoplemanagement.co.uk/news/articles/half-older-workers-want-avoid-cliff-edge-retirement> . The demand for socioeconomic flexibility is only expected to increase and the UKs financial infrastructure needs to support this.

61. An architecture would require obtaining and processing more personal data on members than before, to evaluate member decisions and the development of the architecture. This impacts the development and maintenance costs as well as the Trustee skills and capability. Trustees haven't needed to consider decumulation to anywhere near this extent previously and decumulation will require developing knowledge and understanding. Critically, decumulation is inextricably linked with personal financial planning. In partial or full retirement, investors combine pension income with other assets, income (including state pension) and debt. The FCA's review of the advice perimeter therefore needs to incorporate this, so that Trustees can obtain and process member data for the development and communication of the offer of their default retirement products to members.

62. Given the importance, it would be helpful if TPR develops its decumulation guidance in the General Code for Trustees to develop their ESoG framework.

63. With litigation risks for schemes and trustees not just from member but also from beneficiaries of deceased members, where members subsequently deem default options to have been disadvantageous, mean that legislation and TPR/FCA guidance should make clear what assumptions and warnings are reasonable for trustees and Master Trust providers to mitigate this risk.

64. VfM in decumulation will be important and needs careful consideration. With the current options available: UFPLS, drawdown, annuity, temporary annuity, impaired life annuity, flexible annuity and any combination thereof, each potentially would require VfM measurements.

Part 3 of Bill – Superfunds

65. The area needing consideration is the on-boarding requirement in clause 58. The assessment that needs to be made is whether a buy-out cannot be achieved at the time of the application to enter a superfund. This needs to be on a defined basis and, for example, be clear on the extent to which data has been cleansed before making an application.

66. The Bill places a lot of responsibility on TPR for oversight of the Superfunds regime. This could end up being a very technical area of supervision (it will not be similar to making annual Scheme Returns) and require TPR to have a forensic understanding of the financial nuances of a Superfund. Our concern is that TPR may not be suitably resourced to successfully deliver this over the long term. DWP needs to understand the importance of suitably resourcing this part of TPR's activities.

Evidence provided by:

Association of Professional Pension Trustees (APPT)
Second Floor, 40 Gracechurch Street, London EC3V 0BT
020 3102 6763
secretariat@appt.org.uk
www.appt.org.uk