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Assessing megafund pension reforms: Insights from international experience

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Executive Summary

The Pension Schemes Act 2026 introduces what is widely known as megafund reforms, requiring multi-employer Defined Contribution (DC) pension schemes to have £25 billion of assets in their default arrangement by 2030, with the aim of driving better returns for pension savers. The Government worries about fragmentation in the UK pension system, believing that this contributes to low levels of pension scheme investment in private markets and, in particular, the domestic economy; the UK lags behind other countries with mature pension systems in both of these areas.

The megafund reforms sit alongside other measures, such as the Value for Money framework and Guided Retirement requirements, which aim to drive better member outcomes.

This report uses international evidence along with data from interviews with stakeholders from the UK and Australian pension systems to explore the following:

- Evidence on strengths and limitations of the megafund approach;
- Whether and how relevant international experience could inform the UK approach to the introduction of megafund reforms;
- The risks, potential benefits, and challenges of the UK megafund reforms.

Scale in pensions can offer important benefits

International evidence shows that scale can offer important benefits, potentially including improvements to governance and administration, and access to a wider range of assets. Where pension schemes have made economies of scale, these typically stem from cost savings rather than higher investment returns. These savings include scale economies around governance and regulation as well as lower per member administration and investment costs.

There is no consensus on the level of assets under management at which these benefits can be realised.

Estimates vary around the size of assets under management (AUM) required in order to achieve particular benefits. UK pension schemes with assets over £100 million offer benefits to governance and economies of scale. Much of the Australian literature finds that AUM of between £25 and £50 billion offer benefits such as in-house investment and access to a wider range of assets.[1] However, this finding may not apply to the same extent to the UK pension system in which some schemes already access scale because they are part of a larger parent organisation.

In practice, other countries have not consistently realised these benefits

The UK Pension Schemes Act 2026 seeks to support a more efficient market in order to provide better outcomes. However, in some cases, overseas pension providers have not harnessed the potential benefits of scale, and these have remained an advantage in principle only. While large Australian DC pension schemes, known as Supers, have made cost savings, they have not fully realised the benefits of scale in areas such as administration. While administration and investment fees are falling in Australia, they remain, on average, higher than the UK charge cap.[2] Moreover, in some cases, increased scale has led to greater challenges, with larger Australian Supers finding it difficult to service members effectively, and the Australian pension system facing issues around cybersecurity. In addition, scale has not consistently translated into effective management of member outcomes during the retirement phase in Australia.

There is no guaranteed correlation between pension scheme size and level of investment return

The Canadian Maple 8 have experienced higher returns on investment than the UK Local Government Pension Scheme (LGPS).[3] In contrast, 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.[4] While factors other than pension scheme size have on impact on level of return, making it challenging to draw international comparisons, this evidence suggests there is a lack of guaranteed correlation between scheme size and returns.

The UK megafund reforms have a different starting point to Canada and Australia, meaning that UK megafund reforms may unfold differently

In comparison with the UK pension system, both the Australian and Canadian pension systems have higher levels of investment in private equity and infrastructure, and the Australian system has higher rates of investment in domestic markets.

- 14% of Australian Super assets and 34% of the Canadian pension system assets are in infrastructure and private equity. This compares with 5% of UK pension system assets.
- The Australian pension system has an allocation of 24% to domestic equities. This contrasts with allocations of 3% in Canada and 4% in the UK respectively. However, this trend for domestic investment by Australian Supers may reflect attributes of the system, separate to the size of Supers, such as financial and other incentives. Factors other than consolidation make a significant contribution to both the scale in the Australian pension system and to the advantages that it enjoys over the UK system. Much of the strength of the Australian system stems from sustainability due to large mandatory employer contributions, rather than to the scale of individual funds.

Australia has a less fragmented pension system than the UK, without the long tail of both private and public sector Defined Benefit (DB) pension entitlements that exist in the UK system. Consequently, the UK has approximately half the stock of DC pension assets available for consolidation to Australia. In this way, the UK will need to have greater concentration of pension schemes in order to achieve the scale of the Australian system. This, in turn, has implications for competition in the system.

With the £25 billion threshold measure, the UK Government has opted for a different mechanism to ensure scale to the Australian performance test known as Your Future, Your Super (YFYS). The YFYS was strictly designed to address the issue of underperforming pension schemes but also resulted in consolidation of Australian Supers.

YFYS' use of a measure based on average returns has led to herding of investment strategies, and stymied innovation in the Australian system. The £25 billion threshold may not have the same implications. However, the UK megafund reforms may increase providers' risk aversion. Where providers believe that they may be forced to merge or to exit the market, the reforms may discourage them from investing in illiquids and may stifle innovation, particularly in the short-term.

[1] DWP (2024)
[2] Rainmaker information (2025)
[3] Pensions UK (2025)
[4] KPMG (2025b);

Executive Summary

It is important that any reform to the UK system takes into account the specifics of the pensions market

Other differences between the UK and Australia, in terms of both the history and structures of pension systems, suggest that the introduction of megafunds in the UK will unfold differently to Australia, with potential implications for competition and systemic risk including suppression of innovation. It is essential that any reform to the UK system considers the specifics of the UK pensions market. Similarly, it is important that policy changes do not overlook the strengths of the UK system, including the extent to which providers already harness some of the benefits of scale and the extent to which UK pension providers work towards good member outcomes.

Even before the enactment of the Pension Schemes Act, the megafund reforms have affected the market, providing a sense of how the introduction of the reforms might play out. The system faces the challenge of how to ensure that the reforms themselves do not lead to providers, who might otherwise have done so, failing to reach the £25 billion threshold. This is a particular risk where advisers, concerned that smaller providers may exit the market, are unwilling to recommend them to employers.

Even before the megafund reforms, there has been consolidation in the UK DC market

Previous consolidation in pension schemes sits alongside increases to the value of DC pension savings from both investment growth and automatic enrolment, the introduction of other Government policies such as Targeted Support and Guided Retirement Solutions, and greater levels of investment in private markets by pension schemes. These trends suggest that, even in the absence of the megafund reforms, a significant proportion of pension schemes will be in a position to deliver the benefits sought by the Government.

While some UK DC providers already access the benefits of scale, others may not have harnessed the benefits already available to them

Some UK DC providers already access the benefits of scale because they are part of a larger organisation. This contrasts with Australian Industry Supers, which are typically discrete organisations. UK pension providers may also benefit from investment opportunities through the use of asset managers with large pools of assets, although the use of external managers may result in additional costs. For these reasons, it important that the regulations around megafund thresholds recognise the existing scale in UK pensions. At the same time, these reforms should work to address issues where providers fail to harness existing benefits of scale because they have not instituted structures that enable effective defaults and appropriate common investment strategies.

Other countries, such as Hong Kong, demonstrate parallel or alternate routes to scale

While the UK reforms plan for scale to stem from wholesale consolidation of investments themselves, other countries such as Hong Kong have emphasised benefits of consolidation including member experience. This represents both a more staged process and a process that has a different starting point to the UK in its emphasis on the consolidation and standardisation of member-facing administration processes.

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Introduction

Over the last two decades, there have been far-reaching changes to the pensions market, including the introduction of automatic enrolment (AE) and Pension Freedoms. These have contributed to both an increase in levels of Defined Contribution savings (DC) and greater scope for large variations in member outcomes from these savings. The Pension Schemes Act[6] introduces a number of reforms, including megafund reforms, aimed at addressing some of these issues.

Enacted in 2026, this Act introduces significant reforms to the structure and scale of pension fund management in the UK. A key provision of the Act is the requirement that all multi-employer DC pension schemes investments must operate at a "megafund" level managing at least £25 billion in assets in their default arrangement by 2030.[7]

The megafund reforms aim to increase both the scale and efficiency of pension fund management. These stem from concerns about fragmentation in the UK pension system, and the extent to which this fragmentation contributes to low levels of pension scheme investment in private markets[8] and, in particular, the domestic economy; UK levels of both of these lag behind those found in other countries with mature pension systems. The megafund reforms require multi-employer DC pension schemes to manage £25 billion in assets by 2030. They include transitional arrangements for schemes that are unable to reach this threshold: Where schemes manage at least £10 billion in assets in 2030, they will be able to continue operating provided that they can adequately demonstrate a plan to reach the £25 billion threshold by 2035.[9]

These proposals are inspired by international experiences in countries such as Australia and Canada. However, there is little clarity around the contribution that pension scheme size makes to the efficacy of international pension systems, and the extent to which this scale might be successfully replicated in the UK. There have also been concerns to ensure that the regulations that support the UK megafund reforms should take greater account of the structures specific to the UK pension system. This report aims to explore some of these themes.

Research aims and objectives

The research presented here is a review of existing literature, stakeholder perspectives, and available data on the UK, Australian, Canadian and Hong Kong pension landscapes. It uses international evidence to explore the extent to which scale in pensions leads to better outcomes, and considers how international experiences could inform the UK.

Key objectives include:

- Examining the evidence on strengths and limitations of the megafund approach;
- Considering how relevant aspects of international experiences could inform the UK approach, in particular that taken by UK regulators, to the introduction and delivery of megafund reforms;
- Exploring the risks, benefits and challenges of the UK megafund reforms;

The findings are intended to inform the debate around the introduction of megafunds in the UK.

The project's research questions are:

- How have international models of pension consolidation and investment strategy become viable policy options, and what can the UK learn from their evolution?
- How might achieving greater investment scale through consolidation improve outcomes for savers and support broader economic investment objectives?
- What are the potential risks or trade-offs associated with large-scale pension consolidation in the UK content?

The research methodology can be found at Appendix A.

[6] UK Parliament (2026)
[7] House of Commons Library (2025)
[8] The term 'private markets' refers to investments that are not traded on public exchanges, and include private equity, infrastructure, venture capital, real estate and private credit or debt.
[9] UK Government (2025)

CHAPTER ONE:

AUSTRALIA AND CANADA: THE ROUTE TO MEGAFUNDS

Key findings:

- **Canada and Australia's distinct paths to megafunds influence the shape of their pension systems today. While the Australian system consists largely of DC pensions, the Canadian "Maple 8" pensions are DB public sector and State Pensions.**
- **Both the Australian and Canadian pension systems have higher levels of investment in infrastructure and private equity than the UK, with size of schemes considered to be an enabling factor for this type of investment.**
- **Australian and Canadian pension schemes have large investments in UK private markets, including infrastructure. As of 2025, Australian Supers had invested £40.6 billion in UK private markets.**
- **Unlike Canada, the Australian Government has actively pursued both scale and high levels of domestic investment. Australia has an allocation of 24% to domestic equities while Canada only has an allocation of 3% to home markets.**
- **The Canadian system is characterised by internal management of assets while a hybrid approach is favoured to a greater extent in Australia.**

Canada and Australia's different paths to megafunds influence the shape of their pension systems today. While the Australian system consists largely of DC pensions, the Canadian "Maple 8" pensions are DB public sector and State Pensions. For this reason, comparisons are more frequently drawn between UK DC workplace pensions and the Australian system. However, developments within Canada also provide some insights relevant to the UK megafund reforms.

Table 1 provides a comparison of the three countries' pension systems. In line with its larger population, the UK pension system has a higher level of estimated assets than Australia. The UK has similar levels of assets to Canada, despite Canada having a smaller population. This is likely to reflect, in part, the fact that Canada's State Pension provision is partly funded, as explored later in this chapter.

Despite having a higher level of estimated pension assets, a fragmented system has meant that the UK has not harnessed some of the benefits of scale. This is explored in Chapter 3 of this report.

Table 1

Australia, Canada, and the UK at a glance

	Australia	Canada (Maple 8)	UK
Predominant pension type of pension scheme	DC	Mixed (DB and DC) Maple 8 – DB	Mixed (DB and DC)
Estimated assets (USD billion)	2,639	3,267	3,139
Percentage investment in private equity and infrastructure	14%	34%	2% (This figure relates to the DC market only)
Percentage domestic equities (as percentage total assets)	24%	3%	4%
Approximate population size (million)	27	40	70

Source: New Financial (2024) Comparing the asset allocation of global pension systems

1.1 The Canadian 'Maple 8' pension funds are public sector and State DB schemes

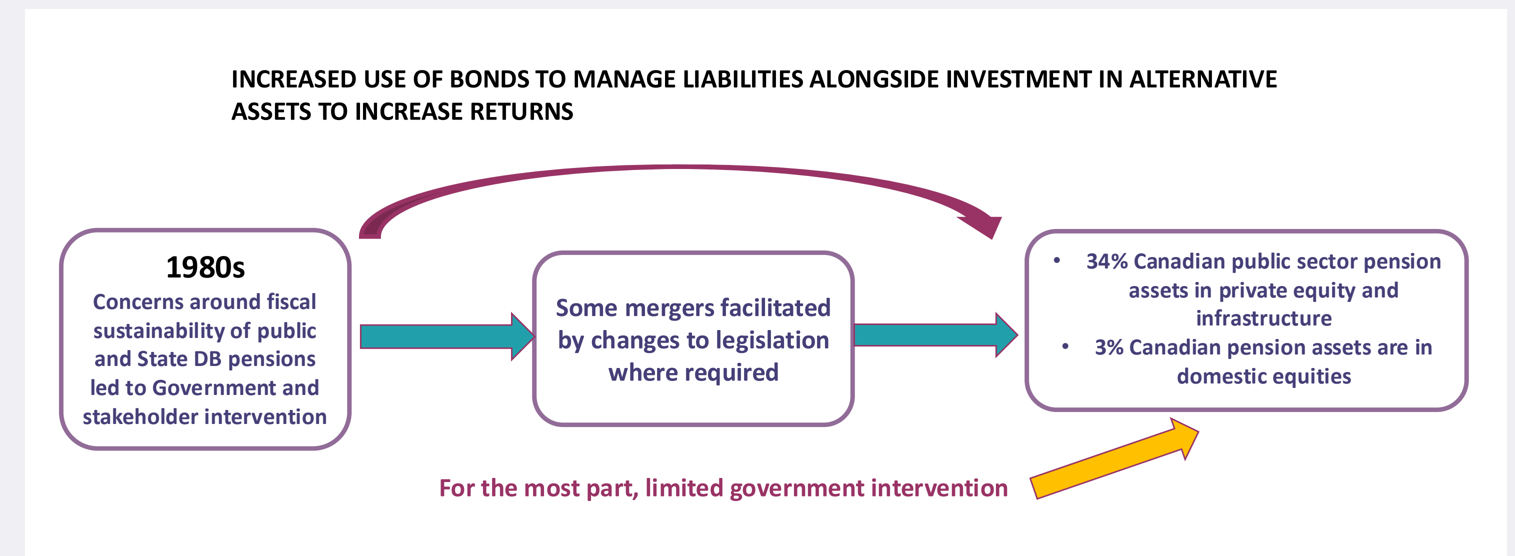
These were set up during the 1980s as a result of concerns around the sustainability of public and State Pensions.[10] While there have been mergers within this group of pension schemes, their size is largely due to the fact that they are funded public sector and State Pension schemes. This contrasts with UK State and public sector pensions in which, with the exception of the Local Government Pension Scheme (LGPS), pay-as-you-go models dominate.[11] For this reason, the Maple 8 are frequently compared with the UK LGPS rather than UK DC schemes. However, there are particular developments within the Canadian pension system that are relevant to the DC megafund reforms:

- Their ability to invest in private equity and infrastructure, in a cost-effective way, is widely attributed to their size and internal management of assets.[12]
- There is very limited Government intervention in the Canadian pension system.[13] The system is designed so that the Maple 8 are governed by independent professional boards, operating as business entities, at arm's length from the Canadian Government.[14]
- While there are high levels of investment in private equity and infrastructure, there are low levels of investment in domestic equities.[15]

Figure 1

The Canadian Maple 8 pension funds are public sector and State DB schemes

The Canadian system is characterised by internal management of assets



[10] Chronograph (2025)
[11] The PPI Pensions Primer provides further detail on the design of the UK public sector and State Pensions.
[12] Pensions UK (2025c)
[13] Brian R. Cheffins, Bobby V. Reddy & Kim Willey (2024)
[14] Chronograph (2025)
[15] New Financial (2024)

1.2 Australia: Large-scale pension schemes driven by high compulsory contributions and consolidation

- High compulsory employer pension contributions over a long period of time, along with large DC pension schemes, characterise the Australian pension system. Relative to the UK, it also has high levels of investment in private equity and infrastructure, and high levels of investment in domestic markets.[16] In 2024, 14% of Australian Super assets were in infrastructure and private equity. In 2025, this percentage of assets represented around US$450 billion.[17] Australian Supers also have significant investments in the UK. As of 2025, Australian Supers had invested £40.6 billion in UK private markets.[18]

Box 1

The Australian pension system: overview

Supers: Pension schemes, primarily DC

Industry Supers: Not-for-profit 'pot follows member' DC pension funds, typically set up by trade unions for their workforces. Many now accept members from all sectors in the economy. While there are also retail schemes and corporate schemes, the industry Supers account for an increasing proportion of assets and members. In 2025, industry Supers had 40% market share, retail Supers had 23%, with the remainder made up of corporate, public sector and self-managed super funds.[19]

The Superannuation Guarantee: Requirement for employers to pay pension contributions, currently 12% earnings, on behalf of employees aged 18 or over

Australian Prudential Regulation Authority (APRA): Regulator that oversees Australian pension funds, ensuring that they manage contributions in members' best interests

Franking credits: When Australian companies pay out dividends, they may attach franking credits to them, representing the tax already paid on these profits. In turn, the dividend recipient receives credit for the tax already paid and can use this to reduce their own tax liability. The tax advantage of franking credits may act as an incentive to invest domestically.

Evolution of the Australian system stems from the negotiations between trade unions and the Federal Government.[20] While many changes have taken place since the introduction of the Superannuation Guarantee in 1992, the Australian pension system bears the imprint of its early years in the following ways:

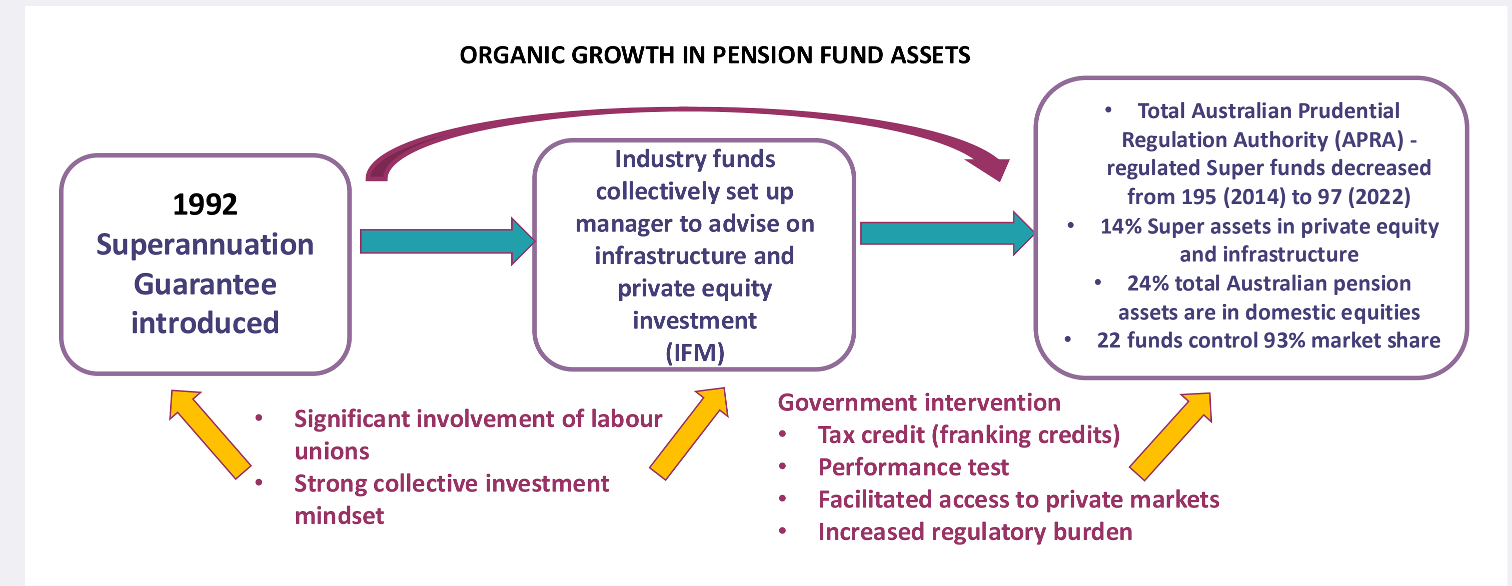
- There are currently a large number of profit-follows-member 'Industry' pension schemes.
- The system developed the capacity to invest in alternative assets such as infrastructure due, in part, to the size of pension schemes and, in part, to the industry pension schemes' collective approach to both investment and administration during the system's early years.[21]

[16] New Financial (2024)
[17] Thinking Ahead Institute (2025)
[18] IFM Investors (2025)
[19] Australian Government (1992)
[20] The People's Pension (2025)
[21] The People's Pension (2025)

Figure 2

The Australian system is dominated by large primarily DC industry funds

The Australian system is characterised by Government's desire for investment in the Australian economy and commitment to consolidation



Sources: New Financial (2024) Comparing the asset allocation of global pension systems and KPMG (2025a) Super Insights 2025

In 2021 the Australian Government introduced a performance test, known as Your Future, Your Super (YFYS)[22] that measures net returns, requiring those schemes that do not meet the threshold to cease accepting new members. The requirement to reduce costs, introduced by YFYS, has pressured schemes to merge in order to benefit from economies of scale.[23] This has led to a system in which the number of Supers halved between 2014 and 2022.[24]

Government policies, such as incentives to invest domestically, specifically franking credits (Box 1)[25], and collective action by the Industry Supers have contributed to higher rates of investment in domestic equities and in private equity and infrastructure respectively than UK DC pension schemes.[26] In comparison, UK DC pension schemes currently allocate 2% of their assets to unlisted equities.[27]

Australian employers are required to make pension contributions on behalf of all employees, currently at a rate of 12% earnings. When an employee leaves their employer, they remain with the same pension provider unless they actively decide to leave that scheme. This is similar to the UK 'lifetime provider model' that was initially considered by the Conservative Government in their 2023 Autumn Statement[28] but ultimately excluded by the subsequent Labour Government in favour of a multiple default consolidator approach.[29]

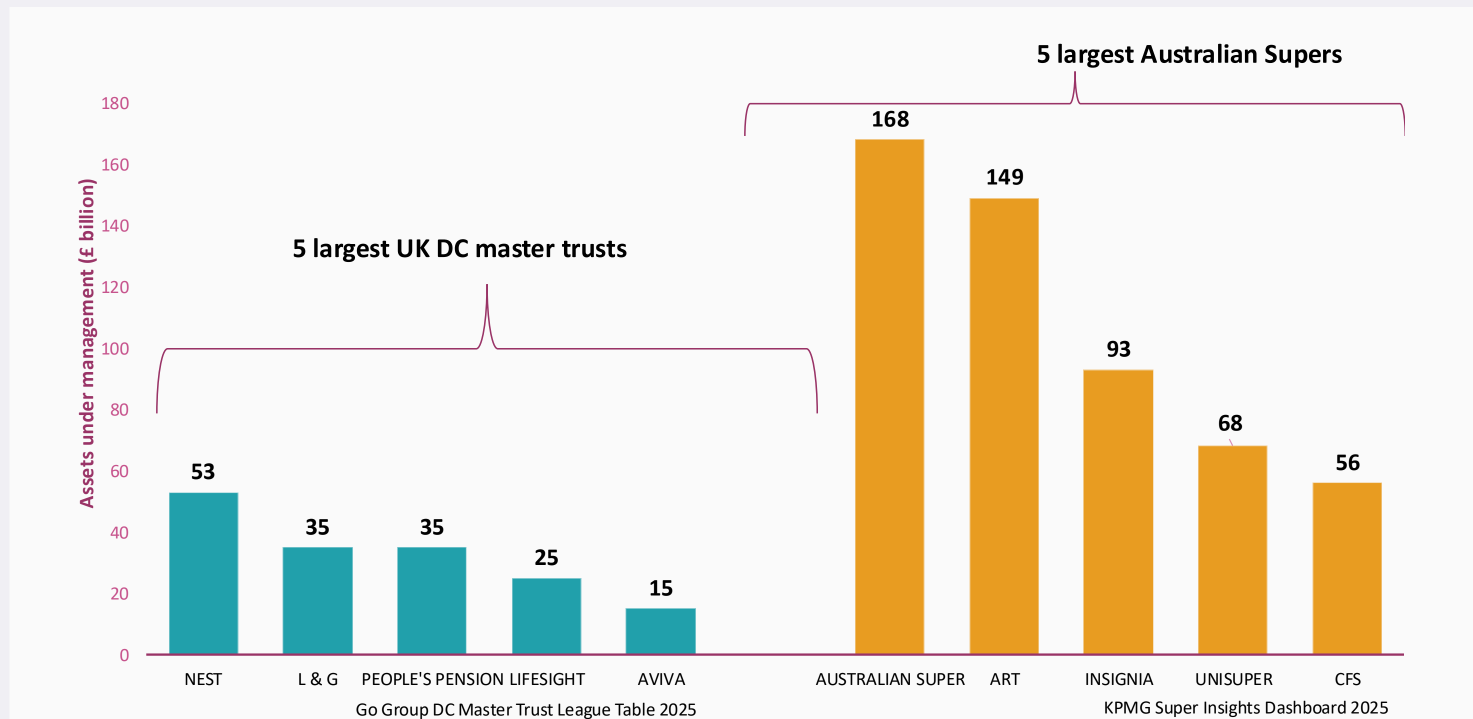
The largest DC Australian workplace pension schemes are significantly larger in terms of assets under management than their UK equivalents.[30] While consolidation has contributed to this scale, other differences between Australia and the UK have also played a role. This is explored further in Chapter 3.

[22] APRA (2025)
[23] Dentons (2024)
[24] Conexus Institute (2023)
[24] Mercer (2025)
[26] The People's Pension (2025)
[27] New Financial (2024)
[28] UK Government (2023)
[29] Department for Work and Pensions (2025)
[30] KPMG (2025)

Figure 3

The 5 largest Australian Supers are more than twice the size of their UK counterparts

Value of pension scheme assets under management (£billion) in 2025



Sources: Go Group (2025) Master Trust League Table and KPMG (2025b) Super Insights Dashboard 2025

Australia differs from Canada in terms of the extent of Government intervention. Unlike the Canadian Government, which elected to hold the Maple 8 at arm's length, the Australian Government made the explicit decision to address underperforming schemes, introducing policy levers aimed at achieving this. This included the performance test that was introduced in 2021. In addition, many Australian Supers have opted for a hybrid model of asset management, combining internal management of assets with the use of third party providers.[31]

While both pension systems have high levels of investment in private assets and infrastructure, this is much higher in Canada (34% pension system assets) than in Australia (14%).[32] In contrast, levels of allocation to domestic equities by Australian Supers (24%) exceed these found in the Canadian system (3%).[33] However, Australian stakeholders noted that the level of domestic investment by Australian Supers is declining. In addition, like the UK Government, both Australian and Canadian Governments have expressed the desire for greater levels of domestic investment by pension schemes.[34]

Both Australia and Canada have moved towards the establishment of megafunds over a long period of time; decades rather than years. The Australian Superannuation Guarantee was introduced in 1992 and increased gradually over subsequent years to its current contribution level of 12% salary. Mergers of Supers were in part a response to increases to the regulatory burden, such as the introduction of the performance test, that took place over a number of years.

The Canadian Maple 8 were introduced in the 1980s, to address concerns around sustainability of pensions. In the first instance, a taskforce was formed to establish strategic objectives. The taskforce adopted principles including the establishment of long-term capital strategies and internal management. Several years later, changes were made to the State Pension, The Canada Pension Plan, including increases to contribution levels.[35] In these ways, changes to Australian and Canadian pensions were staged over several years. This contrasts with the UK Government's aspiration of establishing a market consisting of megafunds by 2035.

[31] Super Review (2025)
[32] New Financial (2025)
[33] New Financial (2025)
[34] Investment Magazine (2024)
[35] Chronograph (2025)

CHAPTER TWO:

STRENGTHS AND LIMITATIONS OF THE MEGAFUND APPROACH: INTERNATIONAL EVIDENCE

Key findings:

- **International evidence demonstrates benefits of scale in DC pensions. These typically derive from cost savings rather than higher investment returns. In turn, cost savings stem from scale economies around governance and regulation, as well as lower per member administration and investment costs.**
- **Larger providers are typically seen as able to leverage the full benefits from investing in private equity and infrastructure.**
- **In certain areas, such as ability to invest in particular equities, scale can have disadvantages. There are also concerns around the accuracy of valuations of illiquid assets and related impacts on reported investment returns. This in turn has implications for the extent to which schemes and members are able to judge the value for money provided by their DC pensions.**
- **While scale has led to lower costs per member for Australian pension schemes, they have not realised some potential benefits to members around areas such as member servicing. In addition, scale has not consistently translated into effective management of member outcomes during the retirement phase in Australia.**
- **The mechanism by which the Australian system has achieved scale, the performance test Your Future, Your Super (YFYS), may have led to sub-optimal outcomes for competition and innovation, including herding in terms of the narrowing of investment performance and fund reverting to median.**
- **There have been concerns that concentration of assets and decisions from scale might lead to negative systemic impacts. However, to date there is limited evidence of resulting harms in this respect.**
- **International evidence demonstrates that scale alone may not be sufficient to boost levels of domestic investment.**

Strengths of the megafunds approach

The UK Pension Schemes Act 2026 seeks to support a more efficient market in order to provide better outcomes. International evidence demonstrates potential benefits of scale in DC pensions. In some cases, pension systems have realised these benefits. In others, these remain a benefit solely in principle with little empirical evidence that systems have harnessed improvements to member outcomes.

There is recognition of potential benefits of size to the operation of Australian Supers, including the potential to reduce operating costs per member.[36] Australian stakeholders showed qualified support for scale in pension schemes, identifying some benefits along with recognition that, at the other end of the Australian pension system, it has become increasingly difficult for small schemes to operate efficiently.

> *We're very reluctant to say big size is necessarily good but you can be too small. And as the amount of admin and various things like regulation are going up, how small is too small is going up.*
> *(Australian stakeholder)*

> *Pensions are not a cottage industry. It's not something you can get extra value out of by doing it at a small scale. It's not that sort of business.'*
> *(Australian stakeholder)*

While there is international evidence that scale can lead to greater efficiency, improved governance and reduced costs, there is no consensus on the level of assets under management (AUM) at which these benefits can be realised.[37] Moreover, Australian administration and investments fees paid by members remain, on average, higher than the UK charge cap of 0.75%. In 2025, the average Industry Super fee was 0.85% per annum and the average retail Super was fee was 0.96% per annum, although these fees are falling.[38] This suggests that there may be limited scope for further reductions to charges for UK multi-employer DC schemes.

Where scale is beneficial, there is weak correlation with returns, with savings typically stemming from cost reductions

There is weak evidence of any correlation between pension scheme size and returns.[39] Comparison between countries is challenging because factors other than pension scheme size affect average returns. Attributes such as population demographics and pension fund investment's home bias have an impact on pension funds' investment strategies and returns, making it difficult to separate out the impact of average pension size.

However, international evidence supports the conclusion that there is no guaranteed correlation between scheme size and returns. The Canadian Maple 8 have experienced higher returns on investment than the UK Local Government Pension Scheme.[40] In contrast, the growth strategies adopted by DC Australian Supers have led to lower returns during the five years to 2024 than those of their UK DC counterparts.[41]

It is important to take the following into account when considering the comparison of UK and Australian pension scheme returns shown in Figure 4:

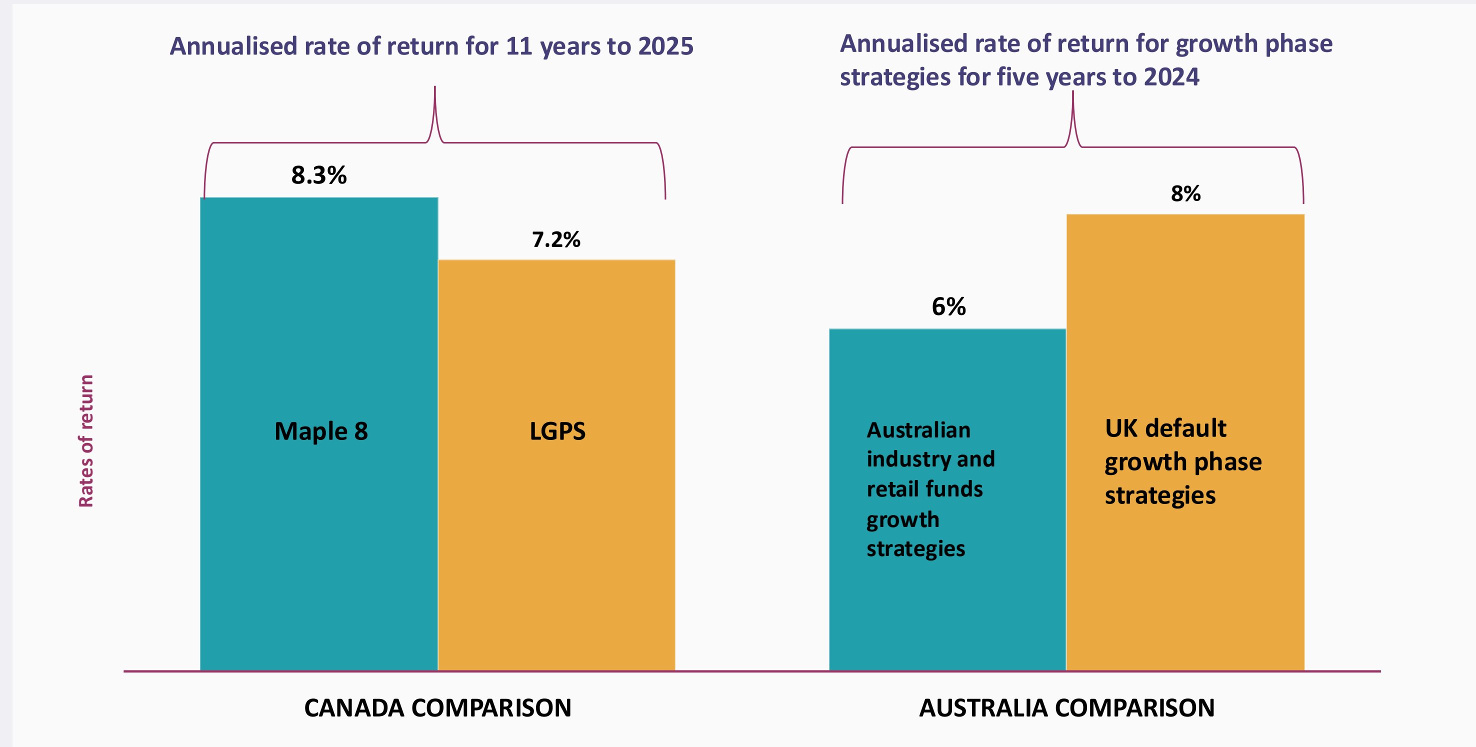
- The time periods for which figures are available are not identical. The UK figure is the five year investment performance to 31 December 2024, while the Australian figure is the five year investment performance to 30 June 2024.
- The UK figure shows returns before charges are deducted, while the Australian 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.

[36] Conexus (2023)
[37] Department for Work and Pensions (2024)
[38] Rainmaker Information (2025)
[39] Department for Work and Pensions (2024)
[40] Pensions UK (2025)
[41] KPMG (2025b);

Figure 4

There is a weak correlation between scale and return



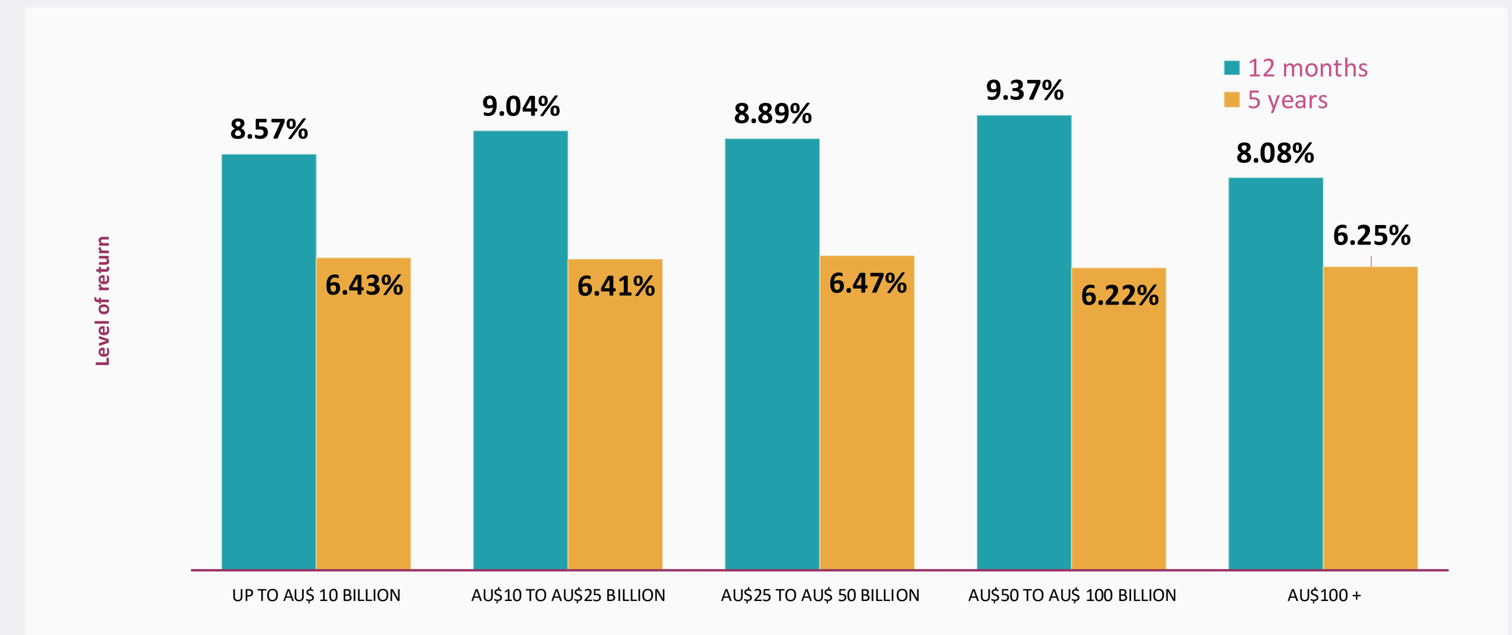
Sources: Pensions UK (2025) The Maple 8 and the LGPS in focus, KPMG (2025b) Super Insights 2025 Dashboard and Corporate Adviser Intelligence (2025) Master Trust and GPP Defaults Report

In addition, it is possible to make comparisons between schemes within individual pension systems. Assessment of Australian pension scheme returns demonstrates the lack of correlation between scheme size and returns. While Figure 5 compares growth strategies only, which vary by pension scheme in terms of proportion of growth assets, it suggests that, on average, there is no clear correlation between scheme size and returns.

Figure 5

Average returns of Supers' growth funds for 12 months and 5 years to 2024 by size of pension funds

Growth funds definition varies – between 60% and 81% growth assets



Source: KPMG (2025b) Super Insights 2025 Dashboard

Cost savings stem from scale economies around governance and regulation, and lower per member administration and investments costs

Both Australian and Canadian pension schemes have reported lower administration costs due to increased scale, although these lower costs do not necessarily result in lower member charges. Benchmarking of Canadian DB plans found that for every tenfold increase in members, there was a decrease in per member administration costs of 61%.[42]

Similarly, in Australia, the increases to regulatory obligations and the requirement to offer access to retirement income solutions weigh more heavily on smaller firms, increasing their costs per member.[43] Larger Australian Supers have, on average, lower costs per member than smaller Supers. In addition, the range of costs per member is narrower for larger pension schemes (Table 2). It is worth noting that many of the smaller Australian Supers are still large by UK standards.

Table 2

Pension scheme size	Annual operating cost per member (AU$)	
	Lowest	Highest
Less than 10 bn	153	2,071
10 – 25 bn	182	846
25 – 50 bn	214	872
50 – 100 bn	79	840
100 billion +	103	394

Source: KPMG (2025b) Super Insights 2025 Dashboard

[42] Brian R. Cheffins, Bobby V. Reddy & Kim Willey (2024)
[43] Conexus Institute (2023)

In Australia, industry schemes have the highest allocations to infrastructure investments

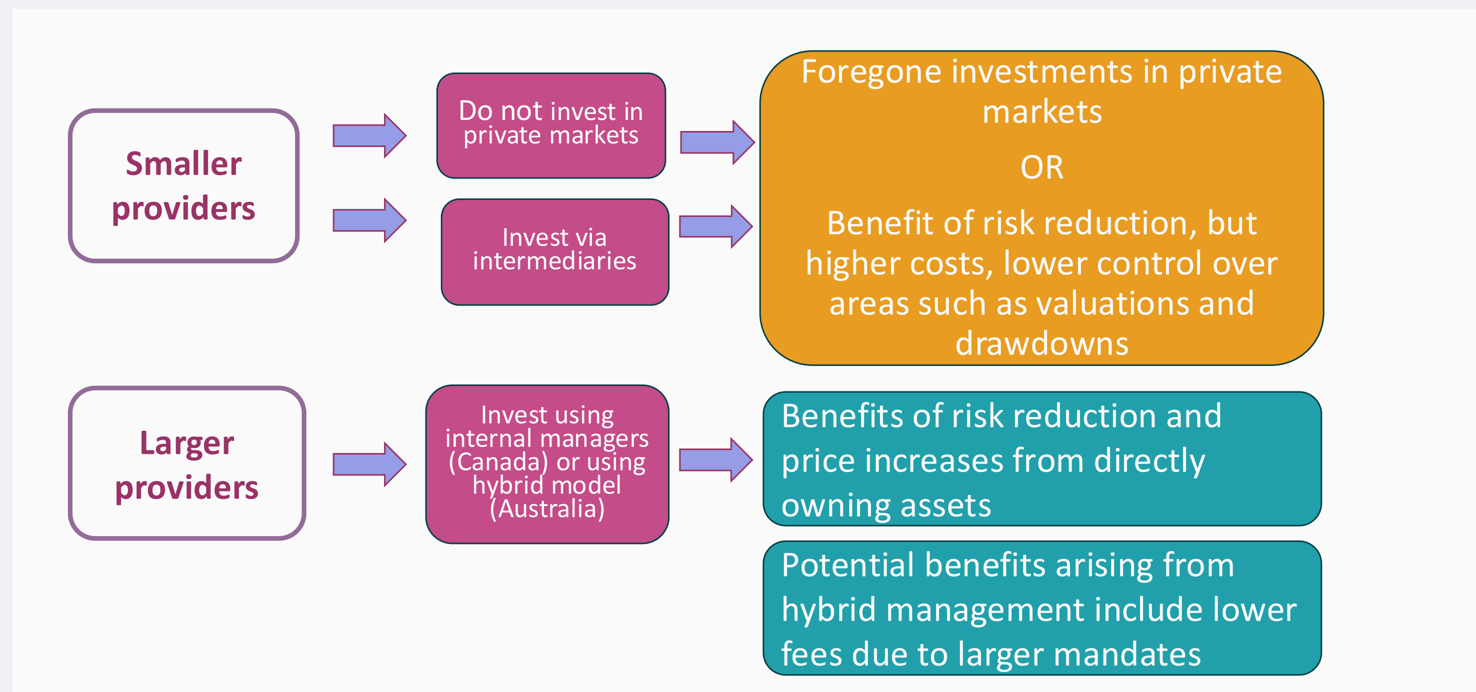
The UK Government sees investment in private markets, including infrastructure, as beneficial due to the potential to provide scope for domestic investment and as a route to diversification and risk reduction (e.g. to offset other sources of risk, such as inflation risk). Direct ownership of assets is also seen as a route to increased returns through price increases to assets.[44]

Increases to the size of pension funds are seen as an important step in increasing this investment. As described in Chapter 1, both the Canadian and the Australian pension systems have higher rates of investment in private equity and infrastructure than the UK, with size being seen as an important enabling factor in terms of achieving this in a cost-effective way.[45] Australian larger schemes have had higher asset allocation to illiquids than smaller ones.[46] An example is Australian Super, the largest Super in Australia, with AUM over AU$100 billion. It is able to make allocations to illiquids because it has a high amount of in-flows in the form of members' pension contributions. In this way, it can maintain its liquidity level overall even when it invests in illiquids.[47]

Figure 6

Smaller providers are typically seen as unable to leverage the full benefits from investing in private markets

Pathways for smaller and larger providers to invest in private markets



However, in 2024, even smaller schemes by Australian standards have high allocations to infrastructure and property relative to the UK.[48] It may be that they are investing in these via intermediaries, such as external asset managers, to gain exposure to particular types of asset or to benefit from the expertise of asset managers who specialise in particular types of investments such as infrastructure. This raises the question of the extent to which it is possible for smaller schemes to invest efficiently in infrastructure, explored in Chapter 3.

Broadly, Canada and Australia have shown two routes to investment in private assets with each reporting advantages:

- Predominately internal management in Canada: Internally managed allocations have been found to outperform externally managed funds by over 2% net of fees[49]
- Hybrid management in Australia, with an Australian stakeholder describing advantages where an internal management team brings the expertise for a provider to hold external asset managers to account, as well as making their own investments:

> *If you have an internal management team that has investment expertise, they could do some direct investment as well as advising the board about (external) investments.'*
> *(Australian stakeholder)*

There are both caveats and nuances around factors that have led to scale, as well as qualifications to the extent to which scale has proven to be beneficial.

In practice, larger pension schemes have faced challenges in the following areas:[50, 51]

INVESTMENTS

In Australia, scale is seen as providing advantages for investments in certain areas, such as property, but disadvantages in others, such as equity due to:

- **Equities placing caps on fundings from a single investor**
- **Inability to make large enough investments in particular areas, such as emerging markets, to adequately affect overall returns**

Concerns have emerged in Australia regarding the accuracy of private investments' valuations alongside worries that Australian Supers do not sufficiently challenge asset managers' valuations. This, in turn may have had an impact on reported return levels.

RATIONALE BEHIND DECISIONS TO INVEST IN PRIVATE MARKETS

Research suggests that at least some Canadian funds investment in private markets represents a response to a low interest rate environment rather than to scale. However, size has played a role in enabling investment in private markets. Despite this, it is worth noting that those schemes who changed their asset allocation were not large in comparison to the UK megafund reform thresholds (the average AUM for the research sample was Can$25 million):

- **85% of plans whose AUM exceeded Can$0.5 million shifted their asset allocation in favour of private markets between 1998 and 2018**
- **52% of plans whose AUM was below Can$0.5 million shifted their asset allocation in favour of private markets during the same period**

[44] The People's Pension (2025)
[45] Conexus Institute (2023)
[46] PPI (2019)
[47] J.P. Morgan (2023)
[48] KPMG (2025)
[49] CEM benchmarking in The People's Pension (2025)
[50] Bank of Canada (2021)
[51] Hymans Robertson (2025)

BOOST TO DOMESTIC INVESTMENT

In Canada and Australia, scale by itself has not been a sufficient enabler of home investment:

In Canada, where just 7% infrastructure investment is in Canada

In Australia, domestic investment is likely driven not only by scale, but also by franking credits attached to domestic company dividends which improve the net returns from domestic investments

In Australia, where Australian Supers have run out of Australian projects and are increasingly investing globally

"I suppose in the early days, pretty well all of it would have been invested in Australia. It was a tipping point where we just realised, oh, hang on, this is going to have to be invested off. There are only so many airports in Australia so you've got to look elsewhere." (Australian stakeholder)

Sources: Bank of Canada (2021) Reaching for yield or resiliency? Explaining the shift in Canadian pension plan portfolios and Hymans Robertson (2025) Policy briefing note: The Canadian Model

Higher levels of pension investment can benefit the wider economy

While the primary focus of pension systems is member outcomes, the UK Pension Schemes Act 2026 also looks to support the domestic economy. International evidence suggests that, if the Act led to increased domestic investment, this could provide a valuable source of funding for UK companies.

Analysis suggests that investment by pension funds in an economy could support an economy's productivity and innovation. Danish evidence finds that firms benefit from a 5% uplift in firms' productivity, resulting from pension fund investment over other sources of finance.[52] This is attributed to stable and longer-term financing commitments from pension schemes that enable firms to make investments that yield long-term returns.

2.1 Risks and challenges around megafunds

Overall, scale has largely reduced costs in Australia, but many member benefits remain unrealised

In principle, larger schemes should be able to harness more effective governance to benefit members, although personalisation of services may be more challenging for larger providers.[53] This is important because we know, for example, that different groups of members have different communication needs. Previous research found that only 59% of individuals with pots under £100,000 found communications from their provider easy to understand, compared to 76% of those with pots over £250,000.[54] In this way, in certain aspects, size has not translated into better member outcomes in Australia:

Member servicing: In some cases, larger schemes have found it harder than smaller schemes to service members effectively. There have been specific concerns around schemes' operational infrastructure and their ability to protect members from scams.[55] The system has experienced issues around cybersecurity, particularly as breaches appear to be increasing.[56] In addition, there is an increasing reliance by Supers on common service providers, such as administrators, who hold member data and manage members' money, heightening the potential adverse consequences of a cybersecurity breach.[57] While the extent to which scale contributes to these breaches is unclear, two points arise:

- Pension schemes may be more vulnerable to cybersecurity attacks during the process of merging or acquiring other pension schemes[58]
- The concentration of the market in terms of both the providers themselves and common service providers may mean that any cyberattack has far-reaching consequences

Related to issues around member servicing is downwards pressure from Australian Supers on administration fees. There has been an effort to increase efficiency by reducing administration costs[59] and, in some cases, this has led to sub-optimal member servicing, such as delays to pension payouts.[60]

> *"Administration part is somehow on a different plane from investment management fees or office rent or what have you. It just has always seemed to be a focal point. If we could drive down the admin costs just that little bit, everyone would be better off."*
> *(Australian stakeholder)*

Retirement income phase: Finally, scale has not consistently translated into effective management of member outcomes during the retirement phase. While the Retirement Income Covenant[61], completed in 2022, proposed that Supers develop a retirement income strategy and offer retirement income products, this has not happened across the board. Australians typically transfer out of their pension scheme in order to access their funds.

Both the scale in pension funds and the lack of focus on the retirement income phase were portrayed by stakeholders as part of the same dynamic, related to the structure of the Australian pensions market, specifically the desire to demonstrate value to employers paying high mandatory employer contributions. This contrasts with the UK in which several Government initiatives look to secure sustainable retirement incomes; these include the Guided Retirement duty in the Pension Schemes Act 2026, and the Pensions Commission work around adequacy. In contrast, Australian stakeholders described how, where contributions to pension funds come from the employer, Australian pension schemes focussed on demonstrating that they provided value to employers by ensuring high returns during the accumulation phase.

> *"It was a big DC pot of money, very well done, well invested, well managed, all the rest of it. But the retirement phase was just this big black void."*
> *(Australian stakeholder)*

The above demonstrates how the emphasis on size interacts with other factors in the Australian system. It also indicates that size itself has not guaranteed better member outcomes. In addition, the mechanism by which the Australian Government and regulator have brought about consolidation, explored later in this section, has influenced the evolution of the pension system.

The Australian regulator has expressed concerns around expenditure on marketing by Australian Supers

Once Australian employees join a pension scheme, 'stapling' means that they remain with this pension scheme unless they make the active decision to leave. Despite low rates of members leaving their pension scheme, Supers spend a higher relatively high amount on marketing, frequently sponsoring high profile events.

> *"Picture the FA Cup Grand Final and your pension fund is on the jerseys of the players.*
>
> *The line that the big funds use is - everybody knows that scale's important. So we're really just trying to ensure that we've got a decent amount of savings in our fund and all this kind of thing.*

[52] World Economic Forum (2022)
[53] Conexus Institute (2023)
[54] Hymans Robertson (2022)
[55] Conexus Institute (2025)
[56] Conexus Institute (2023), KPMG (2025)
[57] Conexus Institute (2025)
[58] Cap Gemini (2024)
[59] KPMG (2025)
[60] KPMG (2025)
[61] Australian Government (2022)

And they would argue, yes, well, we're doing two things with the ads. We're reassuring our own members in the fund that this is a good fund that they're in. And then we're seeking to encourage others to move to our pension scheme."
(Australian stakeholder)

While it is difficult to gauge the extent to which the need to retain the advantages of scale influences marketing budgets in practice, the Conexus Institute has made the following observations:[62]

- Expenditure on marketing may reflect a 'spend to defend' mindset where providers spend in order to retain their membership.
- A large proportion of switching is actually 'churn' with members switching between schemes with limited changes to the overall distribution of members and assets. The use of financial advisers by members drives this to a large extent. In turn, schemes spend a higher amount on marketing in order to attract these members.
- Marketing may provide a beneficial degree of education around pensions.
- Marketing activity only represents 0.02% of the pensions system assets.

"There's a lot of noise about marketing. And when you look at it, it doesn't even move the dial in terms of the actually effective costs."
(Australian stakeholder)

However, the replication of this trend in the UK would be of concern as it would suggest that savings from scale were being spent on marketing rather than contributing to better member outcomes. Therefore, key considerations include:

- The extent to which scale itself has driven increased marketing expenditure without a focus on member outcomes;
- Whether marketing meaningfully influences employer and member behaviour and engagement;
- The extent to which spend on marketing contributes to inefficiencies within the Australian DC pension.

The mechanism by which the Australian system has achieved scale may have led to sub-optimal outcomes for competition and innovation ,

The performance test was strictly designed to address the issue of underperforming pension schemes but also resulted in consolidation of Australian Supers.

APRA performance test: Your Future, Your Super (YFYS)[63,64]

- **Applied separately to each scheme's investment option, described as a product in this context.**
- **Assesses net returns over past eight years using a benchmark based on the product's strategic asset allocation. It establishes an average return and if the product's returns are more than 0.5% lower than the benchmark, they are deemed to fail. It applies a similar approach to levels of administration fees.**
- **If a scheme fails the test for two consecutive years, it cannot accept new members.**
- **The number of schemes that fail the test has been decreasing. In 2025, seven out of the 563 products tested by APRA failed the test, decreasing from 37 the previous year.**

There is evidence that the YFYS has changed behaviour, leading to herding in terms of the narrowing of investment performance and funds reverting to median in an attempt to avoid failing the test.[65] The test has also been criticised for distracting schemes from a focus on value in terms of improving member outcomes.

"So you focus on costs. It's a way of actually making sure you get a tick on one of the (YFYS) test metrics. However, most people would say the focus should be on net value for the members, not cost per se."
(Australian stakeholder)

This issue links to both competition and innovation. While there is an argument that larger pension schemes should be able to invest in innovation to the benefit of members, herding behaviour suggests that the performance test has stymied innovation, at least to some extent. In practice, there are pockets of innovation in larger schemes, including platforms enabling members to build their own portfolios and some retirement income products. The Conexus Institute quotes the example of Australian Super's Member Direct57, a platform for members to build their own portfolio that includes ASX-listed securities and term deposits.[66]

Herding also suggests that the performance test may have hindered competition in terms of a lack of different products coming onto the market.[67] This may be sub-optimal if products are not available to help members shape their retirement savings during accumulation and, later on, their retirement savings, to suit their needs. Finally, evidence suggests that the performance test may have distorted competition on the basis of cost: Super Consumers found that those providers who passed the test by more than 50 basis points in 2021 subsequently raised their fees by 5.7% on average.[68] This is not problematic if costs are high because they lead to improved and more personalised member journeys, however, this may not be the case. This highlights the need to understand the relationship between cost and value in a more rounded way.

While there have been concerns around scale leading to concentration of assets and decisions, to date there is limited evidence of this

Concerns have been raised around the ownership of a substantial proportion of Australia's assets by a relatively small number of providers. The sector is highly concentrated with 22 funds controlling 93% market share.[69] This compares with the UK where DWP estimates that, even without the megafund reforms, we will see 86% of trust-based pension scheme members in the largest 10 master trusts.[70]

Much of the discussion has centred on systemic risk in terms of the extent to which issues experienced within Australian Supers may spread to the wider Australian economy. An example of a type of scenario that might lead to this would be where an Australian Super had high levels of debt with a bank, and their failure to make debt repayments led to the bank's failure. Theoretical discussions have concluded that while herding could lead to widespread losses for pension scheme members, significant harm to the economy is unlikely to originate in the pension system, making the following observations:[71]

- The pension system is less concentrated than other industries
- Unlike banks, DC pension funds are not leveraged – they do not typically hold high levels of debt
- APRA could intervene to prevent withdrawals in the event of a run on pension funds (similar to a run on bank where a significant number of members wanted to withdraw their funds from a pension fund).[72]

There is more support for the idea that concentration of assets in the Australia pension system may lead to amplification of stresses to the wider financial system.

In practice, there is limited evidence of systemic stress originating in the pension system. The Reserve Bank of Australia highlighted that, when Supers sold their bank bill holdings during the COVID pandemic, this led to increased funding costs for banks at a time of financial stress.[73] However, this relates to events during an extraordinary economic period. In practice, of course, it is important to identify risk before these become harms. Economic shocks happen periodically, with recent examples including the 2008 financial crisis, and the impact of the 2026 Iran war, and it is important that pension schemes are prepared for such events.

[62] Conexus Institute (2026)
[63] Australian Government (2024)
[64] APRA (2025b)
[65] PPI (2024)
[66] Conexus Institute (2023)
[67] PPI (2024)
[68] Super Consumers Australia (2022)
[69] KPMG (2025)
[70] Pensions UK (2025)
[71] Conexus Institute (2025)
[72] Conexus Institute (2025)
[73] Dentons (2024)

CHAPTER THREE:

HOW DOES INTERNATIONAL EXPERIENCE INFORM THE UK?

Key findings:

- **The UK has around half the stock of DC pension assets available for consolidation compared to Australia. This means that the UK would need to have a smaller number of pension schemes in order to achieve the scale of Australian DC pensions.**
- **UK stakeholders acknowledge the potential drawbacks caused by fragmentation in the current system, caused by a long tail of DB entitlement, as well as the need to organise schemes in a way that harnesses existing scale, including cost savings, access to investment opportunities. This also includes the use of default arrangements and common investment strategies tailored to the attributes of their membership.**
- **International evidence shows that scale can offer important benefits to members, including scale economies around governance and regulation, as well as lower per member administration and investment costs. These also include the ability to invest in private markets, scope to tailor members services effectively, and more effective governance and administration.**
- **Many providers are already accessing the benefits of scale to some extent where they use asset managers or, in particular, are part of larger organisations which include asset management functions. This contrasts with Australian industry Supers, which are discrete entities and typically do not have access to these wider resources.**
- **Where providers are already accessing scale, and the reforms do not recognise this scale, the system risks the loss of pension schemes that are delivering value to members. Therefore, stakeholders have called for regulations that take into account the underlying structures in the UK market.**
- **The UK Government has opted for a different mechanism to ensure scale to that adopted in Australia. However, the UK system faces similar risks to the Australian system, with some nuances, including implications for herding and competition, along with limited levels of systemic risk.**
- **The megafund reforms alone may not result in increases to domestic investment. Other enabling factors present in Australia include financial incentives, along with Government intervention to provide investment opportunities and risk-sharing.**
- **Differences between the UK and Australia, in terms of both the history and structures of pension systems, suggest that the introduction of megafunds in the UK will play out differently to Australia, with implications for competition and systemic risk. It is essential that any reform to the UK system takes into account the specifics of the UK pensions market. Similarly, it is important that policy changes do not overlook the strengths of the UK system, including the extent to which providers already harness some of the benefits of scale and the extent to which UK pension providers work towards good member outcomes.**

This chapter explores how international experience informs the UK in terms of the megafund reform objectives for UK multi-employer DC pension schemes. These include delivering lower costs and diversification, alongside increased investment in domestic private markets. Evidence from stakeholders provides further insights around how the megafund reforms might affect the UK DC pension system.

3.1 Attributes of the UK system mean that the DC market resulting from megafund reforms may look different to the Australian DC market

Factors other than consolidation make a significant contribution to any advantages that the Australian pension system enjoys over the UK system. These fuel the attention received by the Australian system from both policymakers and the media. The presence of these factors also suggests that, even with consolidation, the UK system would look very different to the Australian one.

Much of the strength of the Australian system is due to high mandatory employer contributions

The Australian system is widely seen as an exemplar for the evolution of the UK system. The Mercer Global Pension Index, which includes both the UK and Australian pension systems in its global assessments, provides a useful comparison of the two systems. While this is made complex as the Mercer index covers both State and private provision, it suggests that Australia's outperformance of the UK stems primarily from the fact that it is well-funded, linked to mandatory employer contributions and relatively high pension coverage of the Australian population.

Table 3

Country	Adequacy	Sustainability	Integrity
Australia (2014)	81.2	73.0	87.8
UK (2014)	69.8	52.4	85.4
Australia (2025)	69.0	81.1	86.4
UK (2025)	75.9	63.2	79.0

Source: Mercer (2025) Global Pension Index

- One of the areas covered in the 'integrity' measure is operating costs. Therefore, if consolidation into megafunds had made a significant difference to the performance of the Australian system, we might expect to see this reflected in the integrity rating. However, this rating did not increase between 2014 and 2025.
- Australia most outperformed the UK in the area of 'sustainability' in 2025 (Australian 81.1 v UK 63.2). This suggests that Australia's advantages over the UK relate to its superior employer contribution rates rather than consolidation.

However, we do not yet know the direction of travel for the UK pension system. The Pensions Commission is currently considering issues around adequacy of pensions and possible recommendations in this respect. There is currently a strong focus on contribution rates and pressure for these to increase as well as coverage. This might in time affect the UK pension system's rating in terms of sustainability.

Fragmentation of the UK pension system means that the reforms have the potential to result in greater concentration than the Australian system

The UK system has developed differently to the Australian pension system, with a long tail of both private and public sector DB pension entitlements. Therefore, while the UK system is larger overall, in terms of total pension system assets, a lower number of DC assets are available for consolidation. This in turn suggests that the UK would need to have greater concentration of pension schemes in order to achieve the average size of Australian DC pensions.

Figure 7 shows that, while the UK has a higher number of total pension assets (US$3,139 billion) than Australia (US$2,639 billion), greater fragmentation in the UK system means that only around a fifth of the UK assets (US$627 billion) are in DC pensions. In comparison, 54% Australian pension assets (US$1,425 billion) are in DC pensions. The potential consequences of this are explored later in this chapter.

Figure 7

The maturity of the Australian DC pensions market means that it has a higher volume of assets in DC savings than the UK

Source: Thinking Ahead Institute (2025) Global Pension Assets Survey

Stakeholders recognised this fragmentation and later adoption of DC as a source of complexity in the UK compared to Australia.

> *"Australia, through compulsion in 1992, got rid of anything other than judges, MPs in their DB schemes. So they're in a different situation of DC. We're quite frankly in the middle of you know, DC versus DB."*
> *(UK stakeholder)*

Fragmentation and low contribution rates mean the merging of pension schemes with similar memberships may not be an option in the UK

Some of the Australian mergers have combined pools of members with similar traits.

Australian example: Hostplus

- **Focuses on hospitality industry**
- **Merged with Statewide Super (range of industries), Maritime Super, Intrust Super (hospitality and retail), Club Super (tourism; hospitality; sporting; recreation)**
- **1.6 million members**
- **Around half are aged 35 or under**
- **This arises from the Superannuation Guarantee: In contrast, accommodation and food services had the lowest participation in UK workplace pensions in 2021, at 51%**

Source: APRA (2025a) Annual fund level superannuation statistics back series June 2004 to June 2025 and Office for National Statistics (2021) Employee workplace pensions in the UK

The fragmentation in the UK pension system means that the UK may not have the pools of members or of assets necessary to achieve scale through mergers of similar memberships. Combining similar memberships has advantages, particularly for members in decumulation, but also presents risks:

- It may be easier to find a default strategy that suits most members: members with similar demographics and levels of wealth are more likely to behave in a similar way (e.g. withdraw their pension savings early).[74] Therefore, it may be more challenging to find effective defaults for more diverse memberships.
- Attributes such as cost structures may be more similar and therefore easier to combine in the event of a merger.
- Merging schemes with similar memberships risks reducing competition and member choice in the market.

In contrast, combining different types of memberships may have benefits in terms of sustainability of the pension scheme (rather than having a large group of older members) and the acquisition of different but complementary capabilities. However, on balance, mergers may be more difficult and not reap as many efficiencies where schemes have different types of memberships. For this reason, UK DC pensions may face additional challenges to those experienced in Australia.

[74] FCA (2025)

3.2 International evidence shows that scale can offer important benefits to members

Increased scale can offer important benefits to members, including:[75]

- Scale economies around governance and regulation as well as lower per member administration and investment costs
- Cost savings arising from the ability to manage investments in-house
- Scope to tailor member services more effectively
- Ability to invest more effectively in private markets
- Ability to invest directly in assets
- Cost savings from greater bargaining power
- More effective governance and administration

There is broad support among stakeholders for the idea that scale can lead to better value

"We recognise that larger pension schemes can deliver better value through some of the things they can do and access. We recognise that there are some small pension schemes that are definitely not delivering good value and therefore support consolidation of those."
(UK stakeholder)

The potential for increased scale to deliver reduction in costs per member and access to investment opportunities, such as private markets, was highlighted.

"So the bigger you get, obviously, any business has got some costs that are fairly fixed. And so generally, as scale grows, the cost per policy, because there are at least some fixed costs, gets spread thinner and thinner."
(UK stakeholder)

"And that element of scale does allow investment in certain areas, whether it be public or private markets. So I think scale is important."
(UK stakeholder)

However, there were limitations and nuances to this recognition. While stakeholders accepted the need to address fragmentation, they were concerned around the extent to which megafunds alone could achieve this. Legacy schemes, in particular, were highlighted as being at risk of offering poor value. Despite this, questions were raised regarding the extent to which megafund reforms would lead providers to address this where they were approaching the £25 billion threshold without doing so.

Stakeholders also noted exceptions to the correlation between size and value, specifically examples of smaller providers providing access to a wide range of asset classes.

"Actually, if you look at what people like (smaller master trust) and (smaller master trust) were doing, they had higher allocations to some of these asset classes than some of the behemoths."
(UK stakeholder)

[75] Conexus Institute (2023), DWP (2024), The People's Pension (2025)
[76] DWP (2024)

Finally, stakeholders either questioned the level at which the threshold should be set, or argued that it should not be introduced at all. When stakeholders spoke about poorer value provided by smaller schemes, it became apparent that, in some cases, they were referring to single employer pension schemes (who are not subject to the megafund reforms). This relates to the key question around the level at which the scale threshold for megafunds should be introduced. There were suggestions that £25 billion may be an arbitrary figure that does not relate to the benefits of scale.

"We need to ensure that we're delivering value for money and we're well governed, which felt like it was already a requirement. They're saying that a prerequisite of being able to do that is to have 25 billion. it feels like a kind of fairly artificial line in the sand."
(UK stakeholder)

"I think a lot of the stuff like the administrative efficiency benefits, once you're one or two billion, you're getting those."
(UK stakeholder)

Literature varies in terms of conclusions around the size of assets under management required in order to achieve particular benefits. UK literature finds that pension schemes with assets over £100 million offer benefits around governance and economies of scale. Much of the Australian literature finds that assets under management of between £25 and £50 billion offer benefits such as in-house investment and access to a wider range of assets.[76] However, as explored later in this chapter, in some cases, this finding may not apply to the UK pension system in which some schemes may already access scale because they are part of a larger parent organisation which may offer corporate group function efficiencies and, in some cases, wider group asset management functions. In contrast, Australian Supers are discrete entities and typically do not have access to these wider resources.

Where stakeholders argued that the scale requirement should not be introduced, this was on the basis that consolidation has already happened and is still happening. These stakeholders also argued that the scale requirement would lead some smaller schemes that offer good value to exit the market.

While internal management may lead to cost efficiencies, there was recognition among stakeholders of the benefits of external management

There was a debate around the extent to which providers can secure the benefits of scale without moving to an internal management model. Stakeholders had contrasting views around the extent to which smaller providers can harness the cost savings and efficiencies considered to be limited to providers with the scale to manage investments internally.

"Some of the evidence would suggest that actually bringing it in-house can help reduce the costs, because investing in private equity can be quite expensive when you're doing it through different fund managers. So in-house can help, but that's not to say everything should be run in-house and it probably is helpful for it not all to be. So, I think it's more about having that opportunity to do so. Whereas if you're very small, you might never reach the point at which that becomes a viable option for you."
(UK stakeholder)

"So, there's definitely one less mouth to feed, but if the external management is doing so at such big scale that actually they are providing that very cheaply. However, all other things being equal, it's cheaper to run things internally. But it's not always the case."
(UK stakeholder)

This may to some extent reflect the presence of advisers in the sample. However, there was also strong support from Australian stakeholders for hybrid management, arguing that a mixed approach enables providers to obtain the benefits of internal management, where appropriate, and also to develop the expertise necessary to compete with and bolster the value provided by external managers.

"The way it's tended to be approached in Australia is they ask themselves, do we have some competitive advantage in doing this internally? Or are we better off partnering or relying on external managers?"
(Australian stakeholder)

"The external provider itself, you know, is then in a competitive situation with the internal team. And I think what happens if you just went and outsourced to (name external provider) or something, you're beholden to them."
(Australian stakeholder)

While this question was widely considered by stakeholders, the Government megafund reforms have not considered the question of internal, external or hybrid management in any detail. Policymakers have provided guidance around the transition pathway, used to determine whether schemes are on track to reach £25 billion AUM by 2035. This indicates that schemes who wish to use the pathway should build investment capability, including in-house expertise, to access a broader range of investments.[77] Despite this, the question of internal or hybrid management remains an area which would benefit from further research and analysis in the UK context.

3.3 The reforms risk the loss of pension schemes that are delivering value to members

These risks stem from fragmentation within and structures specific to the UK DC market.

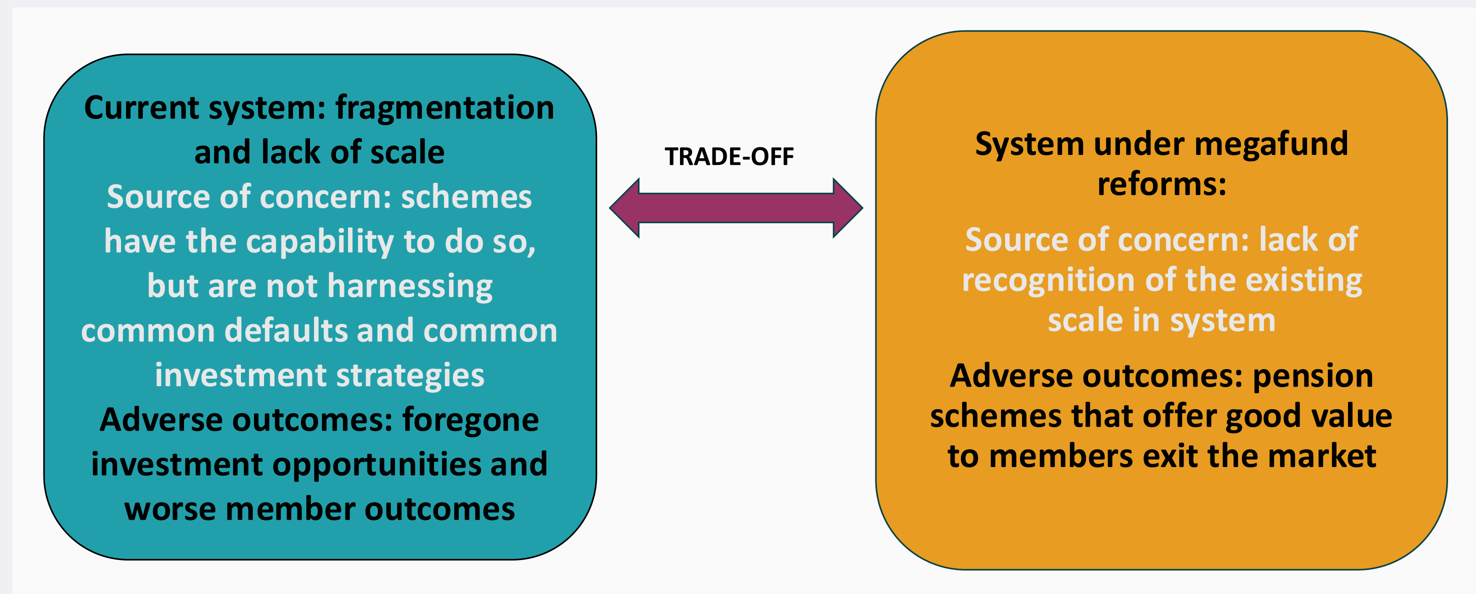
Fragmentation makes it more likely that the megafund reforms risk excluding pension schemes that are delivering value to members

Sources of fragmentation within the UK DC market include advice, regulation, models of pension provision, investment defaults, and legacy schemes.[78] This has, in part, driven the reforms towards scale. At the same time, this fragmentation potentially makes it more complex to design policies to achieve scale. For instance, different management models exist in the UK, including the use of platforms, asset managers, and advisers. To some extent, these have been inherited from the DB pensions landscape. These different models make it difficult to identify where benefits of scale already exist in the system and to design Government policies which reflect this. While all policy interventions typically require trade-offs, particularly in pensions policy, consideration of one of these trade-offs (Figure 8) provides insights into some of the possible complexities around the megafund reforms.

Figure 8

Both the current system and the system after megafunds have potential risks, as well as benefits, for members

Example of trade-off from megafund reforms



[77] DWP, FCA and tPR (2026)

[78] PPI (2025a)

[79] DWP, FCA and tPR (2026)

UK stakeholders acknowledged the potential drawbacks caused by fragmentation in the current system in terms of both investment strategies and worse members outcomes. They also recognised the need to organise pension schemes in a way to harness the benefits of scale, in the areas of shared defaults and appropriate common investment strategies, leading to lower costs.

"We've made huge progress in driving efficiency through combining assets with insurers and providers. Now there is the next level which I think is the common investment strategy. These platforms have hundreds of funds. You can't drive the same scale as you would if you're saying, actually, we've got a common investment strategy across more clients."
(UK stakeholder)

At the same time, they indicated the following risks from the megafund reforms:

- The reforms might not recognise the scale that already exists in the DC pensions market
- Good value providers might be forced to exit the market because they do not reach the £25 billion threshold within the allotted timescale

Stakeholders noted that many providers already access the benefits of scale. Insurers frequently operate both Group Personal Pensions (GPPs) and master trusts (although not all of them use a common investment strategy for these). Providers can access scale through large-scale asset managers, investment or administration platforms, or by being part of a larger parent organisation. In these cases, providers may be able to obtain access to a range of investment opportunities at low cost along with the necessary expertise required to make these investments. This contrasts with the Australian system in which the Industry Supers are discrete entities and typically do not have access to these wider resources.

"We're already in a situation of scale anyway It is already major asset managers who undertake much of the asset management."
(UK stakeholder)

Other stakeholders made similar points:

"You know, we see lots of master trusts that are nowhere near the 10 billion threshold, certainly nowhere near the 25 billion threshold. But under the bonnet, they are using asset managers with massive, massive scale."
(UK stakeholder)

"And so there are benefits of scale that we believe that we can leverage and we can access. And the fact that we're a hybrid scheme, we have scale from our DB side."
(UK stakeholder)

The reforms risk constraining smaller providers, limiting their ability to benefit from scale

There was a particular concern around a circular situation in the transition period, caused by employers and advisers being unwilling to give business to small providers, on the basis that they might exit the market. In turn, this works against those providers achieving scale.

"It's immediately become harder for those smaller providers to win business because if you're an employer, you don't want to move several times or make a decision to go with someone and then they get bought by someone else that you didn't have any interest in."
(UK stakeholder)

Policymakers and regulators have sought to address some of these issues:[79]

> **Government's response to concerns**
>
> The Department of Work and Pensions, the Pensions Regulator, and the Financial Conduct Authority recently published guidance around the scale requirement contending that schemes worth £5 billion today might expect to reach £25 billion within 10 years based on organic growth. The statement includes the acquisition of new workplace pension schemes within its definition of organic growth.

Presumably this statement aims to persuade advisers and consultants to consider recommending smaller providers to employers on the basis that they could reach scale by 2035. However, the fact that it includes the acquisition of new workplace schemes within its definition of organic growth contributes to a cycle of reinforcing obstacles to some extent:

- Advisers might only consider recommending these schemes if they judge them to be likely to meet the scale requirement
- These schemes might only reach scale if advisers and consultants recommend them to employers

Stakeholders called for regulations that take account of the underlying structures in the market

Stakeholders were concerned that the regulations to support the megafund reforms should take account of the scale that already exists in the system. As mentioned above, this difference with the Australian Industry Supers suggests that UK providers may have some level of access to scale, without consolidation, that would not have been available to Australian Supers in the absence of mergers and acquisitions.

There were questions regarding how the scale threshold will be applied to pension schemes, including whether assets in decumulation will be included in the measure.

> *"We're quite keen to understand the clarity of rules around what constitutes a default."*
> *(UK stakeholder)*

Stakeholders called for regulations to take account of the structure of the UK pensions market when designing the scale thresholds.

> *"I would want them to apply it at the highest level at which you can confidently demonstrate that any member falling within that is genuinely getting the value of that scale in the investment proposition which they are involved in."*
> *(UK stakeholder)*

Again, policymakers and regulator have sought to address some of these issues:[80]

Government's response to concerns

The Department of Work and Pensions, the Pensions Regulator, and the Financial Conduct Authority recently published guidance around the scale requirement clarifying that where the same provider uses a common investment strategy they will be permitted to hold a combined mainscale default arrangement, subject to meeting legislative conditions. This is likely to apply to insurers that operate both a master trust and a GPP.

While this clarifies the application of the threshold to master trusts and GPPs, questions remain around how other sources of existing scale might be treated by the regulations.

Differences between the UK and Australia, in terms of both the history and structures of pension systems, suggest that the introduction of megafunds in the UK will play out differently to Australia, with implications for competition and systemic risk. It is essential that any reform to the UK system takes into account the specifics of the UK pensions market. Similarly, it is important that policy changes do not overlook the strengths of the UK system, including the extent to which providers already harness some of the benefits of scale and the extent to which UK pension providers work towards good member outcomes.

Finally, the megafund reforms have also led to concerns around some of the same risks as those experienced in the Australian system. Comparison of the tests used to achieve scale in Australian and UK respectively allows insights into these risks.

3.4 The UK Government has opted for a different mechanism to ensure scale to that taken in Australia

Commentators and policy makers have criticised the YFYS in Australia, which compares Supers net average returns over the previous eight years based on the product's strategic asset allocation.[81] There are criticisms of the YFYS for:

- Leading to herding that reflects a widespread move to passive investing
- The fact that it is backwards rather than forward looking
- Leading pension schemes to be less willing to invest in illiquids, such as private property and infrastructure[82]
  - o related to the need to meet the net returns benchmark (where illiquid assets do not provide predictable net returns)
  - o related to the possibility of merging in the future

These trends potentially contribute to less effective competition, and suppression of innovation, both of which are consequences of herding. Similarly, herding results in lack of diversification and schemes bringing fewer different products to the market.[83]

Under megafund reforms, the UK pension system faces risks broadly similar to those in Australia, though with distinct structural and regulatory differences

YFYS' use of a benchmark based on averages established a path to herding by penalising providers who deviated from this average. This suggests that the benchmark could stifle long-term planning, and innovation. These concerns may have informed the UK Government's rationale for using a test based on scale rather than performance (with other policies such as value for money looking to address performance in a more holistic way in the UK).[84]

There are similar concerns around the implications of megafunds for investment in illiquids as in Australia. Stakeholders felt that providers would be less likely to make these investments if they faced the possibility of merging or of winding up in subsequent years.

> *"Any scheme, be it a single employer trust or be it a smaller master trust, if you're going to have to wind up in five years' time, it wouldn't make much sense to hold a load of really difficult to move private equity or infrastructure."*
> *(UK stakeholder)*

Theoretical explanations around competition and innovation help to explain differing views around the implications of megafund reforms in this area

Chapter 2 of this report highlights that there would need to be higher concentration of pension providers, in terms of assets, than in Australia for UK pension schemes to reach the scale of Australia's megafunds. While the £25 billion threshold is significantly lower than the assets managed by the largest Australian Supers (and the Australian Supers may be even larger by 2035), it is widely expected that the megafund reforms will reduce the number of UK pension schemes.

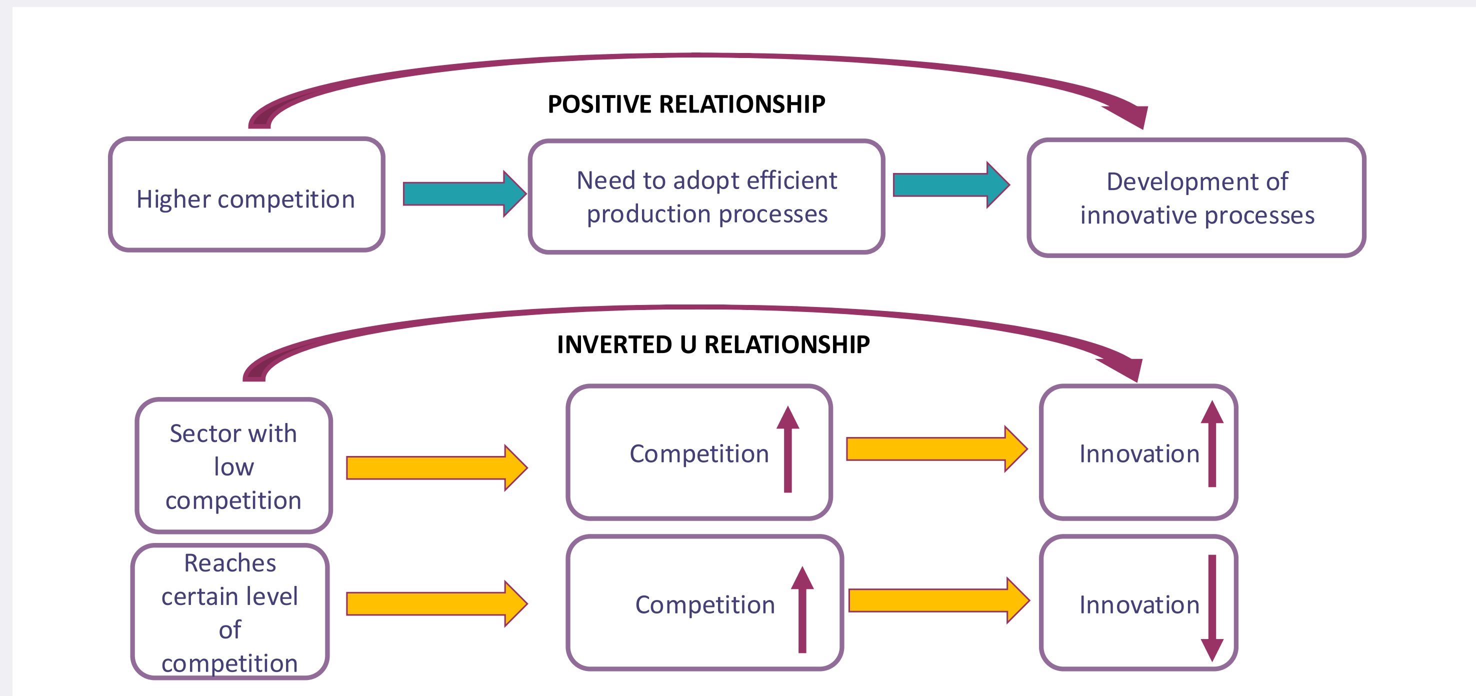
The absence of a performance test that relies on averages suggests that herding may not be as prevalent in the UK as in Australia. In contrast to Australia, the UK Value for Money framework, which does not include such a test, looks to ensure that members do not remain in underperforming pension schemes.[85] However, there is a consensus that the scale requirements will decrease competition in the market. In contrast, there was no consensus among stakeholders that this would lead to decreased innovation. Theories around competition and innovation (Figure 9) help to explore some of these perspectives.

[80] DWP, FCA and tPR (2026)
[81] Australian Government (2023)
[82] Conexus Institute (2022)
[83] Investment Magazine (2025)
[84] UK Government (2026) Retirement boost of £29,000 awaits millions as landmark Pension Schemes Act becomes law
[85] UK Government (2026) Retirement boost of £29,000 awaits millions as landmark Pension Schemes Act becomes law

Figure 9

Different theories around competition and innovation help to understand the potential impact of megafunds

There are different theories around the extent to which competition boost innovation



Source: OECD (2023) COMPETITION AND INNOVATION A THEORETICAL PERSPECTIVE

Traditional theories contend that there is a positive relationship between levels of competition and extent of innovation in a market.[86] However, there has been a growing consensus that there is an inverted U relationship whereby:

- In sectors with low competition, increased competition leads to increased innovation (because there is scope for innovation to lead to substantial increases in market share)
- Once competition has reached a certain level, the relationship is reversed (because there is no longer scope for innovation to lead to substantial increases in market share)

Furthermore, there is an argument that this relates to different levels of technological advancement across organisations:

1. Where the state of technology is similar across organisations, increased competition also leads to higher incentives to innovate
2. Where organisations differ in terms of technological advancement, innovation would come from profits earned through lack of competition. Therefore, lack of competition might lead to innovation on the part of the leaders in technology because they have the incentives to innovate. In contrast, those organisations lagging in technology might have less incentive to innovate because the reward for catching up with the market leaders is low.

[86] OECD (2023)

There are limitations to the application of theories of competition to the pensions market, because of fiduciary duties in the trust-based market, and imperfect competition across the market. Despite this, theories around competition and innovation enable some insight into the extent to which the megafund reforms might affect competition.

Some stakeholders believed that lower competition would lead to lower rates of innovation: this is consistent with a traditional model around the relationship between competition and innovation.

> *"There's the trade-offs of, you know, with less competition, because competition drives innovation, drives better outcomes, with less of that coming into the market."*
> *(UK stakeholder)*

In contrast, others felt that scale would enable innovation because larger players can reap greater rewards from developing their member propositions even in markets with relatively low levels of competition. This is more consistent with the argument that competition might interact with technology to influence levels in innovation. In particular, this aligns with point 2) above, which argues that innovation might arise through the availability of profits earned through lack of competition. In this case, it might be the leaders in technology who have the most to gain through innovation even in a market where there are lower levels of competition.

> *"Yeah, information guidance, like yeah, apps, you know, all the kind of, I know they're the additional bits, but I think that's where we're heading and I think that scale will be able to help us with that more."*
> *(UK stakeholder)*

> *"The bigger the prize for you holding on to that money, the more likely you are to spend that money. So actually, the bigger your scheme, the more you invest in developing your proposition. So I think…it should work in customers' benefits in terms of the kind of services that are available to them."*
> *(UK stakeholder)*

The reforms might run counter to innovation in the shorter term

Stakeholders noted that the transition to megafunds might reduce innovation in the short term if those providers who risked missing the scale threshold delayed the development of innovation to find out whether they would exit the market.

> *"You would absolutely expect there to be a pause on all sorts of new developments and investments."*
> *(UK stakeholder)*

Stakeholders also believed, despite the rules for new entrants to the market, it would be more difficult under the new rules for new entrants to bring innovation to market.

> *"It could potentially stifle competition in terms of a barrier to new entrants. And I know there's rules in there around, you know, pathways for new entrants to get in, but there is still a, it still feels like more of a hurdle than what there is today."*
> *(UK stakeholder)*

The scale threshold has both risks and benefits for member outcomes

Ultimately pension schemes should aim to deliver good member outcomes. Member outcomes have as their building blocks other constituents of value, including returns, charges and governance. While discussions with stakeholders concentrated on these building blocks, some stakeholders mentioned the risk that members might be unable to assess the impact of the megafund reforms on value. There was particular concern that members might not be aware that they are not receiving the benefits of a competitive market.

> *"There's obviously the points there that we talked about, the drawbacks for potentially herding, the lack of innovation and things like that, which, you know, most customers won't notice hose because there isn't anything to compare to."*
> *(UK stakeholder)*

> *"That's what I don't know. That's what's unknown. We don't know what we may lose."*
> *(UK stakeholder)*

Systemic risk did not emerge as a high risk in stakeholder interviews. While the megafund reforms may result in higher concentration within the DC pension system than in Australia, individual pension schemes would not typically be bigger than individual Australian DC schemes. This would take place against a backdrop of an economy that is more than twice the size of the Australian economy. This may explain the lack of stated concern around systemic risk from UK megafunds. In common with Australia, DC pensions are not typically leveraged and, therefore, similar to Australia, it is members who bear the most risk in terms of losing their capital.

Despite this, as in any area where influence is increasingly concentrated, it is important to ensure that regulatory structures reflect this consolidation.[87] This is particularly the case if levels of leverage increase within the DC pensions market.

3.5 The reforms may not result in increases to domestic investment

The Government's ultimate aim is to bring about investments in UK productive assets. International evidence suggests that the megafund reforms will not be sufficient to incentivise this. Only 7% of Canadian pension assets are invested in Canadian alternative assets.[88] While Australian pension funds have historically invested to a greater extent in domestic infrastructure, this trend is reversing. Moreover, tax credits and Government risk-sharing may have incentivised domestic investment by Australian Supers.

In practice, the UK Mansion House Accord may be the main lever that will incentivise domestic investment, with the scale element looking to enable investment in private markets and infrastructure, and the Government's reserve power potentially directing how default funds for multi-employer DC schemes are invested.

Stakeholders were concerned that domestic investment may not be in members' best interest

Stakeholders described particular barriers to investing in the UK and, in particular, in UK private assets. They questioned whether the risk profile of UK private assets meant that they would need to secure higher returns in order to justify the risk. Similarly, stakeholders suggested that schemes may choose to continue to invest in overseas private assets.

"I want good returns to my pension pot and I want it to work hard for me. So whether it's invested domestically or somewhere else now, I get a fair return. And obviously private assets, UK private assets is more risky and more costly. So the value that you need to get from it is going to be, you need to get a better value, if you see what I mean."
(UK stakeholder)

"Just like any other asset, the role of trustees is to look at the options available and allocate wherever they think the best returns will be. So it could be that actually it just means they'll buy a load of private market assets elsewhere because they think that's a better bet."
(UK stakeholder)

There is also the risk that where the reforms lead to increased UK investment it will increase demand for leveraged buyouts rather than bringing new funding to UK private markets.[89]

"If I was to make any prediction by 2030 for everyone in the market who has signed up to the Mansion House Accords, they won't be, it won't be your primary. There'll be a significant proportion that will be secondary market and they're just rebuying what other people have done. And I'm not saying that's a bad outcome, but I don't think it was driving the UK economy and growth in the way that, you know, primary investment would do in that sense."
(UK stakeholder)

Stakeholders cited enabling factors and incentives to domestic investment

During the evolution of the Australian Supers, the Australian Government intervened to provide investment opportunities, along with risk-sharing. Similarly, investment in domestic companies was tax-advantaged. While other factors also played a role in the relatively high levels of domestic investment in Australia, factors such as tax incentives and opportunities for risk-sharing with Government were highlighted as lacking in the megafund reforms.

Stakeholders expressed the need for access to a pipeline of investments along with doubts that this will become available.

"Yeah, pipeline opportunities definitely is needed."
(UK stakeholder)

"(They said), we're fixing the supply side because we're making these big fundamental changes to growth in the U.K. and opportunities, and that's a very easy comment to make, but actually the benefits of that are difficult to quantify and will take decades, not years."
(UK stakeholder)

Stakeholders also felt that tax benefits such as the Australian franking credit[90] would incentivise investment in UK assets. A similar suggestion was the removal of stamp duty on UK shares.

"So the most obvious thing would be to create some sort of financial incentive to invest in the UK versus investing overseas."
(UK stakeholder)

"Australia's investment is very, very different from the UK. It is incentivized. You get the tax rebate, so you're going to invest in Australia."
(Australian stakeholder)

"Any UK listed stocks, you still pay stamp duty on them compared to listed stocks elsewhere They could remove the like the stamp duty on UK shares."
(UK stakeholder)

In the above ways, stakeholders did not consider the megafund reforms to be sufficient to incentivise domestic investment.

[87] Social Market Foundation (2026)
[88] Hymans Robertson (2025)
[89] People's Pension (2025)
[90] When Australian companies pay out dividends, they may attach franking credits to them, representing the company tax already paid on these profits. In turn, the dividend recipient receives a credit for this tax, reducing their tax liability

CHAPTER FOUR:

HOW MIGHT THE UK DC PENSIONS MARKET EVOLVE IN THE ABSENCE OF THE MEGAFUND REFORMS

Key findings:

- **There has already been significant consolidation in the master trust market: between 2019 and 2025, the number of authorised master trusts decreased from 38 to 31.**
- **The size of the master trust market is expected to increase from £130 billion in 2023 to £420 billion by 2030.**
- **An issue arises where those master trusts that would have been on track to reach £25 billion assets under management by 2030 or 2035 through organic growth (returns and new workplace customers) are no longer on track for this level of growth because they cannot attract new customers.**
- **The existing trend of single-employer trust schemes moving to master trusts is likely to continue, regardless of the megafund reforms.**
- **Even without the megafund reforms, providers are moving their funds into productive assets. The Mansion House Accord cements this to some degree, with many providers agreeing to invest 10% in productive assets, of which half are in UK productive assets.**
- **Some providers may not harness the benefits of scale in the absence of the reforms. Issues around fragmentation apply in particular to contract-based pension schemes. In the absence of megafund reforms, this is an issue that may persist.**

This section explores how the UK DC pensions market might look in the absence of the megafund reforms, specifically in terms of consolidation and scale, along with some of the developments that the reforms aim to harness, such as investment in private markets.

4.1 There is already significant scale and consolidation in the DC multi-employer pensions market

There has already been significant consolidation in the DC multi-employer market: between 2019 and 2025, the number of authorised master trusts decreased from 38 to 31.[91] Stakeholders expected that this would continue even in the absence of the reforms.

"So the market's consolidating massively, you know what I mean? And I would commend the Government for what they have done to drive that level of consolidation. It would not have happened without some of the things they've done over the past five years."
(UK stakeholder)

Estimates of the number of master trusts vary, depending on whether master trusts who do not operate on the open market are included.

"So if you discount that, if you discount ones that are going through an integration, by my account, there's only 16 sort of open market (master trusts), which is quite a consolidated market."
(UK stakeholder)

Similarly, the size of the master trust market is expected to increase from £130 billion in 2023 to £420 billion by 2030.[92] The statement issued by DWP, TPR, and the FCA contends that schemes worth £5 billion today might expect to reach £25 billion within 10 years based on organic growth. Figure 9 shows how different types of master trust's funds under management compare with this £5 billion figure. It should be noted that this only covers the master trusts for which these figures were available:

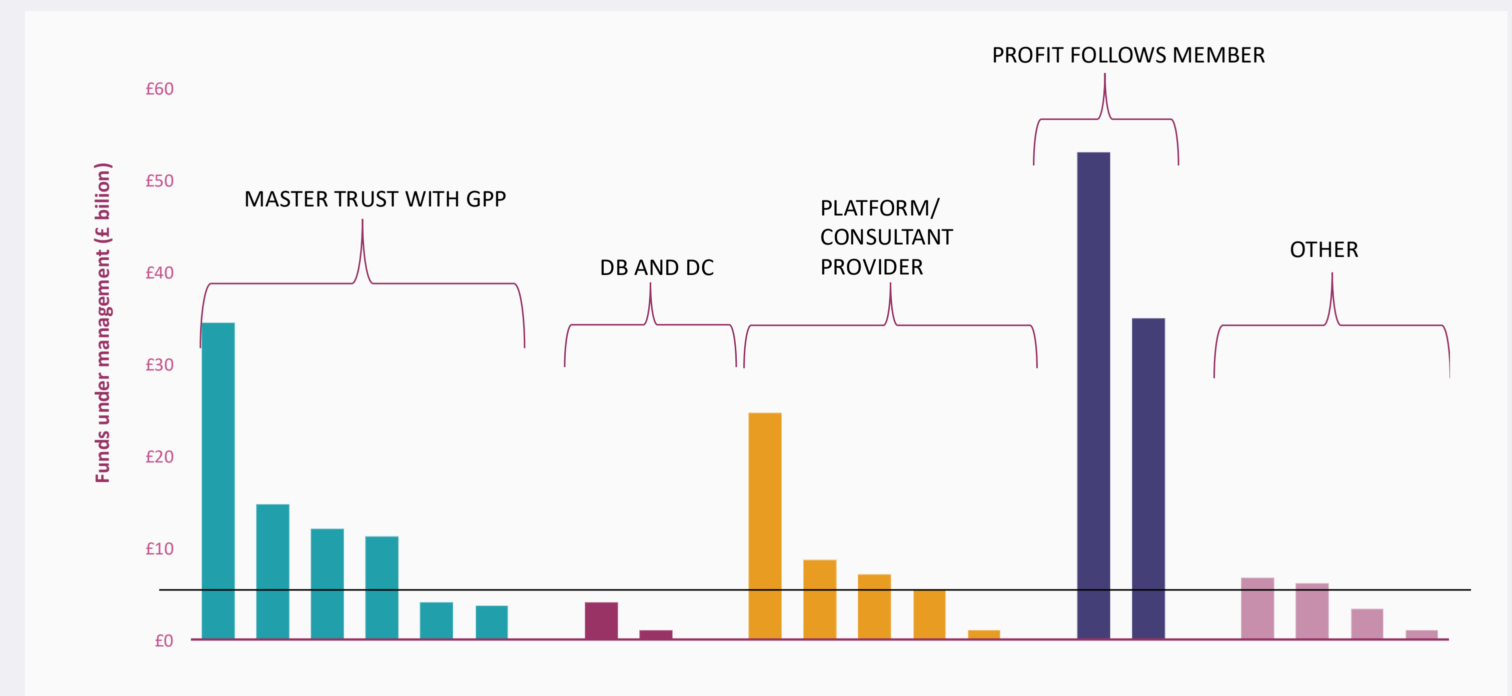
- Profit-follows-member master trusts have already met the threshold
- Most of the providers that operate master trusts and GPPs currently have a master trust with more than £5 billion funds under management
- Four out of five of those provided by a platform or consultant have approximately £5 billion funds under management or more.
- Half of those who fall into the other two categories respectively ('DB and DC' and 'Other') have approximately £5 billion or more in funds under management.

An issue arises where, as a result of the megafund reforms, those master trusts who would have been on track for scale through organic growth (returns and new customers) are no longer on track for this level of growth because they cannot attract new customers. It is not possible to estimate the extent of this trend, or the impact of this on level of funds under management. However, there is a risk that those providers who would have reached £25 billion or more funds under management in the absence of the reforms do not reach this threshold.

Figure 10

Many master trusts would in principle be on track to reach the threshold through organic growth

Master trusts by funds under management in 2025 (£ billion)



Source: Go Group (2025) Master Trust League Table

[91] Professional Pensions (2025)
[92] PLSA

The existing trend of single-employer trust schemes moving to master trusts is likely to continue, regardless of the megafund reforms. However, again, there is the risk that single-employer trusts will not wish to move to master trusts where they estimate that they will not meet the £25 billion threshold, instead investing their funds in schemes that have already met the threshold.

"And there does seem to be a trend from own trust into master trust. And I think that will continue because particularly some of these own trust schemes are never going to make 25 billion. So I think there will be a continued trend towards master trust from own trust."
(UK stakeholder)

4.2 Many schemes are already working towards the Government's megafund reform objectives

The megafund reforms form part of a range of policies intended to complement each other, including the Mansion House Accord, the Government's reserve power to mandate how default funds invest their assets, and the Value for Money framework. In this sense, the policy levers are intended to interact in order to produce the desired outcomes. The position for each objective before the introduction of the megafund reforms is summarised below:

Investment in productive assets and domestic markets

Investment in productive assets is already widespread. In the trust-based sector, TPR data suggests that 9 in 10 savers are already in a scheme that invests in productive assets. However, this does not identify the level of investment.[93] Equivalent data is not available for contract-based pensions. The Mansion House Accord cements this to some degree, with some providers agreeing to invest 10% in productive assets of which half are in UK productive assets

"There's one or two that are not signed up to the Mansion House Accord, right? So, but largely the whole industry signed up to that and everyone's doing it anyway."
(UK stakeholder)

The scale thresholds are designed to ensure that providers are able to access the full range of investment opportunities in alternative assets, and that they do this cost effectively, in part through internal management. If the megafund reforms were not introduced, some of the master trusts in this chart would not be estimated to reach the £25 billion threshold by 2035. Government policy suggests that, in the absence of the reforms, there would still be master trusts who are either not accessing the full range of investment opportunities or are not accessing these in a cost-effective way. However, in practice, some of these master trusts may access the benefits of scale through other routes.

Governance, administration, charges and member communications

- These areas represent secondary objectives of the megafund reforms, and are primarily targeted via other policies, including the Value for Money framework and guided retirement.
- Fees are already low relative to Australia
- Master trusts in particular are judged to be well-governed

"I don't think we're in an uncompetitive market. You know, we see a very, very competitive market. Yeah, we see very, very low charges. You know, workplace pensions are very well governed."
(UK stakeholder)

"Nearly all master trusts are kind of well-governed."
(UK stakeholder)

- Improvements in areas such as engagement and member outcomes are primarily driven by other policies. While stakeholders reported high levels of focus and development in these areas, we do not know how consistent that is.

"I think something definitely worth stressing is how much investment and development we're seeing across DC products. I think over the last few years, we've seen providers bring together, I guess, new models and tools and calculators and a lot of engagement material."
(UK stakeholder)

4.3 In the absence of the reforms, some providers may not harness the benefits of scale

The Government is concerned that particular providers are not harnessing the scale that is available to them. While there is a lack of data around GPPs, the available data suggests that this is an issue that applies in particular to the contract-based side of the market:

- GPPs typically have more default investment funds than master trusts
- Members of GPPs are less likely to invest in their scheme's main default strategy. PPI research found that two-thirds of GPP members were invested in their scheme's main default strategy, compared to more than 70% of master trust members.[94]

This suggests that issues around fragmentation apply in particular to contract-based pension schemes and that, in the absence of megafund reforms, this is an issue that may persist.

Similarly, stakeholders reported that providers who operate both a master trust and a GPP had mixed approaches to adopting a common investment strategy across both propositions. In these types of cases, the reforms may not lead to these providers merging with other schemes or exiting the market; rather the reforms would require them to re-arrange their propositions to ensure that they pursue a common investment strategy.

While it is difficult to estimate the extent to which other policies, such as Value for Money, might push providers towards investing funds in the most efficient way, it seems likely that, in the absence of megafund reforms, some providers would not prioritise this to the same extent.

[93] TPR (2025)
[94] PPI (2025b)

CHAPTER FIVE:

ALTERNATE OR PARALLEL ROUTES TO THE BENEFITS OF SCALE

Key findings:

- **While the UK megafund reforms plan for scale to stem from wholesale consolidation of investments themselves, other countries such as Hong Kong have emphasised benefits of consolidation, such as member experience.**
- **This represents both a more staged process and a process that has a different starting point to the UK in its emphasis on the consolidation and standardisation of member-facing administration processes.**
- **Hong Kong stakeholders are currently discussing the possibilities of enhancements including a unified investment portfolio to enable the scale for investments in alternative assets.**

The UK megafund reforms plan for scale to be generated by wholesale consolidation of investments themselves, replicating to some degree the Australian model. While merging of other functions might emerge, this will likely be driven by the consolidation of investments. In practice, the Australian model also emphasised the benefits of scale in the context of the merging of other functions, such as administration.

5.1 Other countries such as Hong Kong have emphasised specific benefits of consolidation such as member experience

Other countries have emphasised the benefits of scale by focussing on other areas such as administration processes.[95]

Hong Kong pension system

State Pension: Residency-based non-means-tested Social Security Allowance, and separate means-tested benefit (Old Age Allowance and the Olde Age Living Allowance)

Private occupational pensions (mandatory): Mandatory Provident Fund (MPF), introduced in 2000. Employment-based DC system, with mandatory contributions for both employees and employers.

- Employer selects pension scheme
- Employee selects pension fund within the scheme

Private occupational pensions (voluntary): DC and DB schemes set up voluntarily by employers, known as Occupational Retirement Schemes Ordinance (ORSO) Operating prior to the introduction of the MPF, and allowed to continue operating.

Like other jurisdictions, there were concerns in Hong Kong regarding the fragmentation of the system, and the challenges that this presents to members in terms of managing their pensions savings. Similarly, increased member engagement was considered important for the success of the pension system.

In response, the eMPF system was introduced in 2024 to cover schemes within the MPF (Figure 11), with the aim of streamlining administration, providing operational efficiency and reducing costs. This currently includes standardised processes for administration, compliance and communication.

[95] OECD (2019)
[96] New Financial (2024)

Hong Kong's Mandatory Provident Fund

Fragmented member base:

- 4.8 million members
- 11 million accounts – Contribution Accounts; Personal Accounts; Tax-deductible personal contribution accounts
- 368,000 employers

Introduction of eMPF centralised platform for:

- General administration and compliance
- Communication channels
- Account activation and enrolment

Source: PWC and The Hong Kong Retirement Schemes Association (2025) Hong Kong's Mandatory Provident Fund - Paving a visionary path forward

The UK pensions dashboard will be designed to achieve similar processes, in terms of members being able to see the entirety of their private pensions in one place. There are additional discussions in Hong Kong around how this might be harnessed to enable consolidation in areas such as investments in order to mitigate fragmentation in the system.

This represents a more staged approach to consolidation

Hong Kong stakeholders are currently discussing the possibilities of enhancements to the eMPF, including:

- Portfolio management
- Ability for members to make contributions and withdrawals via the platform.
- Development of a unified investment portfolio for members who prefer not to make investment choices – this would be large enough to enable investment in alternative assets
- Incorporation of robo-advice

It is not certain that these enhancements will take place, but this represents a model where the consolidation of administration processes might lead to other types of consolidation. This represents both a more staged process and a process that has a different starting point to the UK in its emphasis on the consolidation and standardisation of member-facing administration processes.

Despite this, Hong Kong's economic and political context affects the extent to which Hong Kong models of pension provision might be replicated in the UK. Specifically, Hong Kong already has rules around domestic investment: 30% of pensions must be invested in Hong Kong dollar-denominated assets, and just over a fifth of pension assets are in domestic equities.[96] In addition, Hong Kong has a large sovereign wealth fund, outside the pension system, invested in Hong Kong equities. This suggests that the drive to increase investment in domestic assets, present in the UK, is not present in Hong Kong.

Both the need for better administration and cost savings from consolidation of administration processes are issues for the UK pension system. It remains to be seen whether megafunds will lead to this type of consolidation that leads to improvement to areas such as administration and communication.

> *"Everyone's talking about investment scale, but actually no one's talking about administration scale. But actually what we do need to see is the administration service standards creep up, more support for members, better support for members, stopping members making the wrong decisions at retirement."*
> *(UK stakeholder)*

Conclusions

The UK DC market is growing rapidly, and there has been significant consolidation over recent years. This looks set to continue, and with the first staging post for the megafund reforms in 2030, these latest reforms look set to supercharge this trend.

International evidence shows that scale has the potential to deliver benefits in terms of reduced costs per member and access to a fuller range of investments. In addition, these reforms may provide the push for some UK providers to harness the benefits of scale.

At the same time, the same evidence suggests there is no guaranteed correlation between scheme size and returns. Moreover, Australian schemes have not realised some of the advantages that might benefit members most directly, including reliable member servicing and suitable retirement income strategies. A key challenge in the UK is to ensure that the system captures the advantages of scale to the benefit of members. Similarly, it is important that any reforms designed to ensure scale do not undermine existing and ongoing positive trends, such as an increasing focus on member outcomes during both working lives and in retirement.

The UK system has evolved very differently and is more fragmented than the other countries considered in this report. This fragmentation means that the reforms have the potential to result in greater concentration than the Australian system. It also means that existing UK scale and beneficial features could be overlooked. It is important to design regulations that recognise and maintain these existing features while also addressing issues around providers failing to harness the benefits of scale that are available to them.

Other differences between the UK and Australia, in terms of both the history and structures of pension systems, suggest that the introduction of megafunds in the UK will unfold differently to Australia, with implications for competition and systemic risk. It is essential that any reform to the UK system takes into account the specifics of the UK pensions market. Similarly, it is important that policy changes do not overlook the strengths of the UK system, including the extent to which providers already harness some of the benefits of scale and the extent to which UK pension providers work towards good member outcomes.

Previous consolidation in pension schemes sits alongside increases to the value of DC pension savings from both investment growth and additional contributions, the introduction of other Government policies such as Targeted Support and Guided Retirement Solutions, and greater levels of investment in private markets by pension schemes as a result of the Mansion House Accord. These trends suggest that, even without the reserve power for Government to determine where schemes invest their assets, and in the absence of the megafund reforms, a significant proportion of pension schemes could be in a position to deliver the benefits sought by the Government.

Even before the Bill was enacted, these reforms affected the market, providing a sense of how the introduction of the reforms might play out. Again, the system faces the challenge of how to ensure that the reforms themselves do not lead to providers, who might otherwise have done so, failing to reach the £25 billion threshold.

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Appendix A: Methodolgy

To ensure a balanced analysis, the literature review includes grey literature, industry reports, academic studies, and data from official sources. In addition, representatives from providers, consultants and subject matter experts in the UK were invited to participate in a consultation interview to share their perspectives. Australian subject matters experts were also invited to participate. Insights were gathered into the UK DC landscape, international experiences of scale and consolidation of DC pensions, and the risks, benefits and challenges of the UK megafund reforms. In-depth semi-structured interviews with 10 stakeholders were conducted in February and March 2026.

The initial stage of research involved a detailed exploration of international experiences of scale and consolidation of pensions, using key research terms to gather information from websites and data providers. The search strategy focussed on combining the search terms of pension megafunds or pension size with search terms such as strengths; limitations; risks; investment strategies; market structure; and regulation. In addition, citations from relevant literature were tracked in order to identify further relevant sources. This stage of the research also included reviewing consultation responses on policy developments to understand current trends in the UK. The second stage involved inviting stakeholders, including providers, consultants and subject specialists, to an interview. Interviews followed a semi-structured format, using a discussion guide with prompts based on the project research objectives. The guide was used flexibly to allow conversations to adapt to each participant's area of expertise and experience.

Interviews were up to 70 minutes in duration. A Thematic Analysis framework was constructed, and interview transcripts were coded into key concepts and themes. A series of quotes were also selected as representative, or relevant in terms of highlighting some of the main themes that arose during the calls. These are incorporated throughout the report and intend to highlight the stakeholder perspective and add depth to the literature review findings.

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