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MEGA(funds): Government vows to make UK workplace pensions great again

By Graham Hook, Head of EMEA Government Relations and Public Policy, and Mary Cahani, Head of UK DC Distribution, at Invesco

London, 5 June 2025 - Hot on the heels of the recent Mansion House Accord, which saw 17 workplace pension providers commit to invest more in private market assets (including UK assets)[1], the Government has published its Pensions Investment Review Final Report bringing to a close the first phase of the broader Pensions Review.

Setting out a clear vision for the UK's workplace Defined Contribution (DC) system – "a competitive market of fewer, larger, well-run schemes" – the Government has concluded that further action is needed to accelerate the trend towards consolidation and greater scale. As a result of the changes announced in the Review, the Treasury forecasts there could be 10-15 DC megafunds by the end of the decade, growing to 15-20 by 2035.

Graham Hook, Head of EMEA Government Relations and Public Policy, says:

"As well as driving consolidation, the Government also intends to apply additional pressure on GPP providers and trustees to allocate a greater proportion of their portfolios to UK assets. However, having secured voluntary investment commitments through the Mansion House Accord, the Government has stopped short of requiring such schemes to allocate a minimum proportion of assets to domestic investments... for now."

Big, beautiful megafunds?

"In its push for scale and consolidation in the multi-employer DC workplace pension sector, which it believes could lead to a £6,000 boost to retirement pots, the Government has committed to legislate via the forthcoming Pension Schemes Bill to require providers and master trusts to have £25bn in assets under management (AUM) by 2030.

"The requirement will apply at arrangement level meaning that a provider must have at least one main scale default arrangement meeting the AUM requirement by the end of the decade. However, if a provider or master trust can demonstrate to authorities that it will have at least £10bn in AUM in a default arrangement by 2030, it will be able to apply

[1] Including but not limited to infrastructure, property, and private equity investments.

to be on a "transition pathway" and must provide the regulator with a credible plan to have £25bn in AUM by 2035.

"The Government's plans will not apply, however, to single employer trusts, DC/Defined Benefit (DB) hybrid schemes, or default arrangements that serve protected characteristics, for example in relation to religion. Moreover, having flirted with the idea of setting standardised pricing for default funds during the consultation phase, the government has decided not to proceed – at this stage – with setting standardised pricing for default funds.

"Finally, regarding contract-based schemes, the Pension Schemes Bill will include a "Contractual Override Regime" for providers allowing for consolidation of underperforming and legacy arrangements where it would improve saver outcomes. The FCA will be directed to consult on how such a regime would work in practice in due course.

Go MEGA for MUEGA[2]

"Alongside better saver outcomes, the other key objective of the Pensions Investment Review is to increase investment in the UK economy in support of the Government's central growth mission. Noting the recent voluntary commitment by industry in the Mansion House Accord[3] to allocate a higher percentage of AUM to 'productive' assets, including in the UK, the Government has decided not to *require* DC schemes to allocate a minimum proportion of their portfolios to UK assets *at this stage*. It has also decided not to take any action in relation to investment in UK listed assets.

"However, the Government will legislate for a "Reserve power" which will enable it to set quantitative baseline targets for pension schemes to invest in a broader range of productive assets, including in the UK. The Government states that the power would only be used where commitments set out in the Mansion House Accord are missed and where mandating such investment has been assessed as (i) benefitting pension savers and economic growth and (ii) "consistent with the principles of fiduciary duty". Such caveats suggest that any requirements could be on a 'comply or explain' basis rather than a hard mandate.

"Seeking to apply greater pressure on schemes to invest in the UK, the Government also announced that, ahead of the publication of schemes' portfolio disclosures under the incoming [Value for Money (VfM) Framework] from 2028, the FCA and The Pensions Regulator (TPR) will, later this year, launch a joint market-wide data collection exercise targeting workplace DC schemes. The exercise will seek information on schemes' asset allocations, including the extent to which they invest in UK assets. Initial reporting under this exercise is expected early next year and will enable the Government to track progress against the Mansion House Accord. In addition, the Government has indicated it expects the regulators to define industry performance benchmarks as part of the

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[2] Make the Uk Economy Grow Again

[3] Signatories of the Mansion House Accord have pledged to invest 10% of their workplace pension portfolios in productive assets by 2030, at least 5% of which will be ringfenced for the UK. This equates to an expected investment of £25bn in the UK economy.

Value for Money Framework – despite the FCA stating last year that it wouldn't propose regulator-defined benchmarks at this time.

"Finally, the Government will also legislate to require large GPP providers or master trusts to demonstrate they have, or are building, an investment capability commensurate with their scale.

Isn't small beautiful?

"Despite the focus on scale and consolidation, the Government claims to be keen to enable innovation and the access of new entrants to the market. It clearly expects the development of (unconnected) multi-employer CDC schemes as the principal innovation to come in the next few years and hence will exempt CDC schemes from the scale requirement.

"In addition, the Government will introduce a new pathway for new market entrants through the introduction of additional authorisation criteria. However, aspiring new entrants will not only have to demonstrate to regulators that they are fit and proper with a credible business plan, but also that their intended offer is sufficiently different or innovative, and that they have a credible plan to achieve scale and to build commensurate investment capabilities. As such, the barriers to entry will likely be high, putting considerable control over the future shape of the workplace DC market in the hands of regulators."

What does this mean for workplace pension providers and trustees?

Mary Cahani, Head of UK DC distribution at Invesco, says "What the Review highlights is that for the majority of workplace Defined Contribution (DC) pension providers, the latter half of this decade will present a profound shift characterised by extensive regulatory and operational changes.

"Collaborating with key stakeholders as these dynamics unfold will be paramount to addressing all the challenges that come with these changes. For us, working with or alongside key stakeholders—including advisors, trustees, platform providers, in-house teams, regulators, and other industry partners—will be essential to navigate this evolving landscape effectively. A strong partnership approach will enable providers to leverage diverse expertise and insights, drive innovation, and develop tailored solutions that not only comply with new regulatory frameworks but also prioritise and improve client outcomes.

"As we face upcoming regulatory requirements, including the value-for-money disclosures, our commitment to collective problem-solving will facilitate the provision of targeted support and innovative decumulation solutions for our clients. This will enable us to remain agile and responsive to market shifts, ensuring that we are not merely compliant but also forward-looking in our strategy.

"Moreover, as we enter this new regulatory era, investment performance and asset allocation will be critical for DC pension providers who need to continue to deliver consistent value for their members. By ensuring that anything we do is not only compliant but also tailored to meet the changing needs of members and by fostering an innovative culture that encourages collaboration through shared goals, we aim to deliver positive outcomes for our clients and ultimately their members in this dynamic landscape."

So, what happens next?

Graham Hook continues: "The publication of the Pensions Investment Review Final Report brings to a close the first phase of the broader Pensions Review. Much of the finalised strategy will be implemented via the forthcoming Pension Schemes Bill which is expected to be laid before Parliament rises for summer recess on 22 July.

"However, in tandem, the Government has announced that Phase 2 of the Pensions Review, looking at pension savings rates, adequacy, and inequality in retirement, will be launched "in the coming months". This has reignited speculation that the Government will look at potentially increasing minimum pension contributions via auto-enrolment, differential employee contributions or altering the employer/employee mix. Another area of focus could be the minimum qualifying threshold for auto-enrolment, with the Government keen to ensure that more people are saving for retirement.

"More broadly, given the UK's challenging fiscal situation, there is likely to be renewed speculation ahead of the Autumn Budget that Rachel Reeves will look to changes to pensions taxation to help balance the books – by reducing some of the benefits attached to pensions saving. For example, reducing the annual allowance or re-introducing the standard lifetime allowance could reduce government liabilities while only impacting those able to save the most via their pensions.

"Broader pensions reform may also present an opportunity to consider reducing the cost to the government of allowing retirees to take a tax-free lump sum or even amending pensions tax relief more broadly, for example by introducing a flat rate on contributions or limiting the benefit of salary sacrifice or other employee benefit schemes. The government has fuelled such speculation recently following the publication by HM Revenue & Customs (HMRC) of the findings of two employer surveys relating to salary sacrifice and other employee benefit schemes.

"In any case, we should know more about the Government's intentions following the publication of a Roadmap, announced by Minister for Pensions, Torsten Bell MP, outlining the broader pensions reform agenda, including the sequencing of planned reforms, in support of industry implementation."

Timeline of Pensions Investment Review reforms

2025 Q2	Pension Schemes Bill introduced

	Workplace Pensions Roadmap published
2025 Q2/3	Launch of Phase 2 of the Pensions Review (adequacy, contribution rates etc)
	Further FCA consultation on Targeted Support for Pensions (Advice / Guidance Boundary Review)
2025 Q3/4	Further FCA consultation on the Value for Money Framework
	Launch of regulator-led annual default arrangement data collection exercise
	Autumn Budget
2025/26	DWP consultation on definition of "main scale default arrangement" (tbc)
2026	Pension Schemes Bill receives Royal Assent (tbc)
	FCA Targeted Support rules in place
2026/27	FCA consultation on contractual override provisions (tbc)
2027	Master Trusts begin complying with requirement to offer decumulation solutions
2027/28	DWP consultation on requirements for 'transition pathway' for smaller schemes (tbc)
2028	First VfM Framework disclosures expected to be published
	Contractual override powers become operational
	Single Employer Trusts and GPPs begin complying with requirement to offer decumulation solutions
2029	Government review of remaining sub-scale default arrangements/ market fragmentation
	Smaller providers apply to regulators to access 'transition pathway'
2030	Requirement for providers to have at least one main default arrangement with £25bn AUM unless on transition pathway
	Mansion House Accord commitments due to be met

2035	Deadline for all providers to have default arrangement with minimum £25bn AUM

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