Independent Governance Group's response to 'Pensions Investment Review: Unlocking the UK pensions market for growth'

January 2025

Introduction

Independent Governance Group (IGG) specialises in providing professional pension trusteeship, scheme secretarial, pensions managerial and governance services.

We are one of the UK's largest providers of governance services, with 490+ appointments to schemes of all types and sizes, ranging in asset size from the low millions through to multi-billion pound funds, including both DB and DC master trusts. In total, the assets we hold across all of our appointments exceeds £320bn.

IGG has over 230 employees based across offices in London, Bristol, Manchester and Edinburgh. An employee communications agency, Like Minds, and a firm of oversight and selection specialists, IC Select, complete the IGG family of brands.

We are a prominent member of the Association of Professional Pension Trustees (APPT) and the Pensions Management Institute (PMI). Members of the firm play a leading role in the APPT, including a role as Chair of the APPT, and PMI committees and all Trustee Directors, as well as other senior members of the team, are either fully-accredited as professional trustees or working towards accreditation.

Summary

IGG supports the government's exploration of measures to deliver greater value to DC savers, and to support the UK economy and broader sustainability objectives.

We agree that in order to create a framework that enables large scale access to direct private market investment, with sophisticated in house capability, the building of greater scale in the DC market is a necessary component. We would stress that there are other components, particularly on the supply side, which are also necessary to build the overall infrastructure required to successfully achieve government's aims.

However, whilst we believe there is merit in measures such as some restriction on the number of default funds, we are not convinced that forced consolidation in the master trust market in particular will achieve the required scale any faster than allowing the market to consolidate organically, in line with the current trend. Forcing consolidation over a particular timeframe has the potential to delay the changes in investment behaviour that government wishes to see, by disincentivising investment in private markets during the transition period.
As professional trustees, our duty is to the beneficiaries of the schemes we govern, so initiatives which broaden the opportunities to grow value for savers through access to a greater range of high quality investment opportunities aligns with that duty and increases the opportunity to provide high quality cradle to grave retirement solutions that do not see value eroded by unnecessary transaction and transition costs.

However, our duty as trustees requires us to seek the evidence and be confident that investment in any market will improve returns and retirement outcomes for our members as part of a diversified portfolio, and be consistent with investment objectives, including in relation to sustainability. It is therefore vital that space remains for innovation to flourish and for employers, where they are able, to offer their employees high quality, good value bespoke solutions, which exist in a number of schemes. We are pleased that single trust schemes are out of scope for this consultation, and agree that the value for money framework should be allowed to develop and do its job in distinguishing those schemes that are not able to offer value and should consolidate, from those that are able to compete with large scale commercial solutions. However, there are some schemes in scope of the proposals that are already making good progress with innovative solutions, in particular sustainable investment including in the UK, where the benefits of consolidation are not readily apparent.

We strongly believe that the issue of adequacy cannot be separated from the delivery of good value. International comparisons show that the building of scale alone does not deliver significantly improved median returns for members compared to those currently achieved by UK schemes. As data published by Corporate Adviser illustrates, the building of scale in Australia and resulting investment strategies has not resulted in median returns that outperform the returns achieved by strategies adopted in the current UK system. Though the range of returns has narrowed so that the lowest returns in Australia are higher than the lowest returns in the UK, the reverse is also true for the highest returns.

Therefore, alongside maximising the value delivered by investments in a pension scheme, the adequacy of contributions into DC schemes must also be addressed, as must the consolidation of individual members pots where a good deal of value is currently lost. We hope to see these issues addressed in the forthcoming pensions bill and the next phase of the pensions review, which we would urge government to commence at the earliest opportunity.

The timescale over which 'forced' large scale consolidation might be implemented requires careful thought, in order to avoid unintended consequences that have the potential to harm members. A key consideration is making it very clear how a default is defined for the purposes of consolidation, to ensure that the market has a common understanding and that the added value is delivered as intended.
Other key considerations include the capability and capacity of administration systems and platforms, whether the authorisation criteria for master trusts is fit for purpose where they are intended to be 'mega funds', and whether the regulatory framework, capability and capacity exists to oversee the exit of a substantial number of master trusts from the market over a given timeframe.

We have provided answers to the consultation questions that we feel are relevant to us as an provider of professional trustee and governance services.

As the Government finalises its response to this consultation, we would welcome the opportunity to discuss our response in detail with officials.

Please contact Louise Davey, Head of Policy and External Affairs, in the first instance (louise.davey@weareigg.com; +44 (0)7767 537876).

Responses to questions

Question 1: Do you think that providers should be restricted to a limited number of default funds, and if not why? Please consider any equality considerations, conditions and to what extent saver choice could be impacted.	A limitation on the number of defaults provides an opportunity to level the playing field where pricing differs across employers for what is essentially the same default with marginal bespoking. However, the definition of 'default' for the purposes of consolidation must be clearly defined to ensure that the appropriate scale is targeted and achieved, and that members see the benefits. The default definition should also capture the post-retirement element in order for private markets to also be included in drawdown solutions, avoiding a cliff edge at retirement where the transition into post retirement products can significantly erode the value of a DC pot. Default funds (by which we mean multi-asset vehicles designed to provide growth in accumulation, then income post retirement) reaching £25-£50bn could provide sufficient scale to invest in the calibre of internal skills needed to for meaningful direct investment in private markets without requiring the use of, for example, fund of fund structures where higher costs could erode value to members. Aggregation at 'pooled fund' level may be less effective in building the scale required to achieve significant inclusion of private markets in default strategies. Any limit on the number of defaults needs to be balanced with the suitability for different member cohorts. One size does not fit all and the membership, and their needs, within any one scheme will be diverse.
Question 2: The proposed approach at default fund level could mean that the number of default arrangements would remain unchanged. Will imposing the requirement at this level have any impacts on the diversity of investments or the pricing offered to employers?	It is likely that pricing would be more consistent, which may benefit some employers who historically have not been able to negotiate the pricing enjoyed by larger employers. This does of course depend on the charging structure adopted, and the extent to which smaller employers may have benefited from cross-subsidisation. In terms of investment diversity, this will depend on the availability of quality investment opportunities. Clearly, without a good pipeline of investment opportunities there is a risk that diversification across providers will be narrowed, which could bring increased risks to members retirement outcomes.

	There are other potential benefits of greater consolidation such as pushing members towards organisations which offer high quality post retirement solutions and invest in proper guidance tools. It is important to ensure that providers of 'mega funds' can provide sufficient personalisation across communications, guidance tools and retirement solutions. This should be considered in the context of the 'targeted support' proposals that the FCA is currently consulting on.
Question 3: What do you think is the appropriate minimum size of AUM at default fund level within MTs/GPPs for these schemes to achieve better outcomes for members and maximise investment opportunities in productive assets?	AUM size is not the only barrier. To invest effectively and efficiently in private markets, organisations will need to invest in large, skilled teams with the ability to take on the significant governance burden of direct investment in private markets. Default funds (by which we mean multi-asset vehicles designed to provide growth in accumulation, then income post retirement) reaching £25-£50bn may provide sufficient scale to invest in the calibre of internal skills needed. However, we would highlight that building scale and capability will not in itself drive investment in productive assets. As data published by Corporate Adviser illustrates, the building of scale in Australia and resulting investment strategies has not resulted in median returns that outperform the returns achieved by strategies adopted in the current UK system. Though the range of returns has narrowed so that the lowest returns in Australia are higher than the lowest returns in the UK, the reverse is also true for the highest returns.[1] The availability of high quality investment opportunities that provide a clear incentive for trustees to incorporate them into their investment strategies is crucial for savers to truly benefit, and for trustees to act consistent with their fiduciary duty. This means that investment opportunities need to be presented to trustee boards for their consideration. Arguably there is currently a gap in this regard and there is scope for investment manager mandates to include more specific objectives around bringing private market opportunities to trustees. A further consideration is proportion of assets which trustees and providers choose (or which government expects them) to allocate to private markets. In this sense greater scale permits meaningful monetary amounts to be invested whilst providing scope for broad diversification. Other factors that are important to consider are the ability that scale creates for the provider to offer high quality post retirement solutions, easily consolidate pots and provide proper

[1] Why the UK should avoid the Aussie Supers' race to the middle on performance - Kris Black - Corporate Adviser

	guidance tools.Care needs to be taken to ensure that appropriate personalisation can be achieved. In addition, it is crucial that the administration services provided in large scale arrangements do not suffer, and that there is appropriate investment in systems and processes to ensure that administration is slick and efficient. This is not currently the case, and there is a risk that focus on consolidating for the purpose of investment, will see administration slipping down the priority order, to the detriment of members.
Question 4: Are any other flexibilities or conditions needed regarding the minimum size of AUM (for example, should it be disapplied in circumstances at regulators discretion for example to enable an innovator to provide competitive challenge in the market or be disapplied in case of a market shock or another specified circumstance)?	Disapplication of the requirement, or flexibility around the timescale provided to reach scale should be built in for the following reasons: - To allow new market entrants and disruptors to come to market. - Where existing arrangements are clearly demonstrating above average value for members - To facilitate the building of scale in CDC schemes which will be smaller while they are new and untested - Where a provider loses a mandate that takes them below the scale threshold, reasonable time should be permitted to allow them to rebuild and reach the threshold. - A longer transition for post retirement defaults given the current average pot size and the fact that the proportion of people retiring solely on DC savings is still relatively low, meaning a large proportion still choose to take their DC savings as cash. The value of markets inevitably fluctuates, though well designed default strategies should be structured to provide resilience to market volatility. However, where market shocks take place affecting the value of the default, and are not a result of governance failings, requirements should be disapplied.
Question 5: Do you think there should be targets for (i) achieving a reduction in default fund numbers down to a single fund and, (ii) setting incremental minimum AUM?	Any targets set for both reduction of defaults and minimum AUM needs to be over a sensible timescale so as to avoid the risk of unintended consequences that are detrimental to members. There also needs to be close monitoring of the performance of the funds over the transition period, noting that new investments in private markets are not likely to deliver significant returns in the short term. We would reiterate the point made in our response to the Value for Money consultation

	that forward looking metrics must be incorporated in order to facilitate private market investment. It should be noted that a scheme that is having to consolidate is unlikely to be able to invest in illiquid private markets in the meantime, which may slow the take-up of private markets, unless mechanisms for asset transfer as opposed to requiring disinvestment are built in. These schemes might otherwise have been considering increasing their allocation to private markets through the use of LTAFs or other pooled arrangements, but may now consider it not in the interests of their members to do so given the haircut that may be suffered if they are required to disinvest and consolidate at an inopportune time. Given the extensive fragmentation and legacy arrangements in the contract based market, consideration should be given to phasing the requirements, starting with contract based. This would then allow consolidation in the trust based market to progress in line with the current trend, without disruption, perhaps then negating the need for any legislative measures. Other factors to consider when setting a timeline are: - Administrator capacity - Capacity of receiving master trusts to onboard smaller master trusts - Capacity of administration systems and platforms where membership numbers reach a point that may be larger than original business plans assumed. - Adviser capacity, taking into account greater potential for conflicts of interest across a smaller number of providers. - TPR's capacity to oversee orderly exits from the master trust market
Question 6: Are there any potential barriers/challenges that should be considered in reaching a minimum size of AUM at default fund level before a future date, such as 2030?	Please see the points made in our answer to question 5. In addition we believe the following points should be considered: - Consolidation of the contract based market is hardest, particularly if IGCs are required to oversee bulk transfers. For example, requiring checks on protected rights and guarantees would not be practical (too many to oversee by a small board), so pragmatic parameters should be put in place. - Safe harbour may need to be given to boards making the decision to consolidate - Administrator capacity is likely to be a challenge, both in terms of staffing and systems. - The capacity of receiving master trusts to onboard smaller schemes/arrangements must be considered

	- TPR's capacity to oversee orderly exits from the master trust market. - Requiring consolidation at too fast a pace risks errors/ systems failures/outages causing detriment to members - There needs to be certainty on the end landscape and the players within it need to be agreed before consolidation takes place, to avoid members suffering the impacts of multiple transfers. Some members will inevitably already be impacted by this where they have been transferred into a master trust for the purposes of consolidation once or more already. Facility for asset transfer should be considered to minimise these impacts. More broadly, consideration should be given to whether the authorisation criteria for master trusts remains fit for purpose given that the framework was not designed for the creation of 'mega funds' on this scale, and the business plans of master trusts assessed at the time of authorisation may no longer be relevant.
Question 7: Given the above examples, what exclusions, if any, from a required minimum size of AUM at default fund level and/or the maximum number of default funds requirement should government consider?	We believe exclusions should be in place for: - Sharia and other religious compliance, including lifestyles where a scheme is using such funds as a default. This is an example where clarity on the definition of 'default' is key - CDC schemes while they are new and untested. Time is needed for them to achieve scale. - Where existing arrangements are already allocating a specified proportion of their allocation to productive assets and offering high quality 'to and through' solutions to members.
Question 8: With regards to the proposals in this chapter, we anticipate the need for mechanisms to encourage innovation and competition, and for safeguards to protect against systemic risk. Are there other key risks that we need to consider? How do we mitigate against them?	Investment herding is a risk. The data on Australia/UK comparisons show that consolidation has driven investment herding and encouraged funds away from more innovative practices, reducing the range of returns. There is a risk that providers become too big to fail, particularly where providers have master trusts and scale GPPs. There is potential for systemic risk arising from market events, or other events such as cyber attack.

	Administrator and platform capacity and quality is a key risk, so it must be ensured that appropriate investment in systems and processes takes place.
Question 9: Under a minimum AUM model, competition in the market could be more restricted. Would additional exceptions be required to ensure innovation can continue to flourish?	Exceptions should be in place to allow new market entrants to build scale. CDC schemes while they are new and untested. Time is needed for them to achieve scale. The same applies to any new models that may come to market in the future.
Question 11: How would moving to a single price for the same default impact positively or negatively on employers, members and providers?	It depends which way it drives the pricing. Currently administration and investment charges are often bundled and larger pots subsidise smaller ones as costs are charged on a % basis. If providers moved to having to offer one fee it may mean moving to a fixed monetary amount which would likely be detrimental to those with smaller pots.
Question 12: Under what circumstances should providers be able to transfer savers to a new arrangement without their consent?	This will inevitably be necessary to achieve consolidation at scale. However, modelling of the outcomes would be needed for decision makers to be comfortable that moving to a new strategy is beneficial for the consumer. Consideration should be given to providing decision makers with safe harbour where a decision to transfer is taken within certain parameters, otherwise the risk of transferring a pot may be considered too high. There is a need to guard against providers dumping unprofitable books without the focus being on better outcomes for the consumer.
Question 13: Do you think that an independent expert, such as an IGC, should be responsible for undertaking the assessment of whether a transfer is appropriate?	The practicalities of IGC's overseeing transfers of millions of members should be considered. If they have to take into account each individual asset allocation, protected rights and guarantees the decision is complex and time consuming, and not practical. Pragmatic parameters should be put in place. Consideration should be given to providing boards with safe harbour within certain parameters otherwise they may be unlikely to act.

	Any body charged with this decision making responsibility needs to have sufficient knowledge, skill and understanding as assessment will be complex.
Question 14: What, if any, changes may be needed to the way an IGC's role, or their responsibilities/powers for them to assess and approve contractual overrides and bulk transfers?	IGCs are currently oversight bodies without decision making power. Investment strategy decisions currently sits with the provider, so this would need to be amended. Consideration should be given to providing boards with safe harbour within certain parameters otherwise they may be unlikely to act.
Question 15: What, if any, role should the employer have in the transfer process?	In the trust based world they will need to consider whether the proposition under consolidated arrangement meets the needs of their employees and allows them to continue to fulfil their automatic enrolment duties. In the contract based side the contract is between employee and provider so they would not technically have a role other than assessing future benefit arrangements and being comfortable that their automatic enrolment duties continue to be met. However, where an employer has a large, active GPP, they will likely want to be comfortable with the transfer.
Question 16: For active schemes, would a transfer require a new contract between the employer and provider?	In contract based arrangements the contract is between the employee and provider. However, there may be a form of contract with the employer in relation to the default arrangement, pricing and SLAs.. In a trust based scenario, it would depend. Any employers in the provider's default would be unlikely to require a new contract but those with a bespoke default arrangement would more than likely require a new contract.
Question 17: What procedural safeguards would be needed to ensure that a new pension arrangement is suitable and in the best interests of members? What other parties should	The protections applied to savers and the measures in places should be broadly comparable to those that apply to current trust based bulk transfer arrangements. Much of the statutory guidance that applies to trust based bulk transfers should read

be involved and/or responsible for deciding the new arrangement?	across to contract based transfers, including the requirement for independent advice. Factors that should feature in deciding whether a new arrangement is in the best interests should include: - Availability of suitable post retirement solutions - Ability to consolidate multiple pots at member level - The existence of any protected rights and guarantees - Transaction costs and out of market risks need to be considered, particularly if they are to be met by the member. They should be minimised and avoided if possible. The potential for improved returns must be weighed against the impact of the associated costs. - Where providers benefit from the transfers, the costs should be met by them, not the member.
Question 18: Do you foresee any issues with regards to transferring savers from contract-based arrangements to either other contract-based arrangements or trust-based arrangements? If so, what issues?	The practicalities of IGCs overseeing transfers at a member contract level. There is a risk that decision making bodies would be unwilling to transfer members without any safe harbour. Contract based schemes have a contract between provider and employee. This would have to be amended to transfer to a trust-based arrangement.
Question 19: What safeguards and measures should be put in place to ensure that consumers are protected?	Members need to be protected from excessive transition costs (e.g if a company level bespoke default has illiquid investments it will be expensive to sell these and rebuy units in a provider default). Particular focus should be given to the impact of transaction costs for those near retirement, and more generally, facilitation of in specie transfers should be considered. If members will be re-risking in the new strategy, this will need to be well communicated to members.
Question 20: Are there any specific circumstances in which a transfer should not be allowed to take place, or savers should be able to opt out?	These might include: - Where a member is very close to retirement and a transfer may inhibit their ability to access their retirement savings, or the costs would impact the size of their pot, particularly where they are choosing to take cash. - If there is a risk that any protected rights would be lost

	- All scenarios should be considered so as to avoid a small cohort being left behind.
Question 21: What complications could arise if savers have the choice to opt-out of a transfer and remain in their current arrangement?	The circumstances in which opt out is permitted should be very limited, in order to avoid undermining the consolidation process. The option to remain in the subscale arrangement should be removed – i.e. if the saver opts out of the transfer that should mean they need to choose an alternative.
Question 22: In what circumstances do you think that consumers/savers should have the right to compensation or an individual right of recourse enforceable in court?	IGCs and trustees should be granted safe harbour from decisions which result in worse investment performance, where governance failures were not a contributing factor (e.g. diversified strategies have underperformed simple market cap equity strategies over the last 5 years, but a board could have reasonably and for the right reasons concluded that a member should consolidate into a diversified default).
Question 23: What safeguards from trust-based bulk transfers may be appropriate for contractual overrides, so that similar consumer protections apply?	The protections applied to savers and the measures in places should be broadly comparable to those that apply to current trust based bulk transfer arrangements. Much of the statutory guidance that applies to trust based bulk transfers should read across to contract based transfers, including the requirement for independent advice.
Question 24: Where the transfer is into a trust should the duties of the receiving scheme trustees be extended to ensure terms and conditions balance both the interests of incoming and current members?	Yes. This is particularly important where the receiving scheme default has a large allocation to private markets. Neither existing nor incoming members should be negatively impacted.
Question 25: How should the cost of the transfer be borne?	The receiving provider should have a duty to transfer at lowest reasonable cost. i.e. take assets in-specie where possible. Should members close to retirement be transferred, they should be reimbursed for any transaction costs. Any non-transaction costs should not be borne by the member.
Question 26: What costs do you expect to be involved in a contractual	The projects to consolidate are likely to cost £m's for providers to allocate teams and communicate with members

override/bulk transfer and what factors may influence the level of costs?	Members may well be subject to transaction costs and impact of out of market risks, which should be minimised and avoided completely if possible. Where providers benefit from the transfers, the costs should be met by them, not the member.
Question 27: What benefits may a member lose out on because of a bulk transfer? What benefits could they gain?	Members may potentially benefit from – superior post retirement solutions – higher quality guidance and retirement planning tools – access to investment strategies designed to give better outcomes. The risk is that they suffer excessive cost in the process of transferring that outweighs the benefits, particularly if they are close to retirement.
Question 28: What role should the FCA, and where appropriate TPR, have in contractual overrides and the bulk transfer process?	The role of regulators should be to regulate compliance with the parameters and processes under which bulk transfers are being undertaken, not to oversee or endorse individual transactions. Regulators will likely need some form of reporting to take place so they are aware of bulk transfers and can decide how to deploy a risk based approach. For master trusts this would likely sit under the existing significant event reporting.
Question 29: Do you think establishing a named executive with responsibility for retirement outcomes of staff could shift from the focus on cost and improve the quality of employer decision-making on pensions?	Large employers for whom this might be realistic are likely already focussing on retirement outcomes as part of their overall reward package. It is not a realistic ask of smaller employers and it would be extremely challenging to police. Member retirement outcomes will depend on their contributions over their lifetime and not just the period they work with one employer. It is worth noting recognising that contributions have a significant impact on member outcomes, and to that extent employers may be conflicted in the assessment of member outcomes. In addition, it is difficult to assess value for those without a background in investments (e.g. a well diversified default including private markets may under perform one that is 100% equity over 1-5 year periods, that doesn’t necessarily make it poor value). It would be more realistic and effective to place requirements on entities advising employers.

Question 30: What evidence is there that placing a duty on employers to consider value would result in better member outcomes? If such a duty was introduced, what form should it take? Should it apply to a certain size of employer only? How can we ensure it is easier for employers to make value for money comparisons?	Please see the answer to question 29
Question 31: What evidence is there that regulating the advice that some employers receive on pension selection will better enable them to consider overall value when selecting a scheme?	Introducing a requirement on advisers to demonstrate that overall value has been considered in providing their recommendation would be more effective than putting the requirement on employers, many of whom are not experts and merely wish to comply with their basic duties.
Question 32: What evidence is there that regulating the advice that pension schemes receive on investment strategies would enable more productive asset allocation? What type of regulation would be effective?	Whether investment consultants should be regulated has been a matter of debate for many years and the CMA has previously recommended that HMT extend FCA's regulatory perimeter to cover investment consultancy services. Given the significant role they play in the pensions system it is difficult to argue against their regulation, though whether that would directly lead to more productive asset allocation is not clear. Regulation of investment advice may increase the likelihood of productive investment strategies and opportunities being presented to trustees, but trustees would need to be comfortable that the adoption of any strategy or investment allocation would be in the interests of their members.

We have not provided answers to questions 33-42.