



THE SOCIETY OF PENSION
PROFESSIONALS
making pensions work

Power in Principle? Balancing Mandation and Market Confidence

The Pension Schemes Bill

August 2025

Power in Principle? Balancing Mandation and Market Confidence

The Pension Schemes Bill

Foreword

The Pension Schemes Bill has been broadly welcomed by the diverse range of the Society of Pension Professionals (SPP) members. For some time, we have engaged with politicians and civil servants in a productive, collaborative approach to suggest refinements and amendments that may better achieve the government's stated policy objective or to highlight the likelihood of unintended consequences.

One area that has generated considerable industry and political interest is the inclusion, in the Bill, of a time limited power to compel pension funds to invest in a certain way if they fail to do so voluntarily.

There are various factors that should be taken into account in determining whether or not this power should be introduced and the below seeks to explore these. We hope this paper proves of interest to policymakers, industry and commentators alike and that it stimulates constructive debate.

Simon Daniel,
Chair, SPP Investment Committee



Introduction

The Pension Schemes Bill 2025 contains a key provision giving the government the power to ensure that in order to be able to be used for Automatic Enrolment, Master Trust & Group Personal Pension schemes hold a prescribed percentage (by value) of the totality of assets of a particular description. If this power relating to asset allocation has not been exercised before the end of 2035, then it will expire.

Furthermore, prior to making regulations to set these minimum percentages, the government has to prepare and publish a report setting out how the financial interests of members are (or would be) affected, what effects the measures could be expected to have on “*economic growth*” in the UK and such other matters as the Secretary of State considers appropriate. Prior to publishing that report, the Secretary of State also has to consult HM Treasury, and such other persons as considered appropriate. Similarly, a post-implementation (if applicable) report must be prepared and published within five years of the regulations coming into force.

The government has made clear its view that this power does not undermine fiduciary duties and has highlighted that the Bill contains clear safeguards that are consistent with those duties, especially in clause 38, which refers to an opt-out in the event of material detriment to members of a fund.

To use or not to use?

Speaking during the Second Reading of the Bill in Parliament on 7 July, the Pensions Minister said, *“I do not currently intend to use the power in the Bill, but its existence gives clarity to the industry...”*¹

During her Mansion House speech, the Chancellor of the Exchequer Rachel Reeves MP, stated; *“... our Bill reserves the power to mandate pension funds to invest productively in a wider range of assets... ...sending a clear signal that pension funds and this government are united in our determination to deliver higher returns for savers and more investment for the economy. But I am confident that I will not need to use that power because firms see the urgency and importance of this as clearly as I do.”*²

With government ministers confirming that they are introducing a power that they have no intention of using, the rationale for the power appears questionable.

Rationale

The UK government, not unreasonably, wants pension funds, especially defined contribution (DC) schemes, to invest more in long-term productive assets such as infrastructure, private equity, and UK companies with the potential for high growth.

Having a reserve power included in the Pension Schemes Bill provides the government a fallback option to intervene if the voluntary approach fails to meet its expectations.

Current progress

Pension Schemes are already heading in this direction, not least as a result the May 2025 Mansion House Accord whereby 17 of the UK's largest private workplace pension providers, more than a third of whom are SPP members, committed to invest at least 10% of their main default funds in private assets by 2030, with at least 5% being for UK assets.

¹ Torsten Bell MP, 7 July 2025:
<https://hansard.parliament.uk/commons/2025-07-07/debates/1DE9CFD7-19CD-41FE-B9C3-11B98C860873/PensionSchemesBill>
² Chancellor of the Exchequer, Mansion House Speech, July 2025:
<https://www.gov.uk/government/speeches/rachel-reeves-mansion-house-2025-speech>

Uncertainty

Many SPP members have highlighted that there is a strong argument to either mandate or not mandate rather than having the mere threat of mandation, which is viewed as the worst of both worlds. This is primarily because the existence of a threat in the form of this power will inevitably add unnecessary confusion in relation to trustee decision making: to what extent is the threat of the exercise of a power to mandate (which may never be exercised) a relevant factor for trustees to take into account when exercising their investment powers and how does it interact with trustees' core fiduciary investment duties to invest in the interests of beneficiaries?

Indeed, whilst most SPP members oppose the concept of mandation, there is widespread acknowledgement that mandation would provide legal responsibilities and thus certainty, whereas this *"threat"* does not.

This power also raises more questions than it answers – if the government mandates particular investments and they subsequently underperform, is it legally accountable for that underperformance? Logic and public expectation would dictate that it should be but it is unlikely that any government would want to take on such a liability.

The lack of detail, as to the nature of the assets within scope of the power, adds to uncertainty. This could perhaps be overcome by setting out specifically what asset classes are covered, what percentages are involved, confirming that fiduciary duty is not impacted and that there must be sufficient investable projects. In other words, replicating the Mansion House Accord which specifies 10 percent of assets that boost the economy such as infrastructure, property and private equity, with at least 5% ringfenced for the UK - all subject to fiduciary duties/the Consumer Duty and dependent on supporting actions by government.

As SPP last year highlighted in its paper, *Solving the UK Investment Puzzle*, *"There is no universally agreed or legal definition of 'productive finance'. This makes it difficult to set meaningful parameters to ensure schemes invest in qualifying assets to meet any 'productive finance' targets."*³ Defining the asset classes that are in scope of the power also clearly needs to be addressed.

Unintended consequences

It is worth noting that as drafted, far from being a reserve power the provisions in the Pension Schemes Bill would currently require schemes to comply with the asset allocation requirement from 2030 (as its introduction is linked to the introduction of the new scale requirements). Irrespective of timings, this aspect of the legislation requires amendment to ensure it is indeed a reserve power as intended.

Mandation would inevitably have an effect on pricing and lead to the reallocation of resources too. If any government required or strongly encouraged pension schemes to allocate more capital to specific areas (e.g. infrastructure or climate-related assets), this increased demand would inevitably drive up prices, particularly if the pool of available investable opportunities were limited, valuations in those markets were already stretched and if other institutional investors also pivoted toward the same asset classes (e.g. under pressure to meet ESG goals or government expectations). These are all factors acknowledged by the Mansion House Accord which only applies on the basis of there being sufficient investable opportunities – there is no such recognition in the Bill.

It is also worth noting that, conversely, if pension funds are required to divest other assets or become *"underweight"* then prices in those markets could weaken, particularly if large reallocations occur simultaneously.

Mandated investment runs a very real risk of misallocating capital, with pricing no longer fully reflecting fundamentals. This is not just an economic theory, there are tangible examples of this occurring in practice. For example, the Chinese government's stimulus plan following the financial crisis in 2008 where the government mandated the funding of local government investment vehicles (LGVs) through state backed banks, to fund infrastructure and real estate, leading to large investments into roads, bridges, industrial parks, and housing developments — many of which had limited economic return e.g. the creation of ghost towns, roads to nowhere and the artificial inflation of land and property prices⁴.

³ SPP paper, *"Solving the UK Investment Puzzle"* October 2024: <https://the-spp.co.uk/wp-content/uploads/SPP-Paper-Solving-the-UK-investment-puzzle-September-2024-1.pdf?v=3509>

⁴ China Economic Review, Volume 50, August 2018, Pages 85-100
<https://www.sciencedirect.com/science/article/abs/pii/S1043951X18300452?>

Public trust

If the government decides to mandate how pension schemes should invest, or merely threatens this by introducing the power to do so, it is reasonable to conclude that scheme members or those thinking of saving in a pension, may worry that saver returns are no longer the main priority, that how much they get back may be affected as a result, that pensions have become a tool for government agendas (not just this government but future governments too) and that ultimately, investments are being made for the interest of the government of the day, not for individual benefit and security.

Any such perception may erode public confidence, particularly among those who rightly view pensions as private, long-term savings vehicles, not capital pools designed to plug gaps in public finance and investment.

Sunset clause

The Bill includes a sunset clause preventing the use of the mandation power beyond 2035. Working on the basis that the government insist on this mandation power remaining, then there are mixed views amongst SPP members as to the suitability of this sunset clause expiring in 2035.

SPP is aware that some critics are calling for this to be brought forward to the end of the Parliamentary term and there is a logical argument for doing so. However, these changes will take time to bed in and will require Master Trust & Group Personal Pension schemes to have at least £25 billion in assets by 2030, or a credible pathway to being there by 2035. This means some will almost certainly not be there until 2035. On balance the SPP agrees that if the mandation provision is retained, it makes sense to have a 2035 expiration date.

Summary

The Pension Schemes Bill has been broadly welcomed by the diverse range of the SPP's members. However, the inclusion of a time limited power to compel pension funds to invest in a certain way is a measure that the SPP cannot support.

This power raises more questions than it answers e.g. who is legally accountable for underperformance and how will the assets that are within scope be determined. It will also have a negative effect on market pricing and could undermine public trust given scheme members or those thinking of saving in a pension, may worry that saver returns are no longer the main priority.

As detailed above, there are arguments to either mandate or not mandate but having the mere threat of mandation, is widely viewed as the worst of both worlds.

Acknowledgements

The SPP is grateful to all its members for their contribution towards this publication, particularly Simon Daniel, David James, Helen Delaney, David Will, Hugh Gittens, Thomas Trennery, Jos Vermeulen, Abhishek Srivastav, Tim Smith, Mark Dowsey, Matthew Arends, Jonathan Gilmour and Harriet Sayer.

About The Society of Pension Professionals

Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

Further information

If you have any queries or require any further information about this discussion paper, please contact the SPP's Director of Policy & PR, Phil Hall phil.hall@the-spp.co.uk or telephone 07392 310264

To find out more about the SPP please visit the SPP web site: <https://the-spp.co.uk/>

Connect with us on LinkedIn at: <https://www.linkedin.com/company/the-society-of-pension-professionals/>

Follow us on X (Twitter) at: <https://twitter.com/thespp1>



**THE SOCIETY OF PENSION
PROFESSIONALS**

making pensions work

A company limited by guarantee. Registered in England and Wales No. 3095982