THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

The Society of Pension Professionals (SPP) response to the DWP Discussion paper on key elements of the Scale Policy

1. Executive summary

1.1. **Clear regulatory timelines and interim guidance are urgently needed to prevent paralysis in industry planning.**
The proposed late-2027 timeline for draft regulations leaves providers with a prolonged period of uncertainty, potentially delaying vital strategic investment, limiting innovation, and increasing execution risks as 2030 approaches.

1.2. **The SPP supports Assets Under Management (AUM) as the standard metric, provided clear operational guidelines are established.**
While AUM effectively reflects scale and purchasing power, the government must issue detailed rules covering valuation dates, market volatility, illiquids, pooled vehicles, and coinvested exempted assets to maintain a level playing field.

1.3. **The SPP believes that the scope of assets eligible for the Main Scheme Default Arrangement (MSDA) must be expanded.**
Excluding bespoke default arrangements, which represent significant active employer engagement, and self-select options using common building blocks risks creating commercial disadvantages and understating true market scale.

1.4. **The definition of a Common Investment Strategy (CIS) requires flexibility beyond age-based criteria.**
Restricting CIS variations strictly to chronological age ignores retirement target dates, restricts decumulation and guided retirement pathways, and may threaten the viability of Sharia-compliant and ESG-focused default funds.

1.5. **The SPP believes that the 'common control' test is too restrictive and should be replaced by a corporate group test.**
Relying on Regulation 29(5) excludes contract-based Group Personal Pensions (GPPs) and multi-trust structures, so the SPP recommends a test combining corporate group ownership with investment strategy alignment.

1.6. **Governance friction between connected schemes managing a joint CIS requires additional regulatory clarity.**
Combining assets across multiple trustee boards or GPP platforms introduces potential conflicts over strategic preferences and operational execution, necessitating explicit guidance on joint governance arrangements.

2. Consultation response

Q1: Currently, how many default arrangements do you have in your scheme or schemes that are used for AE? Do they include assets from more than one scheme? If so, why?

2.1. As a representative body for pension professionals, rather than a pension scheme, this is not a question that we are well positioned to answer.

Q2: Will you be consolidating any of your default arrangements used for AE ahead of 2030? Are there any practical challenges to this?

2.2. We expect that some consolidation of default arrangements will be considered ahead of 2030. However, one of the most significant practical challenges is the current regulatory uncertainty and the extended implementation timetable.

2.3. While this discussion paper is welcome, the intention to consult on draft regulations only in late 2027 means the industry faces a prolonged period without the detailed rules needed to make informed strategic decisions.

2.4. This is particularly challenging given the scale of the operational, governance and commercial changes that may be required.

2.5. The lack of certainty is also inhibiting innovation. Firms that are exploring, or considering exploring, new investment approaches, technology solutions or commercial arrangements are understandably reluctant to progress while fundamental aspects of the framework remain unknown. In particular, there is no clarity on the scope of any exemptions, transitional arrangements or other key policy details, making it difficult to assess whether significant investment in new initiatives will ultimately align with the final regulatory framework. As a result, organisations are likely to defer decisions until the regulations are finalised, compressing implementation into a much shorter timeframe and increasing execution risk.

2.6. As an interim step, the publication of additional guidance setting out the government's emerging policy direction on key issues would be welcomed by the industry. Greater clarity on areas such as the intended approach to exemptions, transitional arrangements and the application of the scale requirements would enable providers to make better informed decisions, continue developing innovative propositions with greater confidence, and prepare for implementation in a more orderly and efficient manner.

2.7. In addition to strategic paralysis, the compressed timeframe creates significant asset transition risk. If final regulations are published in late 2027, providers will have less than three years to execute default arrangement consolidations before 2030 testing. Rushed, large-scale asset transfers risk market impact and poor trade execution. We strongly recommend that transition rules provide flexible, extended timelines for merging existing default funds to ensure consolidation aligns with optimal member outcomes rather than rigid deadlines.

Q3: It will be important that all schemes value assets in their MSDA in a consistent way. Our intent is that this will be assets under management (AUM). Does this present any issues? Do you consider a different method would be preferable? And if so, why?

2.8. The SPP supports the use of assets under management (AUM) as a consistent and well-understood measure for assessing scale. It provides a more appropriate measure than alternatives such as member numbers or contributions, as it better reflects the size of assets being managed and the resources available to support investment capability and governance.

2.9. However, the methodology will need to be clearly defined to ensure consistency across schemes. Further guidance will be needed on areas such as valuation dates, treatment of market volatility, illiquid assets and assets held through pooled investment vehicles. Clear rules will help avoid different interpretations and ensure a level playing field across the market.

2.10. In addition, the assessment of MSDA scale should reflect the size of the underlying investment arrangement rather than structural distinctions between different sections of the same scheme. Where assets are invested through the same default arrangement - the Common Investment Strategy (CIS) - and the 'connected' criteria are met, all assets should qualify for the MSDA, as they contribute to the arrangement's purchasing power and ability to invest in a broader range of assets.

2.11. However, we understand there are instances where certain assets in this category (e.g. exempted hybrid assets) will be excluded from the MSDA, despite being co-invested identically to the in-scope assets. This risks materially understating the arrangement's true size and investment capacity, thereby forcing schemes with genuine investment scale to face unnecessary regulatory friction or restructuring, penalising DC members who already benefit from pooled scale.

2.12. To fully capture true economic scale and support the policy aims of delivering better member outcomes and deploying capital into UK growth, the scope of common investment structures under Q3 should be broader. Where a provider or institution holds fiduciary responsibility, non-age-based or non-target-based multi-asset funds (such as broader retail and savings products) using the same underlying Common Investment Strategy (CIS) should be recognized in the scale metric. Excluding these shared building blocks understates true purchasing power.

Q4: The intent is that the MSDA is made up of assets in an authorised Master Trust or GPP. In developing the detailed regulations, are there other assets that we should consider for inclusion in the MSDA? If so, why?

2.13. The SPP considers that assets from bespoke default arrangements should be included in the MSDA. Such arrangements are usually put in place by the larger employers participating in a Master Trust or GPP and so a reasonable, or even significant, proportion of a scheme's assets could be invested in bespoke default arrangements. Bespoke default arrangements will often invest in some of the same funds invested in by the MSDA. This is particularly likely to be the case if the scheme offers, say, an LTAF. Therefore, allowing assets in bespoke defaults to be included in the MSDA should still achieve the Government's aim of schemes investing more in private markets. In our experience, most bespoke default arrangements use lifestyling and target date funds. There would need to be some flexibility within the CIS, however, as although assets may be allocated in the same proportions they won't be allocated to the same investments in all cases.

2.14. Bespoke default arrangements necessarily mean that an employer is actively engaged in providing a good pension offering. Such active engagement should not be discouraged, but that could be the result if bespoke default arrangements are no longer workable (because they do not count towards the scale requirements). Further, if some schemes become unable to offer bespoke default arrangements because they otherwise won't meet the scale requirements, this would put them at a commercial disadvantage.

2.15. We would also support self-select arrangements that use the same building block funds as the MSDA being included in the MSDA. We note that there will need to be flexibility in the CIS if such assets are to be included.

2.16. Furthermore, assets from Own Trust Schemes (both bundled and unbundled) should count towards the scale test where they participate in a provider's common investment arrangements. Own Trust schemes hold over £200bn in total assets, and many utilise the underlying default funds provided by pension managers. Where these building blocks are shared with the provider's MSDA, including them reflects true economic purchasing power, grants Own Trust schemes access to scale benefits, and avoids artificial exclusion based purely on legal structure.

Q5: In your AE default arrangement(s) – as well as allowing for variance by age – do you include other factors? If so, how have these varying factors been incorporated into your investment strategy? And how do you seek to mitigate the loss of scale benefits?

2.17. The SPP note that the regulations may need to incorporate some level of flexibility around practical points to avoid unintended consequences for providers. For example, where an organisation has two master trusts with the same strategies, but where rebalancing might occur at different times, or where two master trusts have the same strategy but are accessing investments in a slightly different way for legacy or practical reasons (e.g. accessing investment directly or via an insurance wrapper).

2.18. We note that there could be a situation where a master trust has historically relied on insurance wrapped products but is now looking to build out its own investment function as part of adapting to increased scale.

2.19. Flexibility in the regulations to allow the use of different investment models is therefore recommended.

Q6: If the only permitted variation for the CIS is by age (to accommodate lifestyling and target date funds), would this present any challenges? If so, please explain.

2.20. The SPP understands the rationale for requiring a high degree of commonality within the CIS and agrees that it should be defined in a way that preserves the benefits of scale. However, limiting permitted variation to age alone may be too restrictive.

2.21. While age is a simple and easily understood factor, it is often only a proxy for characteristics that are more directly relevant to investment design. In particular, many default strategies are structured around a member's expected retirement date rather than their chronological age. Two members of the same age may have significantly different retirement horizons and, as a result, different investment needs. Restricting variation to age alone could therefore make it more difficult for schemes to design strategies that appropriately align investment risk with members' expected retirement outcomes, particularly in lifestyle and target date arrangements.

2.22. We are also concerned that an age-only approach could limit schemes' ability to adapt to changing retirement patterns and evolving retirement solutions. The market is increasingly focused on supporting members throughout retirement, rather than solely during the accumulation phase. As retirement products continue to develop, providers may wish to reflect different retirement journeys within default arrangements where this can be achieved without undermining the benefits of scale. An overly narrow definition of the CIS risks constraining innovation that could improve member outcomes.

2.23. The scale measures should not prevent trustees from innovating in preparation for the introduction of the new guided retirement duties under the Pension Schemes Act 2026. As guided retirement solutions develop, schemes may require additional flexibility to accommodate different retirement access pathways and respond to the diverse needs and circumstances of their members. We note that allowing such flexibility would be consistent with the Secretary of State's obligations under Section 28L of the Pensions Act 2008 (as introduced under Section 40 of the Pension Schemes Act 2026) to have regard to the importance of:

- innovation in the design and operation of relevant Master Trusts and group personal pension schemes;
- competition among relevant Master Trusts and group personal pension schemes; and
- improving outcomes for members of relevant Master Trusts and group personal pension schemes.

2.24. An age-only approach could also create challenges for Sharia-compliant or ESG-focused default arrangements. Such arrangements may apply an investment screen or filter across all ages, but the resulting asset allocation may not track a conventional glidepath in the same way. A narrow definition of CIS, which restricts variation to age alone, could constrain schemes from adopting or maintaining these arrangements. This could limit the choice available to employers in complying with automatic enrolment obligations in a way which caters the investment needs or preferences of their workforce (and/or addresses protected characteristics such as religion). It could also limit the scope for certain members to benefit from default funds.

Q7: If you consider that there should be additional flexibility in the CIS, which factors do you think should be considered and why?

2.25. The principal additional factor that should be considered is a member's expected or chosen retirement date. In many default arrangements, investment strategies are designed around the time remaining until retirement rather than a member's age. Allowing variation by reference to retirement date would support approaches such as target date funds and would generally provide a more accurate measure of a member's investment horizon than age alone.

2.26. We also consider that schemes should be able to reflect a member's expected retirement pathway, particularly as retirement solutions continue to evolve. Members are increasingly accessing their benefits in different ways, including drawdown, annuity purchase, or a combination of both (or retirement collective defined contribution solutions). Schemes will need to be able to tailor the later stages of the accumulation glidepath to reflect both default retirement solutions and any member choices concerning decumulation. A member approaching retirement who has engaged with the scheme and indicated an intention to purchase an annuity has a different risk profile in the final years before retirement from one who intends to remain invested in drawdown. Subject to appropriate safeguards, limited additional flexibility should be permitted where it is necessary to support an effective retirement investment strategy and does not undermine the scale benefits of the arrangement.

2.27. Pot size and contribution patterns may also require different treatment (e.g. to manage volatility, transaction and liquidity risk). We also consider that additional flexibility should be available to accommodate Sharia-compliant or ESG-focused default arrangements.

2.28. A definition of the CIS which accommodates these distinctions would be more likely to be consistent with Section 28L of the Pensions Act 2008.

Q8: For providers who offer multiple schemes, to what extent would your schemes be captured by applying the test for 'common control' found in Regulation 29(5) of the Occupational Pension Schemes (Master Trusts) Regulations 2018? If they do not satisfy this test, please explain why.

2.29. The SPP considers that relying solely on the 'common control' test in Regulation 29(5) of the Master Trust Regulations 2018 is too narrow for assessing scale across connected schemes.

2.30. Because it evaluates shared trust-based roles (funder, strategist, trustee body), applying it produces arbitrary and restrictive outcomes.

2.31. It excludes Master Trust and GPP combinations. GPPs are contract-based and lack occupational trustee/funder roles, excluding them even when run under common corporate ownership on identical platforms.

2.32. It also fails multi-trust corporate structures. Providers operating multiple Master Trusts (e.g., via acquisitions or targeting different market segments) often ring-fence corporate entities, strategist teams, and trustee boards, failing the 29(5) test despite shared corporate ownership.

2.33. Furthermore, it ignores economic scale. True purchasing power depends on asset volume and pooled strategies, not legal governance structures.

2.34. As a result, the SPP recommends defining connected schemes by combining:

1) A Corporate Group Test - assessing whether the scheme funders/providers belong to the same corporate group (e.g., under the Companies Act 2006); and
2) Investment Strategy Alignment - requiring assets to be invested in the same CIS.

2.35. Regulations or guidance should also accommodate cases where a GPP and Master Trust sit in different corporate groups but share a common investment supplier with an aligned strategy, ensuring genuine economic scale is captured without distorting commercial models.

Q9: Do you think there are any particular challenges for connected schemes in combining their default arrangements into an MSDA? And if so, what are they? And what possible solutions do you think there are?

2.36. It is important to recognise that for some organisations there may be a significant amount of work to do to combine default arrangements. Our understanding is that there will be some form of transitional period or period of grace around the intended 2030 deadline to implement any transfers or practical steps to combining default arrangements. The detail here will be important for providers as they begin to plan the actions that will be required to implement necessary changes to combine default arrangements.

2.37. As scale is expected to be established at the level which strategic investment decisions are taken, this has important consequences for organisations where there are two or more master trust structures. These points are discussed further in Q10 below.

Q10: Are there any practical challenges to connected schemes (Master Trusts and GPPs) in making investment decisions and managing the aggregated assets under the same CIS?

2.38. It is clear that in certain conditions, connected schemes using the same CIS will be able to count towards the same MSDA. However, from a governance perspective, more thought will need to be given to how this works in practice.

2.39. If, for instance, two master trusts are in the same MSDA, both trustee boards would have the role of setting investment strategy, and assuming the two schemes' memberships differ in some ways, there will inevitably be differences in those trustee boards' preferences. As such, it is unclear how the CIS would be managed without conflict. Even in the scenario that the two boards pick from common building block funds, there could be a situation where one scheme's needs differ from the other's, requiring different investment opportunities, so further guidance in this area will be needed.

3. About The Society of Pension Professionals

3.1. The SPP is the representative body for a wide range of providers of advice and services to pension schemes, trustees and employers. Our work harnesses the expertise of our membership, striving for a positive impact on pension scheme members, the pensions industry and its stakeholders.

3.2. The breadth of our members is a unique strength for the SPP. Our membership of 90 corporate organisations employs over 20,000 pension professionals including actuaries, lawyers, professional trustees, DC consultants, investment managers, providers, administrators, covenant assessors, and other pension specialists.

4. Further information

4.1. For more information about this consultation response please contact SPP Director of Policy & PR at: phil.hall@the-spp.co.uk or telephone the SPP on 0207 353 1688.

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

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

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