



## **Pensions Investment Review – Consultation on reforms to the Defined Contribution pension market**

**January 2025**

### **About UNISON**

1. UNISON has over 1.3 million members employed in a broad range of sectors. A substantial minority are enrolled in DC schemes. Many are low paid workers who are in bare minimum auto-enrolment arrangements (where their employer actually complies with the legislation). Every penny of investment return counts in these arrangements for workers such as our 150,000 members in social care, delivering core public services but employed by private and third sector employers.
2. Our response focusses on key points of principle around ensuring that changes to the organisation of the DC system benefit pension scheme members, for whom the pensions system exists. This member-perspective is especially important in DC pensions, where there is no recourse elsewhere if returns disappoint.

### **Member-first, always**

3. UNISON supports the principle of consolidation and the opportunity it will give for building structures with meaningful member involvement. Many of our members are in schemes which are poorly run, which they have not themselves chosen; this has always been one of the weaknesses of the AE model of employer choosing provider. While it would be desirable to address this, this is outwith the scope of this consultation.
4. We can be persuaded that scale can enable the delivery of better returns for members, mostly through lowering costs. However, we note that the Government's own analysis finds that evidence of scale improving investment outcomes is weak. The International evidence cited suggests that cost benefits are secured at low levels of size and are minimal thereafter. Most of the purported investment return benefits are around the fact that larger funds invest more in illiquid assets. This may deliver better returns in future, as it has in the recent past.
5. Given the small pots which low-paid workers build under AE, there is no room for monies to leak out through inefficiency or rent-seeking intermediary organisations. We believe that all large-scale consolidated

arrangements should be on a trustee-model, profit-for-member basis. A contractual-override may be justified if it enables members to be moved from expensive, inefficient small schemes into large vehicles with fiduciary obligation towards members. If an override simply enables providers to move members from one contract-based arrangement to another, nothing will have been gained. Permitting contractual override without asking members to consent to it could only be justified where it is clearly a material improvement for them.

### **Investing for impact**

6. [Regulation 4 of the investment regulations](#) requires that " assets must be invested in the best interests of members and beneficiaries". This sits under [section 36 of the Pensions Act 1995](#) which says that "Regulations under subsection (1) may, in particular specify criteria to be applied in choosing investments". This gives the government the power to require that to ensure best interests trustees should (a) consider the impact of their investments on the lived environment in the UK and the need for infrastructure to support the quality of life of savers and retirees and the good functioning of the UK economy and (b) manage system-level risks (i.e. those that can't just be managed through stock selection) - which should steer investments away from investments which have a negative environmental/social impact and towards those with a positive impact.

### **Bulk transfers – Chapter 3**

7. As written the proposals to allow bulk transfers such as GPPs are inappropriate and the safeguards proposed are inadequate. Currently Trustees must be independent of providers and make relevant decisions in the light of their fiduciary duty. The new proposals remove the fiduciary duty and mean that providers can be appointed to decision making positions, with significant conflicts of interests.
8. The document is vague, giving the FCA general and undefined powers and rules to police the new system. Recently the performance of the FCA has been criticised by the APPG for Investment Fraud, we also understand that the regulator has only a small number of relevant staff - so we question whether the FCA is fit for this purpose.
9. The consultation suggests that 'a transfer should only be approved if the benefits of the transfer and long term saver outcomes would outweigh any costs". This formulation would allow for significant overcharging since it would not require that best outcomes are secured, only that an improvement of a pound is secured. There is also a suggestion that the providers will set the IGC's resources – will the IGCs be in a position to do so?
10. The punishment for failures seem light - the IGC chair or adviser could ... be liable and the liability sits with the transferring firm. The likelihood of savers challenging this seems slim. And we have already seen, in other fields, the FCA make inadequate use of other enforceable duties.

11. Overall the effect of the proposals would be to move power and responsibilities from Trustees to suppliers, with limited safeguards overseen by an inadequately-staffed reluctant regulator. This is not a recipe for a safe system which will benefit savers.

### **Value and cost**

12. We agree with the consultation that employers consider cost (to them) more than value in choosing pension provider. Clearly, value should be an important consideration, but this is more complicated than is suggested. In traded, liquid markets, cost and value are the same thing - low charges have required the pursuit of passive investment strategies, which are in the interests of scheme members, in minimising leakage, though not necessarily of pension providers.
13. We see that trading in illiquids has inherently higher costs; however, enabling individual DC pensions to contain illiquid assets, especially as the scheme member nears their intended retirement age, requires financial contortion and engineering with its own costs and inefficiencies. In our view, it will be the case that the large majority of assets in DC pensions will always need to be liquid, and should be managed passively. DC pensions must meet the needs of DC scheme members.
14. We welcome the thoughtful consideration in the consultation of how to encourage employers to select a pension scheme with value considerations uppermost. In our experience, most employers simply want to comply with legal obligation, at a minimum of cost and disruption to them. There are employers who are genuinely prepared to invest in looking after staff well, or see competitive advantage in so doing, but these already dedicate resource to securing a better pension than the bare minimum and then to monitoring how the provider performs.
15. Just providing more information is unlikely to lead to significantly different choices. An approach whereby employers are required to take more interest, are required to engage staff in that process and to publish the outcome of it, would be more fruitful. Employers should be required to name a lead director with pensions responsibility, and publish in their annual report and accounts on at least a triennial basis a declaration that they have reviewed pension provision and that it provides value to members. This would give teeth to the outcomes of the Value for Money framework, which should be published and not simply enable dialogue between the regulator and providers. There would be a strong disincentive to using a provider whose value for money rating was low, and it would enable the owners of companies to know that they were meeting good standards or to act in their stewardship roles where they were not.
16. Whilst this might impose significant burdens on the smallest employers the use of report and accounts would bite only upon those above the turnover threshold for publication. Further thought should be given to

support small employers to make best pension choices, engaging those to whom small businesses listen, such as their representative organisations and chambers of commerce.

17. As employers listen to a plethora of regulated and unregulated voices in making pensions decisions, investment consultants, in particular, should be regulated, to provide assurance that their advice meets proper professional standards and are required to follow the same guidance, for example on value for money, as others. It is anomalous that they are not.

January 2025

a.dobbie@unison.co.uk