

The Pensions Regulator (TPR) Consultation

A sustainable retirement income for all Our Corporate Strategy 2026 to 2031

Submission by the Financial inclusion and Markets Centre (FIMC)

About The Financial Inclusion and Markets Centre

The Financial Inclusion and Markets Centre is a dedicated unit of the Financial Inclusion Centre which focuses on financial services policy and regulation, financial market reform, and evaluating the economic, environmental, and social utility of finance. The new unit also covers work evaluating the impact of developments at the intersection of finance and technology including AI.¹

¹ [About | The Financial Inclusion Centre](#)

Introduction

We are pleased to submit a response to such an important consultation. We have provided a fairly high level response to the questions. For further information or detail on our recommendations, please contact Mick McAteer mick.mcateer@inclusioncentre.org.uk

Response to specific questions

1. Does our vision of people having a sustainable income in retirement set the right long-term ambition for the pensions system? Could it be strengthened?

We do support TPR's overall vision of people having a sustainable income in retirement and the supporting outcomes: **Member Outcomes** - Savings are secure; Better value; Pensions are fair; and **Market outcomes** - Well-run schemes; A sustainable and resilient market; A seamless and integrated system

We have a similar vision and outcomes for the pension system. We articulate this as follows: if the pensions system is to work for everyone² it should be: safe and resilient; sustainable; fair, equitable, and inclusive; efficient and fit-for-purpose; and well- regulated and governed.

The building blocks for such a system are not in place. Creating such a system requires identifying and addressing the structural issues and barriers in the current system that are likely to undermine the delivery of that vision and outcomes. FIMC's analysis identifies the following barriers and challenges:

- Low pensions adequacy for millions of citizens, with a focus on specific vulnerable groups
- Unfairness and inequity in the system
- Unsuitability of the current pensions infrastructure for millions of underserved citizens
- Chronic market inefficiencies, high costs and poor value for money caused by fragmentation, poor design, and conflicts of interest in the system
- The transfer and individualisation of financial, market, and intertemporal risk within the system
- Managing macro and micro prudential risks in the system including due to the emergence and application of AI
- Standards of governance, conduct of business and 'consumer'³ protection regulation, and transparency in the pensions system
- The fragmentation inherent in the current 'three peaks' regulatory system – TPR, FCA, and Prudential Regulation Authority (PRA)⁴
- The need for enhanced engagement and representation in the pensions system
- Restricted availability of independent advice and information to support effective pension decisions

² Not just scheme members but other citizens, the real economy, and the environment.

³ Consumer in this case covers employers scheme members and personal pension plan holders.

⁴ Plus the other parts of the regulatory system – the Ombudsmen schemes and FSCS/ PPF

- Environmental risks - both in terms of the harm caused by environmental degradation to the pensions and wider financial system and vice versa, the harm caused by the financial system to the environment

Of course, TPR cannot address those challenges on its own. The scale and nature of the challenge requires combined, concerted efforts on the part of government, the regulatory system (TPR, Financial Conduct Authority, the financial Ombudsmen schemes,⁵ and protection schemes⁶), civil society organisations including trades unions, employers, and the financial services industry.

Issues such as pensions adequacy, unfairness and inequity, and overall design of the pensions system and infrastructure are a matter for the Government and social policy interventions. But, TPR in collaboration with policymakers and the other regulators can make a major contribution to addressing the other challenges - see below.

2. Are the trends we identify – including consolidation, scale, technology, digitalisation and artificial intelligence – the main forces that will shape the system over the next five years? What’s most important? Is anything missing?

TPR has identified the key trends and issues. But, we would take issue with how TPR articulates the likely impact of some of these trends.

AI It may well be that AI is a positive development for the pension system both in terms of enhancing scheme administration and communications with scheme members, and allowing TPR to regulate the market more effectively. However, the rapid emergence and application of AI in the financial system is a significant cause for concern.⁷ So far, concerns have primarily focused on the banking and financial system, but the pensions sector will obviously not be immune to the potential threats and will face similar challenges. The nature of AI risks warrants a much more precautionary approach by financial policymakers and regulators, including TPR, than has been hitherto shown.

Costs, performance, efficiency, and value for money We support the general principle that economies of scale should be promoted as this should deliver benefits for scheme members by improving efficiency and keeping down costs. Of course, greater scheme consolidation needs to be accompanied by improvements in regulation, governance, accountability, and transparency. The larger the schemes, the greater the potential negative impact of poor decision making and adverse events.

Costs matter; the more costs and fees extracted from pensions, the more people have to contribute to their pension to produce the same retirement outcome. The current market is

⁵ The Pensions Ombudsman and Financial Ombudsman Service

⁶ The Pensions Protection Fund (PPF) and Financial Services Compensation Scheme (FSCS)

⁷ Current approach to AI in financial services risks serious harm to consumers and wider system - Committees - UK Parliament AI cyber security risk 'top of list' for banking threats, says UK regulator

fragmented and oversupplied with asset managers, funds, and products⁸ and provides inconsistent levels of value.

As the Second Pensions Commission points out: *'there is widespread differential pricing, with over two-thirds of multi employer schemes charging different prices to different employers and therefore identical savers who just happen to work for different companies. These charges vary from around 0.1% for some employers to over 0.5% for other employers. This behaviour was foreseen by the first Pensions Commission and it is difficult to see a justification for such a spread of outcomes.'*

The Second Pensions Commission also pointed out that: *'The market created to deliver the second pillar of the UK's pension system is different from that anticipated by the first Pensions Commission. The Government did not introduce the National Pensions Saving Scheme (NPSS) as a default scheme but decided to leave the market more open.'*

The decision to create a more open market of private pension providers limited the potential for NEST (originally conceived as the NPSS) to deliver value for the maximum number of citizens. To be sure, price regulation in the form of charge caps enhanced efficiencies and brought down charges where competition and market forces singularly failed to do.

But, even better value could have been delivered if the original conception of NEST had been delivered. The Second Pensions Commission also reminded us that: *'some very large default fund managers, like AP7 in Sweden, are able to operate with much lower charges than the UK – AP7 has charges closer to 0.1%.'* Therefore, an even greater focus on low costs and efficiency is needed.

With regards to investment performance, the available evidence does not support the view that scale necessarily leads to better investment performance. Indeed, TPR's own research found that, while scale does indeed support cost-efficiency, *'The current UK evidence linking scheme size with gross investment returns is weak'*.⁹

So, it is important that pension scheme trustees are not misled by claims by asset managers, consultants, and advisers about the potential for superior future investment performance to offset higher charges. Of course, investment returns do matter, and better performance can offset high charges. However, the value delivered by investment returns can only be recognised with hindsight. We cannot predict future superior performance based on past performance.

Yet, even though there is the obvious potential for performance claims to distort market behaviours, it is a matter for concern that TPR and FCA are indeed conflating costs and investment performance through the Value for Money (VFM) initiative. As we set out in previous publications, the emphasis being placed on past investment performance in the

⁸ Note that with respect to specific parts of the market, the issue is overconcentration. The pensions transfer market is a clear case in point.

⁹ [DC consolidation and economies of scale: emerging evidence](#)

VFM reforms¹⁰ risks diverting attention from the importance of costs and potentially misleading scheme trustees (and pension savers generally).

Attention should not be diverted from the importance of costs by conflating the issues of investment performance and costs into a single ‘better outcomes’ measure based on net-of-costs performance. It is risky to allow charges (which can be controlled) to rise in the hope that these will be offset by better returns (which can’t be controlled).

Moreover, there is a concerted drive to persuade pension schemes to invest more in poorly regulated and governed, high cost private assets¹¹ with questionable performance records. Government is even reserving powers to mandate schemes to invest a minimum proportion of scheme assets in private assets.

Linked to this, there are moves to increase the charge cap on workplace pensions to further facilitate greater investment in these private assets.

The combination of the VFM reforms, the pressure to invest in high risk/ high cost assets, and weakening of the workplace pensions charge cap risks could actually undermine pension outcomes. Pension providers, asset managers, and consultants will be able to extract greater value from pension schemes and expose pension savers to greater risks with little to suggest that this would result in better risk adjusted return outcomes for pension savers. This is likely to reverse the real progress made in injecting efficiency into the private pensions market and bringing down charges.

If we want each £ of pension savings to work as efficiently as possible, then it is critical to keep a lid on the charges and fees levied by the pensions, insurance, and investment industry. Driving down end-to-end supply chain charges in the pensions industry should be a priority for TPR and the FCA.

Pensions and the environment As the Second Pensions Commission highlights, climate change and biodiversity loss pose significant risks to investment portfolios, both in terms of physical risks and policy risks related to the green transition. It references analysis that concludes that under a high warming scenario, UK pension funds could experience a decline in investment returns between 20% and 30% per year by 2040.¹² This would have potentially stark impacts for retirement adequacy.

We do not think that the financial regulatory system takes seriously enough the potential impact of environmental change on pensions (and the wider financial system) and vice

¹⁰ [FCA/TPR Consultation CP26/1 The Value for Money Framework: Response to consultation, further consultation and discussion paper | The Financial Inclusion Centre](#)

¹¹ Note that a key driver for this push to get schemes to invest in private assets is the government’s view that this will unlock private capital for UK physical and social infrastructure and, in turn, produce better returns for pension schemes. It may well channel more private capital into infrastructure, but the return expectations means that this will be a more costly way to fund that infrastructure. The return expectations will be paid for by households through higher bills and/or service charges. It would be interesting to know whether pension scheme members realise that their contributions could be used to extract value from social infrastructure. Moreover, even if the gross returns might be attractive on paper, once the high fees, charges extracted by the supply chain of asset managers, consultants, and advisers are accounted for the net returns may not be that favourable.

¹² [The Second Pensions Commission - Pensions 2050: Evidence and Future Priorities - Interim Report](#)

versa.¹³ The financial regulatory system is not aligned with climate goals. This surely has to change.

Of course, the Government and regulators could try to incentivise the pensions, insurance, and investment industry to disinvest from climate-damaging activities and invest more in climate-supporting activities. But, the history of finance tells us that sanctions and deterrents are more effective at changing financial market behaviours. More robust, targeted regulations and sanctions can achieve the twin goals of deterring climate-damaging activities and encouraging climate-positive activities. That is, penalising climate-damaging investments makes climate-positive assets commercially attractive in comparison.

It should be remembered that UK financial institutions are prohibited, quite rightly, by law and regulation from enabling money laundering, enabling sanctions evasions, financing terrorism, insider dealing, and misselling to consumers. It is remarkable that financial institutions continue to be allowed to finance, at scale, economic activities that harm the environment, so contributing to *the* existential threat faced by the financial system including pensions.

Adopting a much more interventionist approach to aligning the behaviours of financial institutions, including pension schemes, with environmental goals should be a priority for TPR, FCA, and PRA. Greater transparency is essential. The emphasis should move from narrative-based disclosures which just allow financial institutions to obfuscate to requiring schemes to disclose underlying data on the emissions financed in portfolios and calculate 'portfolio greenness ratios'.

The individualisation of risk within the UK pension system We have seen a significant transfer of risk and responsibility for retirement provision due to the closure of defined benefit schemes and growth in DC type schemes. The variability of investment returns in the UK pension system means that retirement outcomes can be something of a lottery. A one percent difference in annual rates of investment returns can make a 30% difference to pension outcomes at retirement. Moreover, it is not just during the accumulation phase where we have seen the individualisation of risk; the misguided pension 'freedom and choice' reforms means many savers risk running down their defined contribution wealth too quickly.

The pension system cannot be considered in isolation. The UK has a weak collective social security safety net **and** relatively low levels of private savings compared to major comparator countries.

¹³ [Time for Action – Greening the Financial System | The Financial Inclusion Centre](#), [The Devil is the policy detail – will financial regulation support a move to a net zero financial system? | The Financial Inclusion Centre](#)

The sheer, unnecessary complexity of the UK pension system and individualisation of risk in the UK pension system means there is a very real need for good, objective financial advice. Yet, the market can only serve a limited proportion of the population - see below.

The individualisation of risk is not conducive to effective policy making on something as critical as ensuring that the maximum number of citizens can look forward to a decent, sustainable income in retirement. In addition to objective advice, more progress needs to be made on developing well regulated, well governed arrangements for collectively sharing risk. TPR and FCA should prioritise working with stakeholders to progress the development of collective risk sharing accumulation approaches and supervising default decumulation options.

Key regulatory matters In addition to the AI, VFM, and environmental related regulatory issues, there are a number of additional matters relating to the regulation of pensions which take on a greater significance due to market trends and developments.

The growth in the pension transfer market to poorly regulated and governed life insurers, who manage pensions on behalf of millions of citizens, is deeply worrying.¹⁴ This growth is further spurred as a result of the emergence of defined benefit scheme surpluses.¹⁵

The Matching Adjustment provisions in Solvency II/UK allows insurers to create artificial capital which inflates their balance sheet strength. There are competition concerns, too, given the dominance of a small number of buy-out/in providers.¹⁶

We have called for a pause on further pension transfers until a full investigation into the risks associated with transfers and competition concerns can be fully addressed, and to examine whether the current regulatory approach adopted by TPR, FCA, and PRA is fit-for-purpose.

We remain concerned about the weak governance standards and inherent conflicts of interest in the contract based pension market and the master trust sector¹⁷ - today nine in 10 trust-based DC pensions are in master trusts.¹⁸

Moreover, as the Government points out, at present, there is no specific regulatory regime regulating the services provided on pension scheme selection advice or investment

¹⁴ Pension trustees facing a pincer movement [\(2\) Post | LinkedIn](#)

¹⁵ Defined benefit pension scheme surpluses and insurance [\(2\) Post | LinkedIn](#)

¹⁶ [HM Treasury reform of Solvency II consultation | The Financial Inclusion Centre](#) Pension transfers-time for action [Post | LinkedIn](#), Pension trustees facing a pincer movement [Post | LinkedIn](#)

¹⁷ <https://inclusioncentre.co.uk/the-financial-inclusion-and-markets-centre/consultation-responses/fca-consultation-on-a-pensions-value-for-money-framework>

¹⁸ [Oversight of largest DC schemes evolves with a sharper focus on member outcomes | The Pensions Regulator](#)

consultancy.¹⁹ ESG ratings providers are yet to be regulated but, to be fair, there are plans to do so.

As mentioned, the current system of regulation is fragmented. Managing the various elements of private pension regulation - consumer protection, conduct of business regulation, prudential regulation, and management of systemic risks - is shared between TPR, FCA, FOS, The Pensions Ombudsman, FSCS, PPF, and PRA/ Bank of England.

Throughout the pensions supply chain, different aspects of market conduct are regulated by different regulators. Moreover, pension scheme trustees are treated as if they are 'sophisticated' investors by the regulatory system. On the prudential/ systemic risk side, the structural flaws in the regulatory system due to fragmentation were shown up during the crisis in pensions related to Liability Driven Investment (LDI) strategies. The management of the prudential, conduct of business, and competition risks relating to pensions transfers straddle the work of TPR, FCA, and PRA (and arguably the Competition and Markets Authority).

We take the view that the regulatory architecture relating to pensions should be reorganised. We advocate for all matters relating to the prudential regulation of pension schemes be transferred to the PRA, with all conduct of business matters transferred to the FCA. This would allow TPR to concentrate on the critical role of ensuring schemes are run and administered effectively.

Access to independent advice and information There is a need for enhanced access to independent, objective financial advice and information to help citizens make effective decisions about pensions. The commercial financial advice market is unable to meet the needs of citizens with low or modest assets. This means there is a significant 'advice gap'.

Government and the FCA are trying to partially address this advice gap through the introduction of 'targeted support' and 'simplified advice'. While targeted support and simplified advice are primarily focused on FCA regulated activities, these reforms will have an impact on members and trustees of employers schemes, and the guided retirement duty. However, the FCA reforms would weaken consumer protection and would not close the 'advice gap' in a safe way. Targeted support and simplified advice will allow financial firms to, in effect, digitally cold call consumers to sell them higher risk, higher cost investment products but with consumer rights to redress curtailed in the event of suboptimal outcomes.²⁰

¹⁹ [Pensions Investment Review: Unlocking the UK pensions market for growth - GOV.UK](#) Although, some firms are regulated by the FCA due to other activities which they carry out.

²⁰ [\(4\) 'Targeted support' - FCA is designing the market to suit the interests of firms it regulates, not the consumers it is meant to protect | LinkedIn, ADVICE-GUIDANCE-CP27-17-FINANCIAL-INCLUSION-AND-MARKETS-CENTRE-SUBMISSION-290825.pdf, Financial Conduct Authority \(FCA\) Consultation Paper CP26/10 Simplifying the Pensions & Investment Advice Rules | The Financial Inclusion Centre](#)

Even with the implementation of these deregulatory measures, the issue of how to provide financial advice to those consumers the market cannot serve or who struggle to pay for individual financial advice still needs to be addressed.

An alternative to market provision is needed. The Money and Pensions Service (MaPS) provides very helpful and comprehensive information and guidance to financial consumers via its MoneyHelper service. But, many consumers need more than information and guidance. They need clear advice and recommendations on what is the best course of action to take on key financial matters. We argue the role of MaPS should be expanded to oversee the operation of a National Financial Advice Service (NFAS)²¹ to provide and enable access to objective, free financial advice on pensions and savings to complement the commercial financial advice market. We urge TPR to work with DWP, HMT, FCA, and MaPS to develop such a financial advice service.

3. Where could The Pensions Regulator's role be more active, or targeted, to maximise saver outcomes and support a resilient and sustainable market?

Considering the trends and risks covered in response to Q2, there is much positive TPR can do in collaboration with stakeholders to:

- Enhance the macro-, micro- prudential, conduct of business, and consumer protection regulation of the pensions system. Moreover, the risks in the pension system warrant not just a tougher, more precautionary regulatory approach it requires tougher, more intensive supervision of the market.
- Enhance governance, accountability, and representation in pensions schemes.
- Address environmental risks through more robust, targeted regulation.
- Ensure real value for money in the pensions system through a relentless focus on keeping down charges in the supply chain, and robustly supervising how asset managers, advisers, and consultants are using the VFM reforms.
- Develop mechanisms to share risk to counter the significant transfer and individualisation of risk in the pensions system.
- Develop a National Financial Advice Service to provide access to objective, free financial advice on pensions and savings to complement the commercial financial advice market.

This marks the end of our submission.

**Financial Inclusion and Markets Centre (FIMC)
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²¹ Modelled on the previous government body The Pensions Advisory Service (TPAS).