

The £25 billion question



As the government steers workplace pensions towards £25 billion megafunds, Callum Conway asks whether greater scale will actually improve member outcomes – or reduce choice and centralise risk into fewer hands

From April 2030, multi-employer defined contribution (DC) schemes used for automatic enrolment will generally need a main scale default arrangement holding at least £25 billion.

The government's updated pensions roadmap confirms that applications for scale status and the transition pathway are expected to open in 2029.

It plans to consult on regulations in the latter part of 2027, followed

by consultations on The Pensions Regulator's (TPR) code and Financial Conduct Authority guidance during 2028.

In other words, the move towards megafunds is no longer a distant policy ambition – the cogs are already turning.

But a £25 billion elephant remains in the regulatory room: Does size automatically translate into better outcomes?

International evidence shows that size alone does not produce higher investment returns.

Consolidation could also narrow choice, weaken competition, inhibit innovation and concentrate operational risk.

The question, then, is whether scale is actually a mechanism to deliver better outcomes – or if policymakers risk confusing the two.

The case for scale

On the surface, the drive towards scale makes sense. Larger schemes should

Summary

- Government plans will drive the defined contribution (DC) market towards fewer, larger 'megafunds', with a £25 billion scale threshold from 2030 intended to support stronger governance, lower costs and broader investment opportunities.
- Greater scale could improve access to private markets and fund better technology, administration and investment capability, but size alone does not guarantee stronger returns or better member outcomes.
- Industry concerns centre on avoiding 'scale for scale's sake', with consolidation potentially reducing competition, choice and innovation while increasing operational concentration and the risk of herd behaviour.

benefit from lower costs, greater bargaining power, more sophisticated investment capabilities and deeper governance resources.

They may also find it easier to invest directly and access private markets.

"Our data shows that master trusts and larger single-employer schemes are often better placed to deliver good outcomes," a TPR spokesperson says.

"That does not mean smaller schemes cannot deliver for members. But the clear trend is towards fewer, well-run schemes, and the Pension Schemes Act 2026 is raising the bar."

TPR chief executive, Nausicaa Delfas, has also set out a longer-term vision in which megafunds become significant institutional investors, supported by deep governance resources, in-house investment expertise, and the ability to invest directly and withstand market stress.

As a working example, Smart Pension chief investment officer, James Lawrence, reveals that growth has already widened his master trust's opportunities – Smart recently passed £10 billion in assets under management (AUM).

“That size has already opened up specialist external managers and private market opportunities that smaller schemes cannot hold consistently, and it lets us negotiate from a stronger position on cost, as well as build bespoke mandates,” Lawrence explains.

Scale has also supported further investment in technology and member services, the CIO adds.

Yet, he stresses that access to additional capabilities is only the start.

“We have put more into governance alongside it, and that is what turns access into better outcomes rather than simply a wider choice,” he says.

Does bigger mean better?

As Lawrence acknowledges, the distinction between opportunity and outcomes is crucial in this debate.

While scale can clearly provide greater capability, schemes must still use it effectively to benefit members.

Indeed, research from the Pensions Policy Institute (PPI), examining experience in markets including Australia and Canada, found no direct correlation between scheme size and investment returns.

Instead, where economies of scale were identified, they were generally linked to lower administration, investment, governance and regulatory costs rather than higher performance.

In addition, no clear consensus exists on the optimum size.

Some governance and cost benefits can emerge in UK schemes with assets of more than £100 million, while Australian research has suggested that AUM of between £25 billion and £50 billion may support in-house investment and access to a broader range of assets.

However, these findings may not transfer to the UK, where schemes may already achieve investment scale through a parent organisation, common funds or shared governance arrangements.

Meanwhile, SEI defined contribution and solutions managing director, Steve

Charlton, warns that the £25 billion threshold is already influencing the market before the detailed rules have been finalised.

“In reality, what has happened is that the £25 billion scale test has actually become an official quality rating, and it’s being applied now,” he told delegates at the Pensions Age Autumn Conference.

Charlton accepts that scale can lower operating costs, improve buying power and strengthen investment and technology capabilities. But he argues that these advantages should not be treated as proof of superior results.

Similarly, Lawrence observes that many benefits arrive well before the proposed threshold.

“Most of what scale delivers in cost, governance and access arrives well before £10 billion, and it keeps compounding from there rather than switching on at a particular threshold,” he notes.

“Portfolio construction, governance quality and investment expertise are what decide whether that scale ever reaches members, and they are as demanding at £50 billion as they are at £5 billion.”

Investment beyond AUM

Private markets are central to the government’s case for consolidation, with larger schemes expected to gain wider access to productive assets.

The Mansion House Accord sets a target of 10 per cent of defined contribution (DC) default fund assets allocated to private markets by 2030.

But People’s Pension chief investment officer, Dan Mikulskis, warns that investment terms matter as much as access.

“Many private market assets can be accessed with lower amounts, but frequently almost all the advantage of the assets is given away in fees,” he explains.

“Scale means you can dictate terms to ensure this is no longer the case.”

Yet he stresses that “scale is necessary but not sufficient by itself”, with governance, fees and implementation

also contributing to outcomes.

Pensions Management Institute chief strategy officer, Helen Forrest Hall, also argues that private-market appetite must be matched by trustee capability, strong governance and appropriate opportunities.

“Productive finance can play a valuable role in diversified portfolios, but it should be part of the investment toolkit, not an end in itself,” she says.

“Trustees must remain free to invest where they believe it will deliver the best outcomes for members.”

At the other end of the spectrum, some suggest that scale can eventually become restrictive.

Mikulskis suggests: “Scale can become a limiting factor, and the extent to which that happens depends on the investment model in question and how exposed it is to asset classes where capacity considerations start to bite.”

TPT head of policy, Ruari Grant, argues that assets governed under the same investment strategy and decision-making framework should count together, irrespective of their legal or sectional structure.

Standard Life managing director of workplace and retail intermediary, Emma Furlonger, echoes this point, stressing that common investment capabilities and governance can provide genuine economic scale even when implementation varies.

“Otherwise, there’s a risk the framework measures legal form rather than economic reality,” she adds.

A narrowing market

Another concern is that consolidation may leave employers choosing between a relatively small group of large providers.

Lawrence says he expects the market to settle around nine to 12 master trusts that can meet the mandatory requirements and compete on investment and service.

But WTW senior DC consultant, Stuart Arnold, stresses that fewer options

should not materially change how employers select a provider.

He states that they will still need to conduct thorough due diligence, considering their workforce's needs alongside investment quality, member support and value.

Although employers' options will narrow, Arnold expects at least eight credible commercial master trusts to remain.

However, he acknowledges a "very real risk" that the scale and value-for-money (VFM) frameworks could encourage increasingly similar default strategies.

Arnold adds that peer-group awareness is already exerting greater influence over provider default strategies, creating a risk that schemes favour approaches similar to those of their competitors rather than pursue genuine innovation.

Indeed, the PPI's analysis of Australia found that, while its performance test encouraged consolidation and sought to remove underperforming schemes, it also introduced herding, reducing the scope for risk-taking and outperformance.

With this in mind, Charlton believes policymakers should put the VFM framework first, allowing schemes delivering poor outcomes to consolidate naturally.

"We're saying consolidate failure and not difference," he says.

"Members don't save so they have a larger provider. Members save so they have larger pots of money to spend when they reach retirement."

Meanwhile, Grant warns that legitimate differences between schemes should not be mistaken for inefficient fragmentation.

For example, he notes that membership profiles, pot sizes and retirement patterns vary, while ethical or belief-based defaults, including Shariah options, serve distinct member needs.

Grant acknowledges that some legacy

arrangements provide little meaningful differentiation and their members may be better served by a provider's main default.

However, some large employer arrangements offer sophisticated strategies comparable with those of master trusts, particularly where the employer meets some or all of the costs.

Echoing this, Furlonger argues that consolidation should not eliminate choice, provided the framework allows schemes to combine shared investment capabilities with distinct propositions.

"Ultimately, consolidation should occur because it improves member outcomes, not because assets have been forced into a particular legal structure," she adds.

"Members don't save so they have a larger provider. Members save so they have larger pots of money to spend when they reach retirement"

Risk concentration

A market dominated by fewer providers also raises questions about systemic and operational risk.

TPR says it is responding to the changing market with a more prudential approach to supervision, with greater attention to risks at both the scheme and system-wide level and earlier, expert-led engagement.

Yet the regulator will need to evolve alongside the schemes it supervises.

A £100 billion-plus master trust will require governance, resilience and accountability of a different order from those expected in today's fragmented market.

Concentration could also place considerable influence in the hands of a limited number of trustee boards, providers and investment teams.

Ensuring those bodies retain diversity of thought, challenge advisers effectively

and avoid converging on the same strategies will be critical.

"If you have few very large organisations covering the whole of the UK workforce, then you've got more chance of a larger portion of that workforce being impacted by an operational failure than you would have if that risk were spread across," Charlton warns.

For employers and trustees, he argues that size should never replace due diligence.

"Demand evidence of your advisers. Demand to know why providers have been included or not included," he says, urging decision-makers to examine investment outcomes before treating scale as a reason to select or exclude a provider.

A means, not an end

The £25 billion requirement will reshape the workplace pensions market.

It could produce schemes with stronger technology, greater buying power, improved governance and access to a wider investment universe.

But those benefits are not automatic.

The real test will not be how many schemes cross an AUM threshold, or how quickly assets are consolidated. It will be whether members receive higher net returns, better service and more secure retirement incomes.

That requires policymakers to distinguish between fragmentation that undermines value and legitimate differences that support competition and meet members' needs.

It also requires trustees, employers and advisers to judge providers on evidence rather than size alone.

There is no doubt that scale can create capability, but if the reforms simply produce larger providers without better outcomes, £25 billion will have become an expensive measure of size rather than a meaningful measure of value.

Written by Callum Conway