

Pensions for Purpose response to LGPS and DC consultations

In November 2024, on the back of Rachel Reeves' Mansion House speech and the Autumn Budget, a number of pensions-related announcements and consultations were released.

On Thursday 16 January 2025, we submitted responses to the following consultations:

- 'Local Government Pension Schemes (England and Wales): Fit for the future' which discusses LGPS consolidation.
- 'Pensions Investment Review: Unlocking the UK pensions market for growth' which discusses Defined Contribution (DC) Master Trust and Group Personal Pension (GPP) consolidation.

It is a busy time in the pensions industry and many stakeholders have different objectives.

The UK government's focus seems to be to increase investment in UK growth, ideally through consolidation, so there will be a small number of large, sophisticated asset owners in the pensions market.

In our responses we have set out why the UK government should not lose sight of the bigger ESG and sustainability picture. We discuss a number of different important topics, including:

Acting in the best long-term interests of members. This means pension schemes must address long-term systemic risks related to sustainability such as climate change, biodiversity loss and inequality.

Financial systems may collapse without a stable environmental and social system, with potentially devastating consequences for members' future finances and quality of life.

Consolidated asset pools, whether they are local government pensionschemes (LGPS), Defined Contribution (DC) schemes or Defined Benefit (DB) schemes, should be net-zero aligned, sustainably invested, and run in the best long-term interests of members. For LGPS, it is important to acknowledge the potential disconnect between individual funds' responsible investing policies and those of the pools.

Adequacy and securing all members' financial futures. Based on the current contribution levels to DC pensions, a significant proportion of the population is projected to have inadequate money to retire on, which could pose a future retirement crisis.

While increased efficiencies in investment strategies may partly help ease retirement shortfalls, it ought to be combined with increased contributions and other innovations.

Impact investing. The pension sector holds trillions of pounds of assets, most of which are invested over long time horizons. This means pension schemes are well placed to invest in sustainable impact – assets which deliver strong financial performance while also aiming to achieve specific sustainability goals, which are important to ensure a stable economic environment for members.

Pensions need more incentive to be encouraged to invest in sustainable assets. While scale and consolidation may help with this, there needs to be a stable policy environment for the climate transition and governments should work to support blended finance structures that allow pension schemes with different risk and return requirements to invest in impact.

Additionally, governments should address the concerns of scale becoming a deterrent to funds being able to access smaller impact funds.

The wider pensions market. The Government should not overlook the pensions not reviewed in these consultations:

- Corporate DB pensions.
- Single-employer DC schemes.
- Collective Defined Contribution (CDC) schemes.
- Bulk-annuity providers.
- Other DB consolidators.

These pension schemes collectively hold trillions of pounds of assets and represent a vast number of members so should also be considered. These schemes often face additional structural barriers preventing them from allocating to sustainable investments.

Practicalities of consolidation. The Government should steady its approach to consolidation, hurrying this process could be chaotic and lead to unintended consequences. Uncertainty about job stability could stifle innovation and slow progress across the industry.

To read our consultation responses in full, please email laasya.shekaran@pensionsforpurpose.com