

## **It's time to revisit pensions consolidation**

The UK's fragmented pension system means the economy is missing out on much-needed productive capital. After years of delay, the Government must act decisively on consolidation before it's too late.

The second report by New Capital Consensus, titled *"The Trillion Pound Question"* quantifies the occupational pension system as holding £2.2 trillion – 78% in defined benefit (DB) schemes, 22% in defined contribution (DC). Private sector DB schemes dominate at £1.2 trillion, but the private DB system suffers from high systemic risk and is unable to deliver the right kind of investment for the UK. The LDI disaster, driven by regulation and accounting, wiped out a third of DB assets, circa £650bn – a staggering 10% of total UK investment capital. While individual pensioners are protected, the economic damage is tangible and real.

The problem? Premature derisking. DB schemes behave like one giant herd, moving into gilts and LDI strategies years before necessary. Schemes typically start derisking when members hit 50, not the rational 70–75. That's 20–25 years of lost productive investment – capital that should be building businesses and creating jobs, instead parked in "safe" assets that proved anything but.

Life insurance buyouts can only ever be part of the answer. Consolidating the entire DB system into insurers would create even more systemic risk, demand far exceeding the supply of assets that meet insurers regulatory restrictions.

The solution? Superfunds operating under pension regulation, not insurance rules – as recommended by the PLSA DB Taskforce in 2017. This is crucial – Superfunds need the investment freedoms not available to existing DB schemes or insurers. Without this, they can't invest in productive capital or deliver adequate returns. Insurers should be allowed to set up Superfunds outside their Solvency UK ringfences. They have the skills and capital – blocking them would obstruct consolidation.

The Bank of England's reported 2020 opposition to Superfunds, citing systemic risk concerns, looks outdated post the LDI crisis. Today's systemic risk will only increase under the status quo.

Public sector schemes, backed by government and free from accounting perversities, invest more effectively. They need further consolidation too – as the Government plans – by completing the transfer of pension fund assets of the 86 local authorities in England and Wales to fewer, larger pools capable of real asset investment.

DC schemes are already consolidating rapidly – from 3,700 schemes in 2012 to potentially 500 by 2030. Indeed, the market is already heavily concentrated into 20 Mastertrust schemes so private DB is where Government must focus to unlock growth capital.

The data problem compounds everything. Is the DB system solvency 127% (tPR) or 100% (ONS)? NCC's researchers at Leeds University showed that the ONS data is better as it captures derivatives, repo and is more up to date. Such disparities make assessing systemic risk impossible. The government can't manage what it can't measure.

With a Pensions Schemes Bill expected soon setting out a statutory basis for Superfunds, the Government has a narrow window to act and make the most of this generational opportunity. The economy can't afford another generation of low growth. The choice is stark: continue missing out on productive investment through premature derisking and fragmentation or consolidate intelligently through properly regulated Superfunds.

The 'Trillion-Pound Question' demands an answer. The UK's economic future depends on getting it right.

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