

04 March 2026

To: Peers who have spoken at Committee on the Pension Schemes Bill

### **Pension Schemes Bill Committee Debates**

My Lords,

I would like to thank all Noble Lords who participated for the thorough and constructive debate during Committee stage of the Pension Schemes Bill. I committed to write to address various points made. I hope you will find my responses below helpful.

This letter follows my earlier one of 9<sup>th</sup> February dealing with the Local Government Pension Scheme measures a copy of which is in the House library.

#### **Value For Money (VFM)**

During the fourth Committee debate on 22<sup>nd</sup> January, I promised that I would send out information about the Value for Money consultation that was launched in early January by the FCA and the Pensions Regulator.

I am enclosing a copy of the consultation undertaken by the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR). I have also provided a weblink to the summary of the VFM framework consultation on TPR's website: [Overview for trust-based DC schemes on the value for money framework: response to consultation, further consultation and discussion.](#)

The consultation sets out updated proposals and draft FCA rules for implementing the VFM framework in the workplace DC pensions landscape and reflects stakeholder feedback from the previous FCA consultation. Responses to this consultation, which closes on 8<sup>th</sup> March, will inform draft DWP regulations and FCA rules.

In summary, the consultation paper sets out proposed metrics for investment performance, costs and charges, and service quality. It outlines how the assessment process will operate, further details around the rating structure and the consequences associated with each rating.

The Government will be consulting on the detailed application of these proposals to trust-based schemes with the intention to mirror these proposals in forthcoming regulations to ensure consistency across trust-based and contract-based schemes.

This consultation sees five key changes from its predecessor:

- First it proposes forward-looking metrics to sit alongside backward-looking investment performance in assessments.
- Second, it proposes a reduction in the number of cost and backward-looking performance metrics, focusing on the most important indicators.
- Third, it proposes the streamlining of service quality metrics, starting with administration with plans to expand to assessing engagement in later iterations.
- Fourth, it proposes a move to comparisons against a commercial market comparator group, rather than three other arrangements.
- Finally, it proposes the adoption of a four-point rating system including: Red, Amber, Light Green, Dark Green to provide greater granularity.

These changes were made in response to previous stakeholder feedback and industry engagement.

## **Scale**

Also, on the fourth day of Committee on 22<sup>nd</sup> January, Baroness Bowles asked about indemnities or legal consequences if schemes are forced to consolidate.

I explained that consolidation is not being newly created by the scale measures but already happens in the market and that those running schemes that choose to consolidate needed to carry out due diligence and act in the interests of their members. I have considered my undertaking to write if there was anything further to add; however, I am clear that the question asked was addressed in debate and that the operation of the policy is as stated in my remarks.

I did consider whether the question was possibly seeking to draw a link between existing market practice in respect of consolidation with and the scale measures. However, the measures do not compel consolidation at a specific point; and it remains for those who run schemes to decide whether to consolidate and with whom.

## **Contractual Override**

During the debate on the sixth day of Committee on 3<sup>rd</sup> February, Noble Lords tabled probing amendments or expressed concerns during debate on the contractual override measures.

Baroness Noakes asked why we needed the best interests test despite in-scope pension providers being subject to the FCA's consumer duty. The inclusion of the best interests test in legislation is a recognition that a power that allows for interference of this nature in contracts requires clear safeguards in legislation on top of existing consumer duty requirements. The best interests test introduces a specific and tailored way to assess the suitability of a contractual override, putting consumers at the heart of any decision.

Baroness Noakes also expressed concern that by transferring members who are better off into new schemes, there was a risk of leaving behind a shrinking pool of members who could become stranded in uneconomic schemes as the 'last man standing'. The best interests test is designed to prevent such an eventuality. The best interests test is clear that a provider must consider the interests of those members who remain in the scheme, as well as the members who are being moved to a different scheme. This means, if effecting a contractual override would structurally weaken a pension scheme, making it less economical and thus disadvantaging the remaining members, the best interests test would not be met, and the contractual override could not proceed.

Furthermore, the VFM Framework will also identify and address poor-performing schemes or arrangements. This therefore provides an additional safety net to schemes becoming uneconomical as a result of losing members via a contractual override as they are continually assessed against the VFM Framework.

I also wanted to address the concerns raised by Baroness Bowles regarding the meaning of the term 'reasonably likely' to describe the level of confidence required for the best interests test to be met. Baroness Bowles expressed a concern, shared by some others, that it might not set a sufficiently high bar.

The intention of the best interests test is to ensure providers must reasonably conclude, with evidence, that there is a real prospect of a better outcome for the directly affected members (taken as a whole). This is in line with the Government's intention of balancing the usability of the measure by industry and ensuring adequate consumer protections. It also helps deliver on the Government's intention of creating a contractual override mechanism for contract-based pensions which is broadly equivalent to the existing bulk transfer mechanism in the trust-based market.

I should conclude by saying I do understand the concerns expressed by noble Lords on this matter. I will therefore look at how the Government has described the intention of the best interests test and the term “reasonably likely” in the Bill’s explanatory notes and, consider if we can help provide further clarity about its meaning in this context.

### **Pensions Commission**

On the seventh and eighth days of Committee on 5<sup>th</sup> and 23<sup>rd</sup> February, Viscount Younger asked about the timings around the Pensions Commission and whether it would cover pensions adequacy. As I indicated in Committee, the Commission has been tasked with making recommendations about pensions adequacy and will consider how to deliver financial security in retirement and support those approaching retirement through a pensions framework that is strong, fair and sustainable. The Commission will publish an interim report this Spring, setting out the evidence base and strategic direction for its work on assessing the UK’s pension system. It will set a direction based on the purpose the Government has given it to identify remedies to address pension adequacy, fairness and risk, before preparing its final recommendations in early 2027 for the Government to consider.

### **Pensions Dashboards**

On the final day of Committee, I responded to Baroness Coffey’s earlier question about delays to pensions dashboards. I explained ‘*that there was a reset of the programme between March 2023 and March 2024*’. I meant to say between March 2023 and May 2024.

I hope this letter is useful for Noble Lords. A copy of it will be placed in the House library.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Sherlock', written in a cursive style.

**Baroness Sherlock OBE**

**Minister of State, Department for Work and Pensions**