Realising the potential of pensions megafunds

WPI Economics modelling of the DC pensions market in 2030 for Phoenix Group and People's Partnership

July 2025

WPI ECONOMICS

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We are an economics, data insights, policy and impact consultancy, but one that is a little different to many others. We draw on backgrounds in government and the private and charitable sectors to produce work designed to make a difference. We do not do research for research's sake. We are committed to ensuring that everything we do has an impact - which is part of the reason why we recently became a verified B Corporation.

Economic analysis:
we use modelling, theory and quantitative and qualitative research to help clients tackle important policy issues. Critically, we provide economics that people understand, making complex issues and analysis easily digestible, which in turn helps our clients and partners to make an impact on people's lives.

Policy consulting and impact:
we work with those seeking to improve policy and directly with policy makers. We help to shape strategy, from understanding the skills needed to deliver net zero, through to making the case for a change in legislation, to adopting new programmes and ways of working within charities.

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we analyse complex datasets about people, places and businesses to help decision-makers understand what is going on. Whether that's on poverty and inequality or the rollout of new technologies like 5G, our work provides information in compelling and high-impact ways, enabling policymakers and organisations to use it to shape policy.

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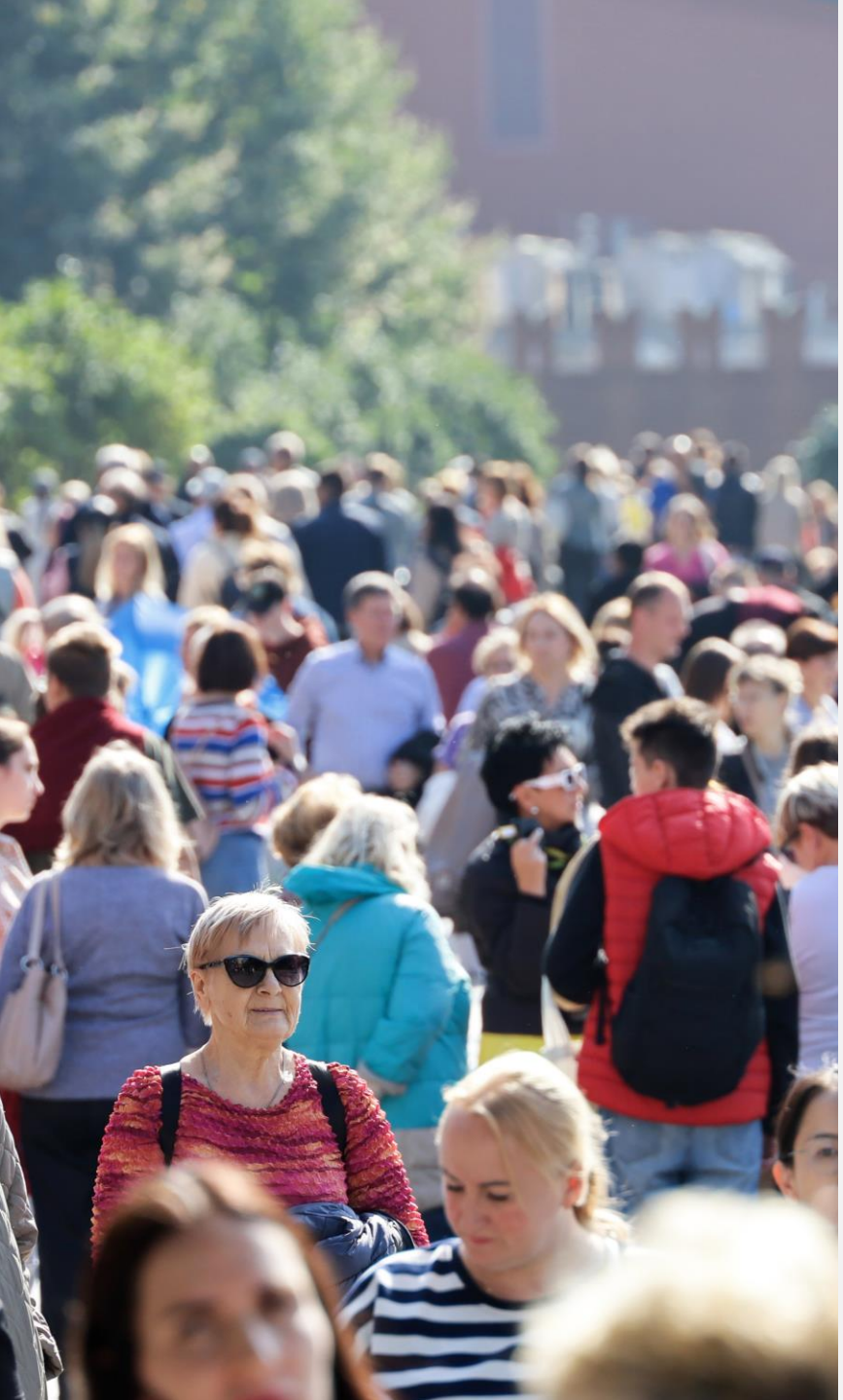


Defined Contribution (DC) megafunds have the potential to be a game changer for pension savers and the UK economy - but only if policy makers and regulators can get the broader ecosystem right. This research sets out the long-term benefits if megafunds are delivered in the right way.

By consolidating the multi-employer DC pensions market, our modelling shows that these reforms could lead to between 10 and 16 providers of DC pensions in the market by 2030, depending on a range of scenarios for market growth and concentration.

In all scenarios, the majority of savers will be in funds of over £50 billion in assets, with the potential for much of the market to be concentrated in funds of over £100 billion.

There are a set of critical enablers needed to realise the benefits of megafunds, ensuring that they deliver higher returns and an increase in private markets allocation. These include bulk transfers without consent, implementation of the Value for Money agenda, and market management to support a shift from cost to value.

Our modelling suggests that potential improvements in returns from scale, which provide an ongoing benefit to savers, should more than offset the short term and time limited transition costs that would arise from the move to a consolidated market.

We present an ambitious vision for megafunds to embrace allocation to private market assets such as private equity and infrastructure, with between 17% and 24% of AUM allocated. These are likely to be long term changes beyond the 2030 timeline, given the extent of change needed to the DC pensions sector today.

Research overview

The UK Government has set out an ambitious vision for the future of DC pensions, a key feature of which is consolidation of the market into a series of megafunds with a minimum of £25 billion AUM.

This is intended to bring better value for members, through economies of scale and a more sophisticated approach to investment, resulting in higher net returns. In addition, greater scale should allow for schemes to develop a level of expertise and capacity that allows for investment in private market assets like private equity and infrastructure, which should in turn support growth for the UK economy.

The drive towards scale via consolidation will be complemented by overall projected growth in DC savings, driven by auto-enrolment, with DWP projecting that nearly £300 billion could be added to DC assets in the trust-based sector alone by 2030.

This modelling for Phoenix Group and People's Partnership updates these previous projections to look at the impact megafunds could have for savers in the trust-based and contract-based pensions market by 2030.

We find that megafunds have the potential to be a game changer for pension savers and the UK economy - but only if policy makers and regulators can get the broader ecosystem right.

Research questions

In considering the future DC market, we have set out to answer the following research questions:

- What are the key drivers of the future market structure in 2030?
- How many players would be left in a highly consolidated market? How big would they be in terms of assets and members?
- What would be the key changes in market dynamics versus today? How might the new market change investment approaches and asset allocation?
- What are the costs and benefits of the new system, including for savers, UK PLC and the UK economy?
- What will the estimated transitional costs be of a more consolidated DC market?

Logic model & key dependencies

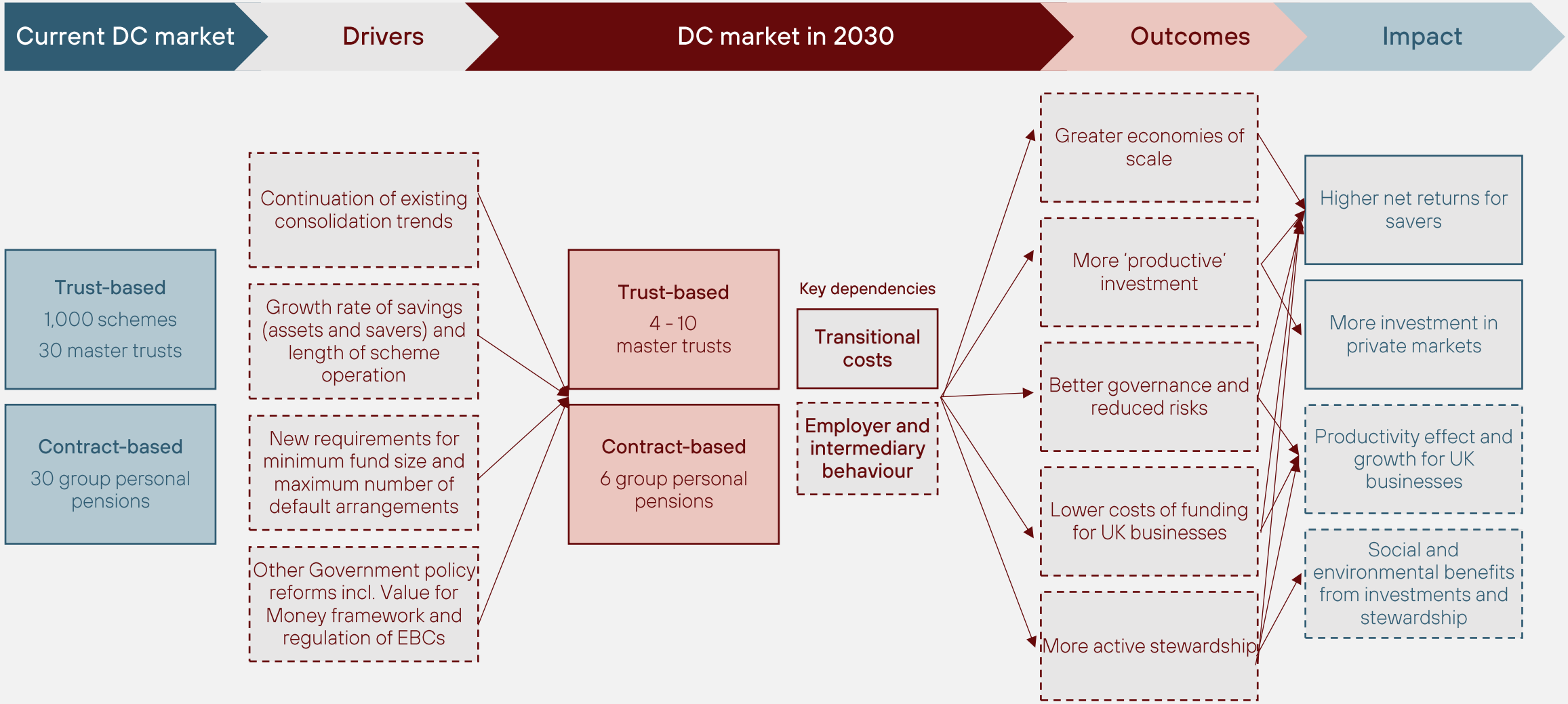
The next slide sets out our logic model, which summarises our understanding of the drivers of the future market structure and how this maps to outcomes and impacts for savers.

This identifies the **drivers and key dependencies** which are critical for the long-term benefits of megafunds to be realised – in particular that they deliver real market change in the form of higher private markets allocation and increased returns.

Key ones include:

- **Minimum scale requirements for default arrangements** - to inject scale into the market and provide benefits of scale to more savers.
- **Shift from cost to value** - reforming the structure of the market to encourage providers to focus on returns over cost, including implementation of the Value for Money agenda.
- **Market management** – Government and regulators playing a stronger role in market management, including by regulating intermediaries. Without this, scale may not result in high private market allocations and better returns. Government currently states it will not intervene here, and so currently this is a policy gap.
- **Bulk transfers without consent** – this is critical to move savers in contract schemes into larger and better performing defaults, underpinned by robust protections for savers. It is welcome that the Government is committed to action here.

This logic model underpins our modelling methodology and assumptions.



Wider factors

- Number of default arrangements and small pots
- Economies of scale delivered at different levels of AUM
- Fee cap and employer incentives to prioritise returns over lowest fees
- Relationship between scale and inward/'productive' investment
- Supply of suitable 'productive' investment opportunities
- Monopolistic risks of an excessively consolidated market

Solid lines indicate items we have quantified in our modelling.

Results

Modelling results summary

We estimate that by 2030, if a £25 billion AUM minimum fund size is introduced:

- The **trust-based DC market** will have consolidated from 1,000 schemes and 30 master trusts to **between four and ten master trusts**.
- The **contract-based DC market** will have **six Group Personal Pensions (GPP) providers**.

Depending on the rate of market growth and concentration, in 2030:

- 73-100% of savers and 54-100% of assets in the **trust-based market** could be in a **fund with over £50 billion** in total AUM.
- 87% of savers in the **contract-based market** and 92% of assets could be in **funds with over £50 billion** in total AUM in 2030.

As a result, we estimate that **savers currently in the smallest funds could benefit from 12-24 basis points (bps) in higher net returns (annually)**, but those currently in larger funds can expect a smaller increase in returns, and that **17-24% of AUM in the trust-based market and 22-23% in the contract-based market** could be **invested in private markets**. Both of these effects are likely to happen over a longer time horizon than 2030, due the level of change required to the status quo in DC pensions today.

The **transition costs** for the market to reach this level of consolidation would be between **£747 million and £955 million**, or 7.65 and 11.07 basis points of AUM in 2030.

The following slides show a snapshot of the trust-based and contract-based DC pensions market in 2030. First, we show the total projected assets and members in both markets, split between three growth scenarios (slow / medium / fast).

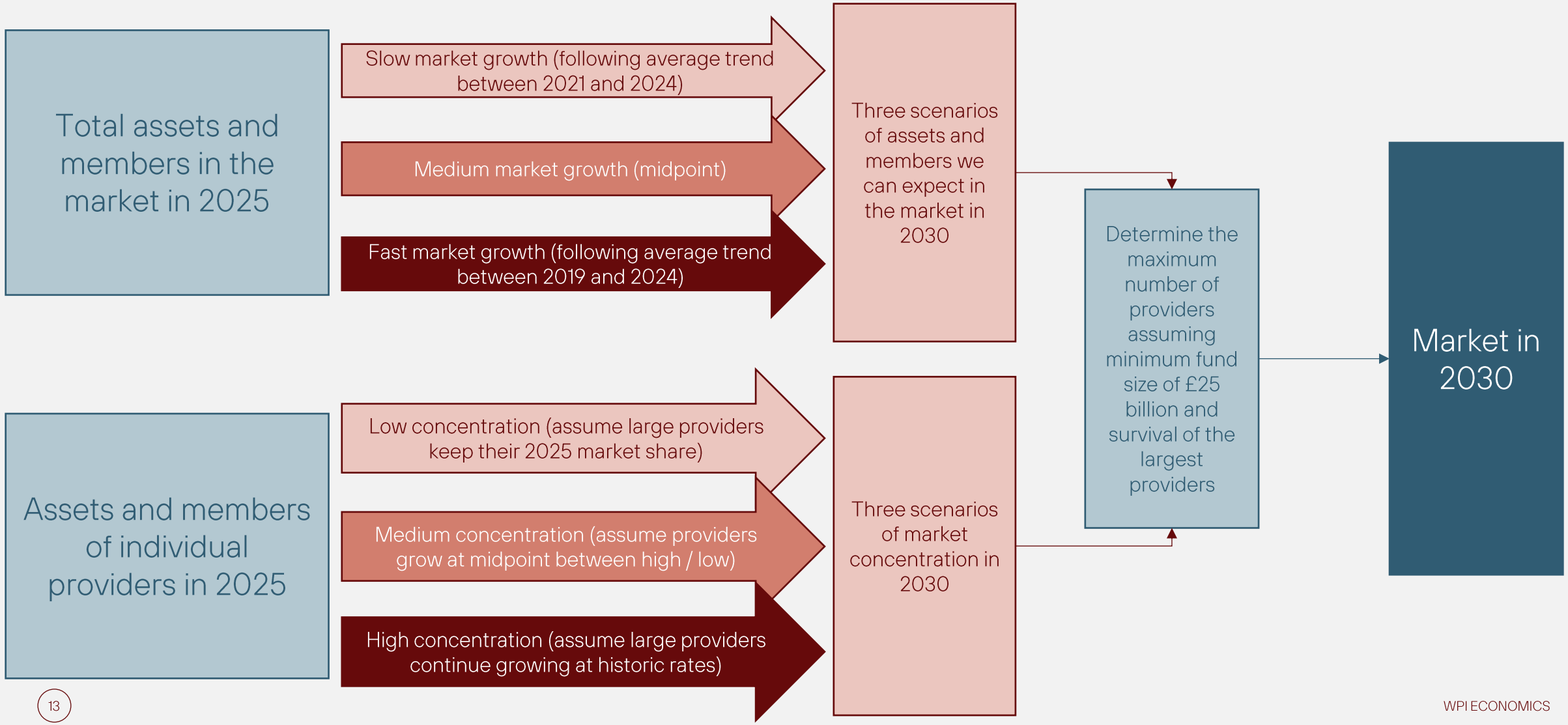
Having presented the market at the macro level, we zoom into each market segment and explore the allocation of assets and members between funds of different sizes, in trust-based and contract-based markets separately.

In the case of the trust-based market, the asset and member allocation depends on the level of consolidation the market will have undergone between now and 2030. For this, we also present low / medium / high scenarios, giving a total of nine scenarios (slow / medium / fast growth **AND** low / medium / high concentration).

The contract-based market is already very concentrated, with most of the market share held by firms already meeting a £25 billion size requirement, and is therefore less likely to undergo dramatic transformation in terms of participants. Rather, the focus in this market will be the merger of default funds. Because of this, we have not produced different scenarios of concentration for this market.

For more information on our methodology see slides 26-33.

Overview of the methodology



DC market in 2030: Total assets and members

Depending on the growth rate in the trust-based and contract-based markets, there could be **between £821 billion and £976 billion AUM** in the DC market in 2030.

We estimate that there will be **42-52 million members in the trust-based market** and **8-9 million active members in the contract-based market** by 2030.

	Trust-based market				
	Assets (billions, £)			Members*	
Scenario: market growth	Trust-based	Contract-based	Total	Trust-based	Contract-based
Slow	£364	£457	£821	41,810,000	8,150,000
Medium	£406	£490	£896	47,960,000	8,870,000
Fast	£451	£525	£976	51,790,000	9,310,000

*Please note that due to the available data trust-based estimates of membership are based on all members, while contract-based estimates of membership are based on active members. As a result, we do not show a total figure for the DC market as a whole.

DC market in 2030: Number of providers

Trust-based market			
Scenario: market growth	Scenario: level of concentration	Total assets (billions, £)	Total providers
Slow	Low	£364	9
Medium		£406	9
Fast		£451	10
Slow	Medium	£364	6
Medium		£406	7
Fast		£451	6
Slow	High	£364	5
Medium		£406	4
Fast		£451	4

Contract-based market		
Scenario: market growth	Total assets (billions, £)	Total providers
Slow	£457	6
Medium	£490	6
Fast	£525	6

Depending on the growth rate and level of concentration in the trust-based market, there could be **between 4 and 10 master trusts** in 2030.

In all scenarios, there will be **6 GPP providers** in 2030.

Due to the Government's decision to allow some funds to continue in 2030 with only £10 billion in assets, the high concentration scenario is now unlikely.

Trust-based market in 2030: Asset allocation between fund sizes

Depending on the growth rate and concentration, the allocation of AUM between fund sizes varies as shown:

Scenario: market growth	Scenario: level of concentration	Total Assets (billions, £)	Total providers	Assets in funds >£100 billion	Assets in Funds >£75 billion	Assets in funds >£50 billion	Assets in funds >£25 billion
Slow	Low	£364	9	0%	23%	54%	100%
Medium		£406	9	0%	23%	54%	100%
Fast		£451	10	23%	23%	65%	100%
Slow	Medium	£364	6	30%	30%	83%	100%
Medium		£406	7	29%	48%	79%	100%
Fast		£451	6	31%	70%	84%	100%
Slow	High	£364	5	33%	55%	91%	100%
Medium		£406	4	36%	83%	100%	100%
Fast		£451	4	83%	100%	100%	100%

Trust-based market in 2030: Member allocation between fund sizes

Similarly, the distribution of members between funds of different sizes varies depending on the rate of market growth and concentration.

Scenario: market growth	Scenario: level of concentration	Total providers	Members in funds >£100 billion	Members in Funds >£75 billion	Members in funds >£50 billion	Members in funds >£25 billion
Slow	Low	9	0%	55%	73%	100%
Medium		9	0%	45%	73%	100%
Fast		10	36%	36%	75%	100%
Slow	Medium	6	58%	87%	97%	100%
Medium		7	57%	86%	96%	100%
Fast		6	58%	95%	96%	100%
Slow	High	5	59%	96%	98%	100%
Medium		4	60%	98%	100%	100%
Fast		4	98%	100%	100%	100%

Contract-based market in 2030: Asset allocation between fund sizes

The distribution of assets in the contract-based market also depends on the growth-rate in the market. However, it is more likely that a higher proportion of assets will be in the largest funds because of the existing size of the largest GPP providers, assuming that savers are merged into the default arrangement over the same timeline.

Scenario: market growth	Total assets (billions, £)	Total providers	Assets in funds >£100 billion	Assets in funds >£75 billion	Assets in funds >£50 billion	Assets in funds >£25 billion
Slow	£457	6	50%	50%	92%	100%
Medium	£490	6	50%	66%	92%	100%
Fast	£525	6	50%	81%	92%	100%

Contract-based market in 2030: Member allocation between fund sizes

Similarly, the distribution of members between funds of different sizes in 2030 varies depending on the rate of market growth in the contract-based market as shown:

Scenario: market growth	Total providers	Members in funds >£100 billion	Members in funds >£75 billion	Members in funds >£50 billion	Members in funds >£25 billion
Slow	6	46%	46%	87%	100%
Medium	6	46%	52%	87%	100%
Fast	6	46%	65%	87%	100%

Impacts

The following slides show how different versions of the market translate into impacts, including the level of private market allocation and improvement in net returns for savers.

The potential benefits of megafunds are contingent not just on the benefits of scale, but on the realignment of incentives in the market towards returns instead of a pure focus on costs, including the implementation of the value for money framework. Given the time needed to effect meaningful change – some of these impacts are unlikely to have fully taken effect by 2030.

We split the impacts by trust-based and contract-based markets, and assume:

- A £25 billion fund would invest 10% of their AUM in private markets in 2030; a £50 billion fund would invest 20%; and a £100 billion fund would invest 23%. We assume that the relationship is linear between these points.
- Every doubling of fund size delivers five basis points of higher net returns. For GPPs, we uprate this improvement by an additional five basis points as there are bigger potential improvements in returns to scale due to merging of default funds in GPPs, and Pensions Policy Institute (PPI) analysis suggests around half of GPP members are in their scheme's largest default strategy.

More information on our methodology and sources is set out on slides 32 and 33.

Private market investment: trust-based market

Scenario: market growth	Scenario: level of concentration	Total assets (billion, £)	Private market allocation (% of AUM)	Total assets invested in private markets (billion, £)
Slow	Low	£364	16.7%	£61
Medium		£406	17.6%	£72
Fast		£451	17.8%	£80
Slow	Medium	£364	20.3%	£74
Medium		£406	19.9%	£81
Fast		£451	21.8%	£98
Slow	High	£364	21.5%	£78
Medium		£406	23.6%	£96
Fast		£451	24.3%	£110

Depending on the growth rate and level of concentration in the trust-based market, **between 17% and 24% of AUM could be invested in private market.**

We estimate this could equate to **between £61 billion and £110 billion of private market investment.**

Private market investment: contract-based market

Scenario: market growth	Total assets (billion, £)	Private market allocation (% of AUM)	Total assets invested in private markets (billion, £)
Slow	£457	21.9%	£100
Medium	£490	22.4%	£110
Fast	£525	22.9%	£120

Depending on the growth rate in the contract-based market, **around 22% to 23% of AUM could be invested in private markets.**

We estimate this could equate to **between £100 billion and £120 billion pounds of private market investment.**

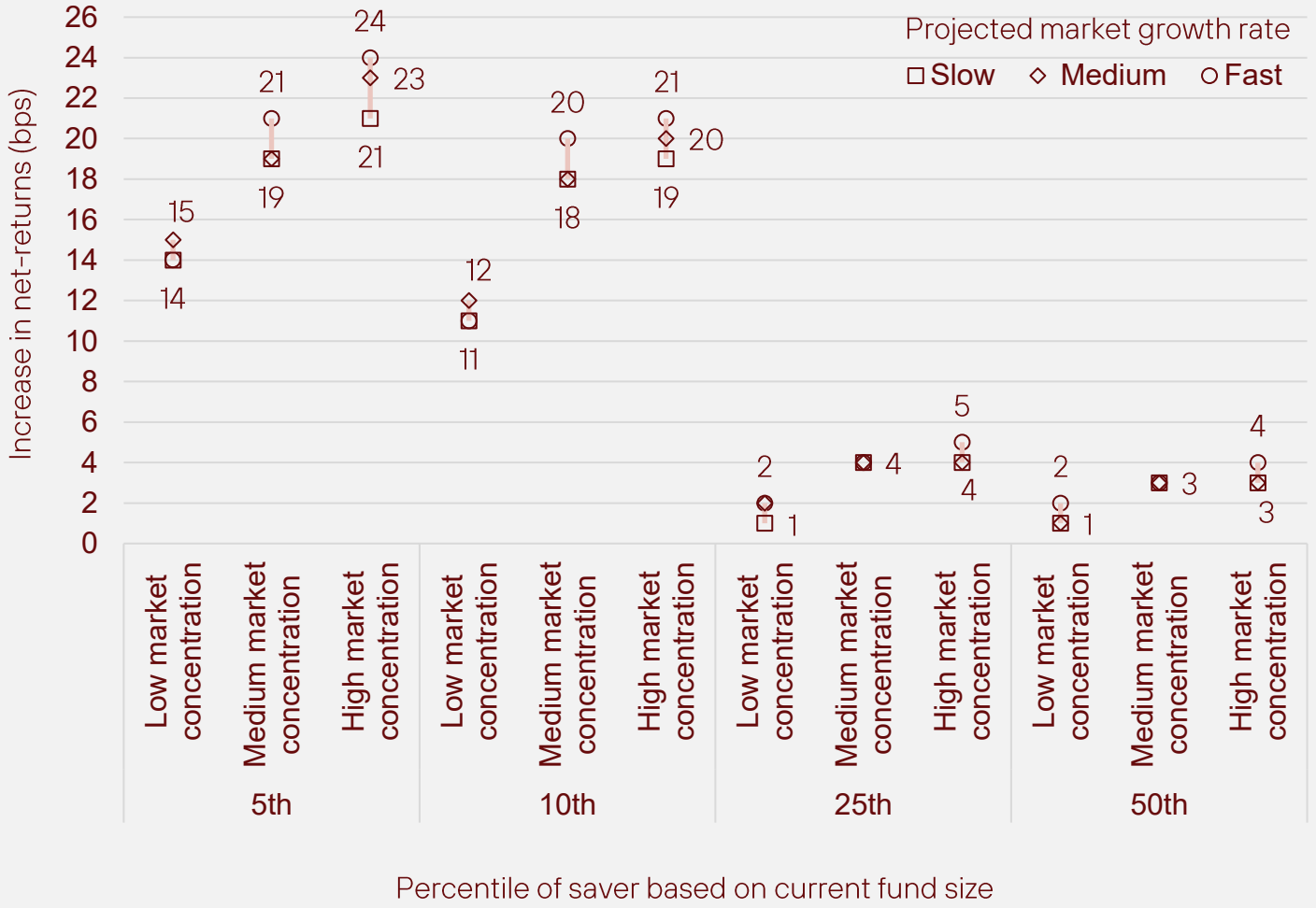
Higher average net returns for savers: trust-based market

This graph shows the potential gain for savers in a more consolidated trust-based market, in terms of higher net returns in basis points (bps) for different savers depending on the fund size (in terms of AUM) they are currently in.

The impact for a saver depends both on the level of market growth and concentration by 2030, and crucially the fund size they are in now. For example, a saver in the 10th percentile would currently be in one of the smallest funds. We estimate the size of fund they will likely be in in 2030 if they remain in the 10th percentile of savers, organised by fund size. Depending on the level of market growth and concentration, this saver could benefit from net returns 11-21 bps higher.

24 bps of higher returns could lead to a saver having an extra £12,000 in their pot at retirement,

Figure 1: Increase in net-returns for a saver based on their current fund size

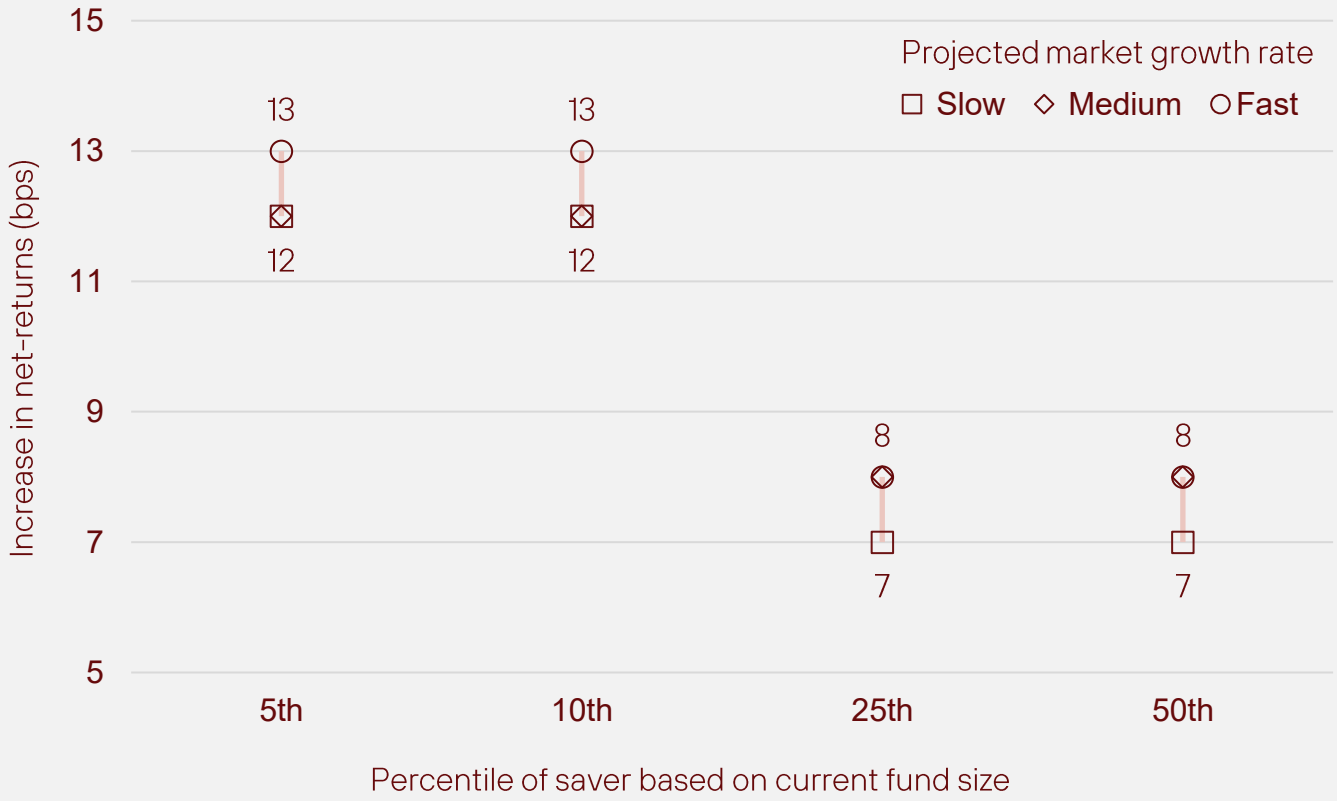


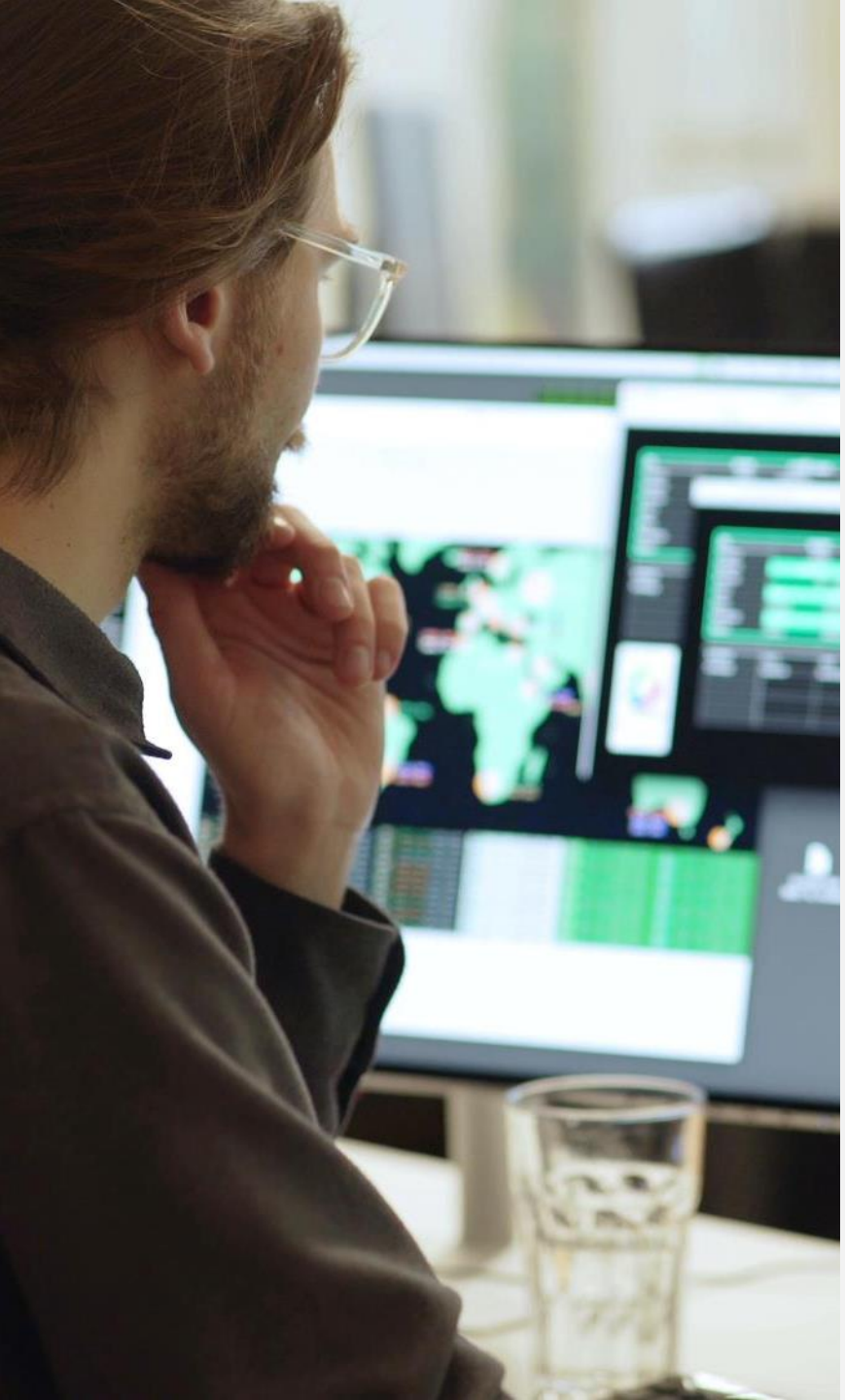
Higher average net returns for savers: contract-based market

This graph shows the potential gain for savers in a more consolidated contract-based market, in terms of higher net returns in bps for different savers depending on the fund size (in terms of AUM) they are currently in.

Due to the current size and concentration of GPP providers, savers in the lower percentiles are already in larger funds than in the trust-based market. As a result, some of the gains for those in the very smallest funds are smaller than in the trust-based market, However, for those savers in the 25th percentile and above there are potentially bigger return improvements from greater scale due to the merger of default arrangements.

Figure 2: Increase in net-returns for a saver based on their current fund size





Transition costs

In moving to a more consolidated market, with a smaller number of providers and minimum default fund size of £25 billion, we can expect some costs of transition.

We expect this to take three forms:

1. **Intermediary costs** to advise on a new scheme being onboarded.
2. **Onboarding costs** for schemes to join a provider or master trust, or for defaults to be merged.
3. **Costs from M&A activity** – where providers or commercial master trusts merge.

Based on detailed discussions with market experts and intermediaries which WPI Economics understand to be reflective of the market, analysis of publicly available data, and our own projections, we estimate that the total combined cost of this will be **£747 million to £955 million, or between 7.65 and 11.07 basis points of total workplace DC AUM in 2030.**

Conservatively assuming these costs are all borne by savers in a competitive market, **we estimate that spreading this cost over five years means a maximum of 2.2 bps per year cost for the average saver.** This is a one-off cost of transition, in comparison to the ongoing benefits in returns that we project from the modelling.

Methodology

Our modelling broadly follows the methodology of the 2023 DWP report ‘Trends in the DC trust-based pensions market’. However, we have updated this model with more recent data on market growth rates, and expanded the methodology to the contract-based market.

Our model also considers the number of providers of each size in the market in 2030, and the percentage of assets and savers in funds greater than £25 billion, £50 billion and £100 billion by 2030.

The next slide presents an overview of our modelling approach, which projects both slow, medium and fast market growth scenarios, and low, medium and high market concentration projections for the trust-based market.

Trust-based market: macro-economic growth to 2030

Drawing on the 2023 DWP methodology, we have used data from The Pensions Regulator (TPR), and adjusted historic estimates for inflation where appropriate, to estimate the future annual growth of AUM and members in the trust-based market.

Assets

We calculate average growth rates in AUM between:
- 2011 and 2024
- 2019 and 2024
- 2021 and 2024

For our slow asset growth scenario, we take the lowest average annual growth calculated (between 2021 and 2024 - 12% annually); for our fast asset growth scenario, we take the highest average annual growth (between 2019 and 2024 - 17% annually). We take the average of these growth rates for our medium scenario.

We use these assumptions to calculate market size in 2030 in terms of AUM, which is taken as given in further calculations set out on the next slides.

Members

We calculate annual growth rates in members over the last three years.

For our slow member growth scenario, we take the lowest annual growth rate observed within the last three years (6% annually); for our fast member growth scenario, we take the highest annual growth rate observed within the last three years (11% annually). For our medium scenario, we assume the average annual growth rate over the past three years (9%). We do not include the relatively higher annual growth in years prior, in early days of auto-enrollment, as this would have been unrepresentative of future growth potential.

We use these assumptions to calculate total members in 2030, which is taken as given in further calculations set out on the next slides.

Contract-based market

We use data from Corporate Adviser or funds' own website for the current size (in terms of AUM and active members) for the largest active GPP providers. Where these providers also have a master trust, we use data from Go Pensions to estimate the AUM and members in the companies' GPP funds. We then re-weight the total AUM to align with the market size estimate put forward by The Pensions Policy Institute.

We assume that the vast majority of the contract-based market is in the 10 largest GPP providers and have used their aggregate member numbers as a proxy for the whole market.

Market growth

We lack historic estimates of growth in the contract-based market, both at the aggregate and at provider level.

Due to this limitation, we assume that, for each scenario, asset and member growth in the contract-based market is half of what we expect in the trust-based market.

The resulting totals broadly align with DWP projections and follow the relationship between the two growth rates which has been put forward by the Pensions Policy Institute.

Concentration

In all growth scenarios, only the largest six providers meet the £25 billion minimum fund size threshold. We have therefore not calculated different concentration scenarios for the contract-based market, and apportioned the remaining market share equally across the largest six providers.

Growth scenarios: assumptions

Based on the methodology set out on the previous slides, we assume the following annual growth rates for the DC market between 2025 and 2030:

Market growth	Scenario	Annual growth in assets	Annual growth in members
Trust-based	Slow	12.2%	6.4%
	Medium	14.6%	9.4%
	Fast	17.1%	11.1%
Contract-based	Slow	6.1%	3.2%
	Medium	7.3%	4.7%
	Fast	8.6%	5.5%

Trust-based market: concentration scenarios

Low
For the low concentration scenario, we conservatively assume that big providers grow their members and assets at the same rate as market growth (effectively keeping the same market share over time). We then analyse the 2030 landscape and identify providers where AUM crossed the £25 billion threshold. We calculate the market AUM which is not taken up by these large providers and assume the largest possible numbers of providers that would cover that market share (given each provider needs to have at least £25 billion AUM). This gives us an estimate of the lowest possible level of market concentration, or the largest number of providers.

High
For the high concentration scenario, we base our projections of future provider growth on historic growth of the largest 10 master trust providers (in terms of assets) based on data from Go Pensions between H1 2021 and H2 2025. The growth of large providers has historically outpaced the market, therefore, this assumption implies large providers continue growing their market share in the future.

While historic provider growth forms the basis of our projection, we assume future provider growth is still dependent on the projected speed of growth of the market as a whole, **as it would be unreasonable to assume these two variables are totally independent**. Provider growth in the high concentration scenario varies between low/medium/high market growth scenarios in the following way.

- In the high concentration / medium market growth scenario, we assume that all providers grow at the average annual growth rate of 10 largest providers between H1 2021 and H1 2025.
- In the high concentration / slow market growth scenario, we adjust historic provider growth downwards in line with the proportional decrease in market growth associated with the slow market growth scenario (84%).
- In the high concentration / fast market growth scenario, we adjust historic provider growth upwards in line with the proportional increase in market growth associated with the fast market growth scenario (117%).

Assuming such rate of growth, the combined AUM of providers who have AUM >£25 billion would exceed the total AUM available in the market. We assume survival of largest providers until available market share is exhausted.
It is worth noting that the new 10 billion cut off in 2030 makes the high concentration scenario seem unlikely.

Medium
For the medium scenario, we assume growth is at the midpoint between high and low scenario assumptions. If providers with assets >£25 billion do not exhaust market share, we assume the maximum possible number of providers to cover the remaining market share.

Concentration scenarios: assumptions (trust-based only)

Based on the methodology set out on the previous slide, we assume the following annual growth rates for the largest master trusts between 2025 and 2030:

Market growth	Concentration	Annual growth in assets of large master trusts
Slow	Low	12.2%
	Medium	17.0%
	High	21.8%
Medium	Low	14.6%
	Medium	20.4%
	High	26.2%
Fast	Low	17.1%
	Medium	23.9%
	High	30.7%

Modelling private markets allocation

This research articulates an ambitious vision for DC pensions embracing private market investment. As we have set out, achieving a significant increase in private market investment requires not just scale, but also a realignment of incentives in the market. Therefore, these figures should be seen as the potential 'size of the prize' in getting this package of interventions right.

We have considered a range of sources and assumptions for potential levels of private market investment by megafunds:

- NEST are targeting a 30% allocation to private markets by 2030, subject to the right wider conditions.
- CEM Benchmarking (via PLSA) say funds over £100 billion have 23% in private markets, and funds over £20 billion have 20%.
- Australia, with its much bigger average fund size, has about a 17% allocation to private markets according to data from the Australian Prudential Regulation Authority (APRA).

These sources are credible and draw from the best available international evidence on asset allocation and scale. However, they do not fully reflect the realities of the DC pensions sector in the UK, in which a singular focus on costs prevents providers from increasing their allocations to private markets.

As a result, in our modelling the 20% private markets assumption kicks in at a scale threshold of £50bn, rather than £20bn. We assume 10% allocation for a £25 billion fund, in line with the Mansion House Accord. We also recognise that market reforms required to increase private market investment would take time to have an effect, and so our modelling does not suggest that these higher allocations will be realised in 2030.

Impacts

The resulting scenarios of the market in 2030 are then taken to understand the total level of private market allocation and higher saver returns using the following assumptions:

Impact	Assumption	Source
Private market allocation	10% for a £25 billion fund	PLSA estimates based on CEM data & analysis of UK markets
	20% for £50 billion fund	
	23% for £100 billion fund	
Saver returns	5 basis points higher returns for every doubling of fund size, and an additional 5 basis points for GPPs to account for potential improvements in returns to scale due to merging of default funds.	APRA drivers of performance research 2023

These assumptions are applied to all market scenarios. The level of private market allocation is the market average calculated for all funds using the above assumptions, assuming a linear relationship between private market allocation and fund size between the assumed points.

To understand an improvement in saver returns, we compare savers at the 5th, 10th, 25th and 50th percentile of fund size currently and in all future scenarios.

Data tables

This section provides the data tables for the figures on slides 23 and 24.

Figure 1: Increase in net-returns for a saver based on their current fund size

Scenario: market growth	Scenario: level of concentration	Increase in net returns (bps)			
		5th percentile saver	10th percentile saver	25th percentile saver	50th percentile saver
Slow	Low	14	11	1	1
Medium		15	12	2	1
Fast		14	11	2	2
Slow	Medium	19	18	4	3
Medium		19	18	4	3
Fast		21	20	4	3
Slow	High	21	19	4	3
Medium		23	20	4	3
Fast		24	21	5	4

Figure 2: Increase in net-returns for a saver based on their current fund size

Scenario: market growth	Increase in net returns (bps)			
	5th percentile saver	10th percentile saver	25th percentile saver	50th percentile saver
Slow	12	12	7	7
Medium	12	12	8	8
Fast	13	13	8	8

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