OXFORD ECONOMICS | L&G

A Blueprint for Growth

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Established in 1836, L&G is one of the UK's leading financial services groups and a major global investor, with £1.1 trillion in total assets under management (as at HY25) of which c. 43% (c. £0.5 trillion) is international. We have a highly synergistic business model, which continues to drive strong returns. We are a leading player in Institutional Retirement, in Retail Savings and Protection, and in Asset Management through both public and private markets. Across the Group, we are committed to responsible investing and dedicated to serving the long-term savings and investment needs of customers and society.

December 2025

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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CEO foreword

The question of how to achieve sustained economic growth is the defining challenge facing the UK today. Growth is the foundation of prosperity. For the Government, it underpins fiscal stability and the funding for better public services. For households, it means more jobs, higher wages and greater financial security. In short: growth matters to everyone.

António Simões
Group Chief Executive
L&G

Pension capital has a vital role to play in that story. It is not just a mechanism for saving, but a powerful growth engine for investment – helping to fund the homes, infrastructure and innovation that drive the economy forward.

As one of the UK's largest pensions investors, we're big believers in the potential of the UK economy and the role of pensions in realising that. The capital managed through our businesses – deployed into productive assets across the UK – delivers tangible economic impact and positive social outcomes.

The Government is right to make growth its defining mission and recent reforms to pensions and capital markets are a welcome step. But we need to focus on implementing these measures at pace, to ensure we seize the investment opportunity.

That is why we have worked with Oxford Economics to look at the full impact of six specific policy changes – of which four, like planning reform, are already in train, and two are new opportunities like a phased increase in pension contributions and changes to the regulatory treatment of "whole projects" under Solvency UK – to unlock greater investment, raise productivity and strengthen fiscal resilience across the UK.

The results speak for themselves. The modelling indicates that this package could unlock £220 billion in investment in the UK over the next decade, permanently adding 0.7% to UK GDP by 2035, and raising household disposable incomes by an average of £330.

This is not a search for quick wins. Growth is a long-term national mission that must endure beyond any single administration. To succeed, we must mobilise the UK's deep pools of institutional capital through sustained commitment across Government, investors and industry alike.

The prize is clear. Rising investment creates its own momentum; growth strengthens the capacity to save; saving fuels further investment; and that virtuous cycle compounds into lasting, broad-based prosperity.

Other countries have shown what is possible. In Australia, successive Governments have legislated stepwise increases to superannuation contributions, creating one of the largest pension systems in the world – with assets exceeding 130% of GDP – channelling domestic capital into infrastructure, housing and clean energy.

The UK has the same potential. With the right framework, we can achieve steady, sustained investment that powers growth across every region.

> "As one of the UK's largest pensions investors, we're big believers in the potential of the UK economy, and the role of pensions capital in helping to realise that potential."

We see that potential every day in the projects we fund and the returns our customers earn on their savings. But we also see how much more is possible if Government, industry and investors pull in the same direction.

We are on the right track to create an investment environment that enables pensions funds, like L&G, to put capital to work in areas of the economy like housing, clean energy and digital infrastructure, driving a real impact on the wealth of UK households and the country for the long-term.

This report is a contribution to that shared endeavour. It provides a clear, evidence-based case for the policies we need to connect capital with opportunity that delivers growth for the long-term.

We have great faith in the power of the UK economy. Now is the time for Government, industry and investors to move it forward with conviction.

Executive summary

Economic growth has been placed at the centre of the Government's Plan for Change. The growth mission aims to deliver the highest sustained growth in the G7, alongside a clear ambition to improve living standards in every part of the UK. This report shows that a suite of six policy changes linked to the pension and insurance sector can play an important role in this mission by delivering up to £220 billion[1] in UK investment over the next decade, permanently adding up to 0.7% to UK GDP in 2035 and contributing up to £330 to household incomes (2024 prices).

> "Six measures linked to the pension and insurance sector demonstrate how targeted policy can help turn pensions capital into real economic impact."

1 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.

The pension and insurance sector already plays a key role in supporting the UK economy, but more can be done. In 2024, the total value of UK pension assets was estimated at £3.2 trillion, yet only 6% of this was invested in UK productive assets.[2] L&G has commissioned Oxford Economics to assess the economic contribution of six policy reforms – set out below – that will support the pension and insurance sector channel capital into the UK helping the Government deliver on its growth mission.

1. **The Mansion House Accord** – a voluntary industry commitment from 17 defined contribution pension providers (including L&G) to allocate 5% of their main default funds to UK private markets by 2030.

2 **The Local Government Pension Scheme** – new requirements for administrating authorities to develop (and report on) their approach to local investment as set out in the Government's response to the Fit for the Future consultation.

3. **Surplus Extraction** – the introduction of new powers allowing trustees of defined benefit schemes to modify rules so that they can pay surpluses back to sponsoring companies.

4. **Planning reforms** – policies in the updated *National Planning Policy Framework* (NPPF) that support investment in the housing sector by improving efficiency and predictability within the system. The planning analysis in this report only reflects policies to support housebuilding in the NPPF. Policies within the NPPF and the Planning and Infrastructure Bill designed to support the development of other forms of infrastructure are not assessed and have the potential to deliver additional benefits.

5. **Increased pension contributions** – a scenario that shifts auto-enrolment contributions to a minimum of 12% by increasing both employee and employer contributions to 6% over a six-year period and removes the current age and earnings eligibility thresholds.

6. **Building on Solvency UK** – the - already in train - investment accelerator that allows insurers to invest ahead of regulatory approval, and additional changes to the regulatory treatment of whole projects that limit the need for insurers to securitise or pool assets into bonds or other debt instruments.

The first four policies listed above have already been announced by Government, together with the PRA proposals for an Investment Accelerator. These measures have been included to highlight the importance of implementing them at pace and in a manner that maximises their economic contribution. However, increased auto-enrolment contributions and changes to the regulatory treatment of whole projects are two opportunities to unlock further investment to help drive growth.

Macroeconomic contribution

This report maps the potential impact of these policies. In a **full potential economic contribution** scenario, these policies are expected to cumulatively contribute £220 billion[3] to UK investment over the next decade. This results in an annual estimated GDP contribution of 0.7% at the scheduled end of the current parliament in 2029 and could permanently add 0.7% to UK GDP in 2035. The GDP contribution in 2029 will primarily be driven by an increase in demand resulting from the rapid upscaling in investment from the suite of policies. The GDP contribution in this scenario in 2035 will be driven by supply-side gains resulting from investment and productivity channels. In this scenario, the policies are estimated to contribute £330 to annual disposable incomes per household and £8.8 billion to Government revenues from 2035.[4]

> “The UK could unlock £220 billion in investment over the next decade, permanently adding 0.7% to UK GDP by 2035, and raise annual household disposable incomes by an average of £330.”

The scale of the contribution in this scenario is significant. In comparison, the Office for Budget Responsibility estimated that:

- The long run effect of permanent full expensing would increase GDP by just under 0.2%.[5]
- A major labour supply package, increasing the generosity of the Government's childcare offer (among other policies), would boost GDP by 0.2% after five years.[6]
- A cut to national insurance contributions and other welfare reforms would boost GDP by around 0.2% after five years.[7]

The full economic contribution of these policies is significant. However, achieving their full potential will be based on a number of factors, such as the rapid shift in the allocation of pension and insurance sector investment into UK productive assets, and for this investment to be additional - rather than crowding out investment from other sources. Despite this, the scenario provides a helpful benchmark to illustrate the scale of the economic opportunity that this suite of policies offers.

2 Pension Policy Institute, "*Pension Scheme Assets – How is Asset Allocation Changing and Why?*", June 2025.
3 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.
4 Figures are in 2024 prices.
5 Office for Budget Responsibility, "*Economic and Fiscal Outlook – November 2023*"
6 Office for Budget Responsibility, "*Economic and Fiscal Outlook – March 2023*"
7 Office for Budget Responsibility, "*Economic and Fiscal Outlook – November 2023*"

Even in a **reduced-scale economic contribution** scenario – in which only half the investment arising from measures targeting pension sector capital is assumed to be delivered and additional – these policies are expected to cumulatively contribute £160 billion[8] to UK investment over the next decade. This results in an estimated GDP contribution of 0.4% in 2029 and 0.5% in 2035. Again, the GDP contribution in 2029 will primarily be driven by an increase in demand, while the permanent addition in 2035 will be driven by supply-side gains. In this scenario, the policies are estimated to contribute £220 to annual disposable incomes per household and £5.3 billion to Government revenues.[9]

> “Even in a reduced scale scenario these policies would permanently add 0.5% to UK GDP, and contribute £220 to annual disposable incomes per household and £5.3 billion to Government revenues in 2035.”

Ultimately, the economic contribution from this suite of policies will rest on the ability of the pension and insurance sector to invest into UK productive assets without crowding out other investments. This, in turn, depends on the attractiveness of the investment environment in the UK over the coming years, and crucially on the supply of investment opportunities.

Realising the full potential of this additional investment will depend on the extent to which it can be efficiently directed into productive assets across the economy. The next phase of our Blueprint for Growth project will focus on the opportunity side of the ledger – assessing how different forms of long-term capital can be mobilised into sectors that help drive growth, such as new housing, clean energy generation and digital infrastructure.

Individual policy contribution

The macroeconomic contributions stated above are underpinned by an assessment of the individual economic contributions of each of the six policies. The analysis thus considers changes across a range of economic channels, including changes in household disposable income, company profits and tax revenues which are inputted into Oxford Economics' Global Economic Model (GEM) to highlight their combined economic contribution.

However, the primary driver of the economic contribution across the suite of policies is the flow of pension and insurance capital into UK productive assets and the productivity benefits that result from recent planning reforms.

The **Mansion House Accord** is estimated to contribute £28.5 billion to business investment and £15.3 billion to residential investment over the period to 2035.[10] This will be driven by the commitment to invest at least 5% of in-scope assets into UK private markets by 2030 and the expected growth in the size of the UK workplace pension portfolio.

Policies to emphasise local investment by the **Local Government Pension Scheme** through increasing its role in supporting local economic growth are assumed to contribute £12.9 billion to business investment and £2.6 billion to residential investment over the period to 2035.[10] This will be driven by a shift in the proportion of UK productive assets held by LGPS and the expected growth in this portfolio.

It is estimated that among defined benefit pension schemes running at surplus, the collective value of this surplus is now more than £160 billion.[11] Changes to facilitate **surplus extraction** for the benefit of sponsoring companies and members are estimated to contribute £1.2 billion to business investment over the next ten years.[10]

Planning reforms set out in the National Planning Policy Framework seek to address long-standing constraints in housing supply. These reforms are estimated to make a sizeable economic contribution driven by increased investment, improved labour mobility, agglomeration effects, enhanced housing services and increases in construction sector productivity. Over the next 10 years, the reforms are expected to contribute £153 billion to residential investment.[10]

The scenario to **increase pension contributions** via changes to auto-enrolment is primarily designed to tackle the nation's pension adequacy challenge. However, by raising total contributions, this policy has the potential to increase the flow of pension capital into UK productive assets – supporting investment. Over a 10-year horizon, the policy is estimated to contribute £5.0 billion to UK investment.[10]

Building on the success of the 2024 Solvency UK reforms, the introduction of an **investment accelerator** and **improved treatment of whole project** will help incentivise the insurance sector to invest in UK productive assets. This is estimated to contribute £30 billion to UK investment over the next 10 years, with £24.7 billion flowing into businesses and £5.3 billion into residential property.[10]

The Government's Plan for Change sets out a target to build 1.5 million new homes in England this parliament. Our research shows that approximately half a million additional homes will need to be built this parliament to meet this target. Doing so could boost GDP by 0.6% by 2029.

8 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.
9 Figures are in 2024 prices.
10 Figures are in nominal terms.
11 Based a low dependency measure of funding estimated by The Pensions Regulator.

Suite of policies

£44 bn — Contributing **£44 bn** in investment into UK private markets through the **Mansion House Accord**

£16 bn — Contributing **£16 bn** in local investment through the **Local Government Pension Scheme**

£1 bn — Contributing **£1 bn** in business investment through new powers to enable **Surplus Extraction**

£5 bn — Contributing **£5 bn** in investment through shifting **auto-enrolment contributions** to a minimum of 12%

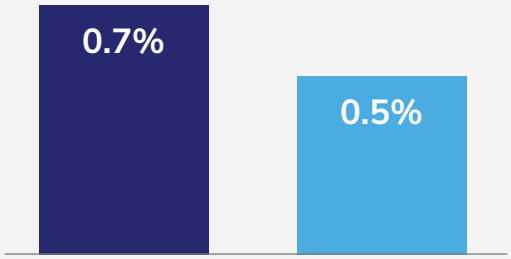
£30 bn — Contributing **£30 bn** in investment through the **investment accelerator** and **improved treatment of whole projects**

0.4% — Boosting GDP by **0.4%** through the updated **National Planning Policy Framework**

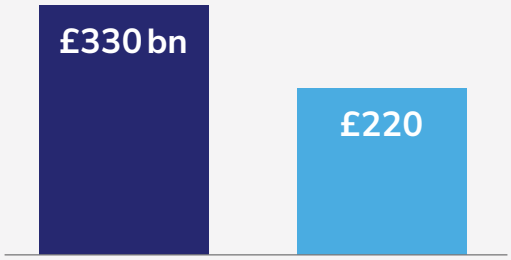
Economic contribution

- Full potential economic contribution
- Reduced scale economic contribution

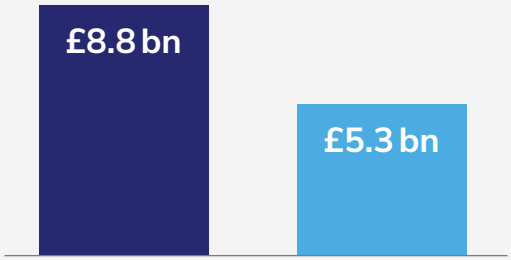
GDP contribution



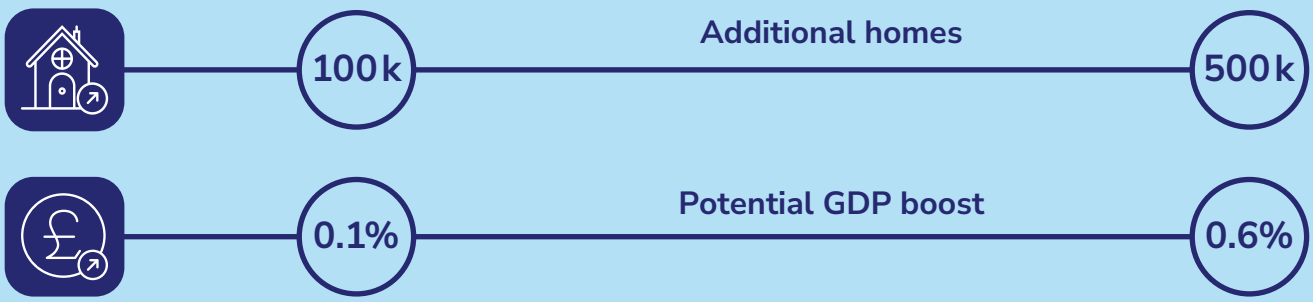
Household income contribution



Government revenue contribution



Building additional homes can further boost growth



Introduction

Economic growth has been placed at the centre of the Government's Plan for Change. The growth mission aims to deliver the highest sustained growth in the G7, alongside a clear ambition to improve living standards in every part of the UK. A range of new measures have been introduced to support this ambition, including reforms to the planning system, investment-focused fiscal rules, a modern Industrial Strategy and the National Wealth Fund. Together, these measures signal a renewed focus on creating the conditions for long-term growth.

UK economic backdrop

The Government's growth mission, however, faces a challenging economic backdrop. The UK has experienced a prolonged period of weak productivity growth since 2010, coupled with historically low levels of business investment relative to the size of the economy. These structural issues continue to weigh on output, real incomes, and the resilience of the wider economy.

The Autumn Budget and the Office for Budget Responsibility's forecasts highlight the scale and persistence of these challenges. The Office for Budget Responsibility now expects modest GDP growth over the medium term, reflecting subdued productivity, tight labour market conditions, and supply-side constraints that limit the economy's capacity to expand. Business investment is projected to recover only gradually, while higher interest rates and ongoing fiscal pressures create headwinds for both households and firms.

Against this backdrop, the Government's growth mission requires policies that can both mobilise long-term capital and strengthen the economy's productive capacity to be implemented with pace and conviction. This report assesses a suite of pension and insurance sector policies that have the potential to support those objectives by increasing the flow of investment into UK productive assets and improving the conditions for supply-side growth.

Role of the pension and insurance sector

Pension and insurance sector capital already plays an important role in supporting UK investment, but more can be done. In 2024, the total value of UK pension assets was estimated at £3.2 trillion, yet only 6% of this pool was invested in UK productive assets.[12] This report – commissioned by L&G – explores how mobilising this capital can support the Government in delivering on its growth mission.

Section 1 assesses the individual economic contributions from six supply-side policies that support the flow of pension and insurance capital into UK productive assets.

1. **The Mansion House Accord** – a voluntary industry commitment from 17 defined contribution pension providers (including L&G) to allocate 5% of their main default funds to UK private markets by 2030.

2. **The Local Government Pension Scheme** – new requirements for administrating authorities to develop (and report on) their approach to local investment as set out in the Government's response to the Fit for the Future[13] consultation.

3. **Surplus Extraction** – the introduction of new powers allowing trustees of defined benefit schemes to modify rules so that they can pay surpluses back to sponsoring companies.

4. **Planning reforms** – an updated *National Planning Policy Framework*[14] that supports investment in the housing sector by making the planning system more efficient and predictable.

5. **Increased pension contributions** – a scenario that shifts auto-enrolment contributions to a minimum of 12% by increasing both employee and employer contributions to 6% over a six-year period and removes the current age and earnings eligibility thresholds.

6. **Building on Solvency UK** – the - already in train - investment accelerator that allows insurers to invest ahead of regulatory approval, and additional changes to the regulatory treatment of whole projects that limit the need for insurers to securitise or pool assets into bonds or other debt instruments.

The first four policies listed above have already been announced by Government, together with the PRA proposals for an investment accelerator. These measures have been included to highlight the importance of implementing them in a manner that maximises their economic contribution. However, increased auto-enrolment contributions and changes to the regulatory treatment of whole projects are two opportunities for Government to unlock further investment to help drive growth.

The economic contribution

Section 2 of the report explores the potential impact of these policies. In Scenario A, the **full potential economic contribution** from the suite of policies is realised. Achieving the full potential economic contribution will require rapid shifts in the allocation of pension and insurance sector investment into UK productive assets, and for this investment to be additional – rather than crowding out investment from other sources. As such, the full potential economic contribution scenario provides a helpful benchmark to illustrate the size of the prize from the suite of policies.

In Scenario B, a **reduced-scale economic contribution** is also modelled. In this scenario, only half of the investment arising from these policies is assumed to flow into UK productive assets and is additional in the sense that it would not have occurred without these policies. This scenario provides a more realistic perspective of the potential economic contribution from the suite of policies.

Realising the economic contribution from this suite of policies will rest on the ability of the pension and insurance sector to invest into UK productive assets without crowding out other investments. This, in turn, will depend on the attractiveness of the investment environment in the UK over the coming years.

Encouraging investment into the UK economy will require a sufficient pipeline of productive assets. The next phase of our Blueprint for Growth project will therefore examine how additional investment released through these policies can be channelled into the real economy – for example, through investment in new housing, renewable energy, or digital infrastructure. These examples illustrate the types of productive asset classes that can underpin the UK's future growth trajectory and contribute to the Government's wider economic mission.

12 Pension Policy Institute, "*Pension Scheme Assets – How is Asset Allocation Changing and Why?*", June 2025.
13 HM Government, "*Local Government Pension Scheme (England and Wales): Fit for the Future*", May 2025.
14 HM Government, "*National Planning Policy Framework*", December 2024.

1. Policy reforms

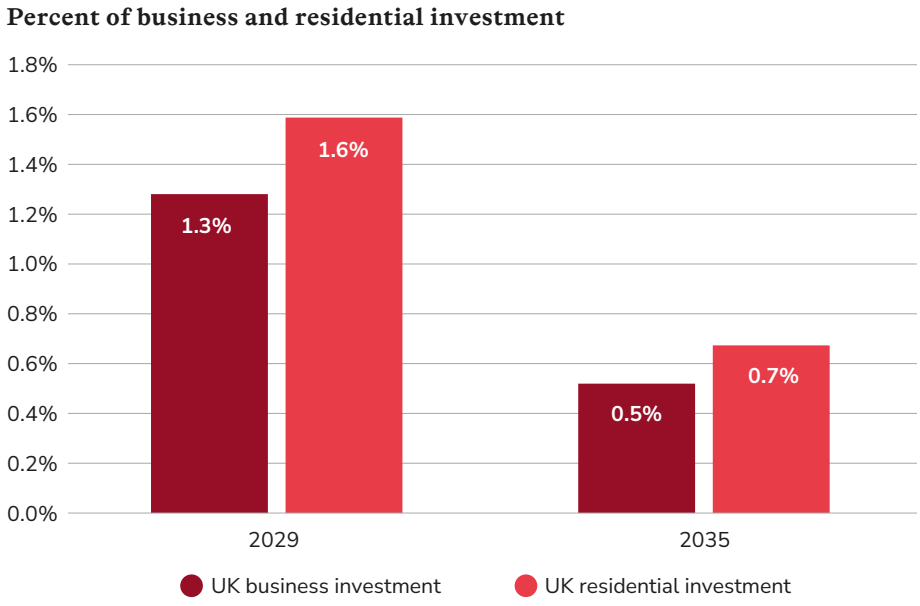
1.1 Overview

This section assesses the suite of policies explored in the report. An overview of each policy is followed by an estimate of its potential economic contribution. The analysis captures a range of economic channels, including changes in household disposable income, company profits, and tax revenues. However, the primary driver of the economic contribution across the suite of policies comes from the flow of pension and insurance funds into UK productive assets, and the productivity benefits that result from recent planning reforms.

1.2 The Mansion House Accord

The Mansion House Accord represents a major policy initiative to unlock greater investment in the UK economy by mobilising pension savings. It is a voluntary industry commitment made by 17 workplace pension providers (including L&G), who manage around 90% of active savers' defined contributions to invest 10% of their default workplace portfolios in assets that boost the economy, such as infrastructure, property and private equity, by 2030.[15] Crucially, for this analysis, we assume that at least 5% of this investment would be ringfenced for UK-based private markets.

Figure 1: The contribution of the Mansion House Accord to business and residential investment



Source: Oxford Economics

At present, £252 billion in assets are covered by this pledge, a figure the Government projects will rise to £735 billion by the end of the decade. Currently, just 1.4% of assets covered by the pledge are invested in UK-based private markets; increasing this to 5% is estimated to result in an additional £26 billion flowing into UK private markets by 2030.[16]

In the modelling, the Mansion House Accord will boost business and residential investment, resulting in a sharp rise in investment up to 2030.[17] Beyond 2030, the higher allocation of investment in private markets will continue to contribute to investment as the size of UK workplace pension portfolios grows. But there is no further shift in the proportion of investment in UK productive assets following achievement of the 5% target. Over a 10-year period, the policy is estimated to contribute £28.5 billion to business investment and £15.3 billion to residential investment[18]. In percentage terms, the direct contribution of the reform equates to 1.3% of business investment at the end of this parliament in 2029 and 0.5% in 2035. The direct contribution of the reform to residential investment is expected to be 1.6% in 2029, tapering to 0.7% in 2035.

15 HM Government, "Pension schemes back British growth", May 2025.

16 HM Government, "Pension Investment Review – Final Report", May 2025.

17 We have assumed 65% of the investment goes into business investment and 35% into residential property. The latest data from the Pension Policy Institute indicates that in the DC market, £12 billion is invested in UK property, while £5 billion is invested in UK private equity. Based on discussions with sector experts, it has been assumed that half of property investment will be residential.

18 Figures are in nominal terms.

1.3 The Local Government Pension Scheme

There has been a long-running ambition across successive administrations for the Local Government Pension Scheme (LGPS) to play a larger role in supporting local economic growth. In its response to the *Fit for the Future*[19] consultation, the Government has laid out a series of proposals designed to help achieve this objective, including:

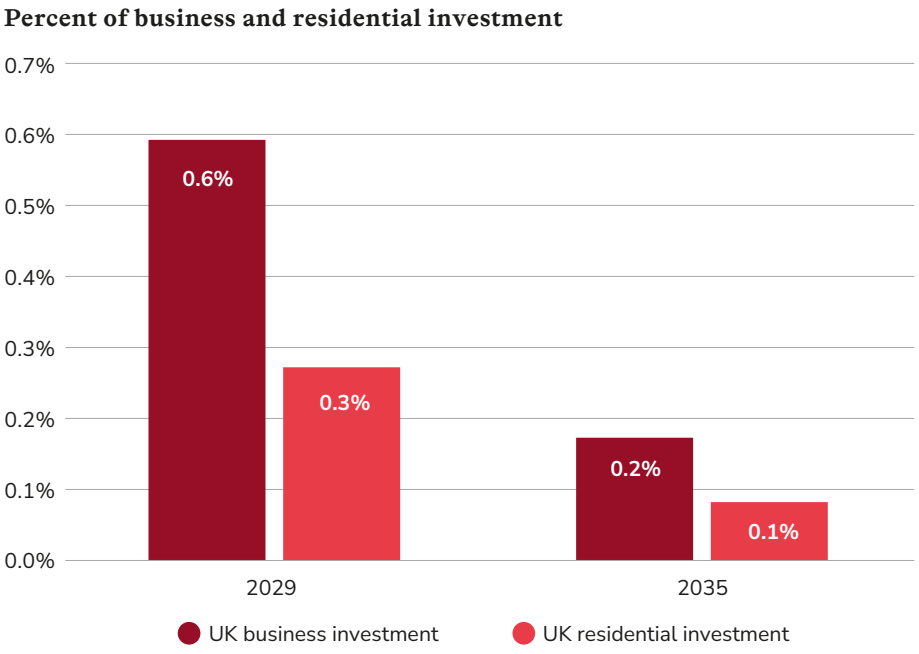
- A requirement for administering authorities to set out their approach to local investment in their Investment Strategy Statements, ensuring that local investment priorities are fully considered.
- A requirement to work with combined authorities and similar bodies to draw on their knowledge in identifying potential investment opportunities, which may align with their investment strategies and with local growth plans.
- A requirement to report annually on local investment to increase transparency.

These policies will incentivise and support the LGPS to increase its role in supporting local economic growth. The modelling of the potential contribution of this policy is based on these changes, resulting in the LGPS achieving the frequently cited 5% local investment figure by 2030.[20] It is assumed that this will increase the proportion of UK productive assets held within the scheme by two percentage points,[21] shifting the proportion of UK productive assets from 9% to 11%.[22]

The analysis captures the direct contribution of this policy to business and residential investment.[23] It combines the Government's forecast for growth in the LGPS market – from £420 billion today to £550 billion by 2030 driven by expected contribution rates and estimated returns[24] – with the aforementioned shift in portfolio allocation to UK productive assets. Beyond 2030, the share of assets allocated to local investment will remain constant, but the overall LGPS market will continue to support investment as it expands to reach £1 trillion by 2040.[25]

The analysis finds that the business and residential investment contribution from the LGPS will build steadily through to 2030, driven by asset reallocation towards local investment and expansion of the fund. Over the 10-year period to 2035, the business investment contribution from this policy is projected to reach £12.9 billion, with a residential investment contribution of £2.6 billion[26]. In percentage terms, the reform is expected to contribute 0.6% to UK business investment in 2029, tapering to 0.2% in 2035. For residential investment, the contribution is lower; it will contribute 0.3% in 2029 and 0.1% in 2035. The lower levels seen at the end of the forecast period are the result of the asset reallocation ceasing after the 5% is achieved in 2030.

Figure 2: The contribution of Local Government Pension Scheme reform to business and residential investment



Source: Oxford Economics

19 HM Government, "*Local Government Pension Scheme (England and Wales): Fit for the Future*", May 2025.

20 HM Government, "*Pension Investment Review – Final Report*".

21 This assumption is based on discussions with sector experts. A lack of data on the location of LGPS assets as well as ambiguity over what would qualify as local (or regional) investment makes this estimate particularly uncertain.

22 Pension Policy Institute, "*Pension Scheme Assets – How is Asset Allocation Changing and Why?*", June 2025.

23 Data from the Pension Policy Institute on public sector DB schemes have been used to estimate the split of business and residential investment. According to the latest data, 5% of all public sector DB assets are estimated to be invested in UK property and 4% are estimated to be invested in UK private equity and alternatives, which is deemed business investment. Based on discussions with L&G, approximately 70% of UK property is business property, with the rest residential property. Once combined with business investment, 83% of the investment is expected to be business investment ((£5 billion * 70% + £4 billion) / £9 billion).

24 Based on estimates from the Government Actuary's Department (GAD)

25 MHCLG, "*Fit for the future - Government response*".

26 Figures are in nominal terms.

1.4 Surplus extraction

Funding levels in defined benefit (DB) schemes have improved significantly in recent years. The majority of DB schemes are now running at a surplus – meaning the value of their assets exceeds the expected cost of paying the benefits due to members. It is estimated that among schemes running at surplus, the collective value of this surplus is now more than £160 billion.[27]

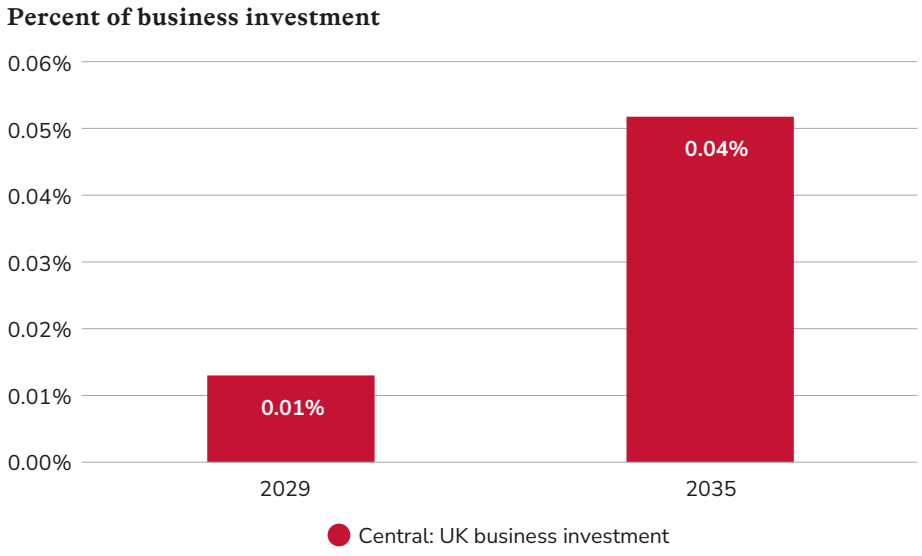
Policy reforms aimed at unlocking surplus assets could allow employers to access and reinvest these funds into their businesses, while also generating benefits for scheme members and the Government. The Government has recognised this. It has committed to amending the existing rules for surplus extraction from DB schemes to remove barriers to extraction, while maintaining safeguards to protect member benefits.[28] This will be delivered via the introduction of new statutory resolution powers for trustees of schemes to modify their scheme rules to facilitate surplus extraction.

The economic contribution of this policy is based on an estimate of the level of surplus extracted and how this surplus is distributed between employers, scheme members, and the Government.[29] This, in turn, is based on the methodology outlined in the Government's surplus extraction impact assessment,[30] which estimated that £12.7 billion of surplus will be extracted over the next 10 years.[31] This extracted surplus will then be split between employers, scheme members and the Government. It is assumed that the split between employers and scheme members will be equal. In addition, the surplus utilised for scheme members remains within the pension scheme and is not subject to surplus extraction tax, and therefore has minimal impact on household incomes over the period to 2035. Based on these assumptions, employees are allocated 50% of the extracted surplus, while the employer is allocated 37.5% and the Government 12.5%. Further details on the assumptions that underpin this analysis can be found in the Technical Appendix.

In its initial years the policy will make its largest contribution to business investment, driven by large increases in extractions in response to the new powers. Employers are assumed to invest 25% of their surplus into UK productive assets.[32] Over time, surplus extraction will become more regular, with a larger share of surplus withdrawn later in the forecast period as schemes hold assets longer to generate returns.

Over a 10-year horizon, the policy is expected to contribute £1.2 billion to UK business investment.[33] In percentage terms, this is equivalent to 0.01% in 2029 and 0.04% in 2035. In the modelling, pensioners also benefit as the surplus assets are used to provide a higher disposable income. The Exchequer benefits by taxing the extracted surplus.

Figure 3: The contribution of surplus extraction reform to business investment



Source: Oxford Economics

27 Based on a low dependency measure of funding estimated by The Pensions Regulator, data as at 30 September 2024.

28 HM Government, "*Government response: Options for Defined Benefit schemes (consultation outcome)*", May 2025.

29 See the technical appendix for more detail.

30 HM Government, "*Pension Schemes Bill – Impact Assessment*", June 2025.

31 Figures are in nominal terms.

32 This estimate is based on Brightwell survey results showing that 49% of companies plan to reinvest some surplus. Applying a midpoint assumption that half of the surplus is reinvested results in 25% of the total surplus being directed back into the business.

33 Figures are in nominal terms.

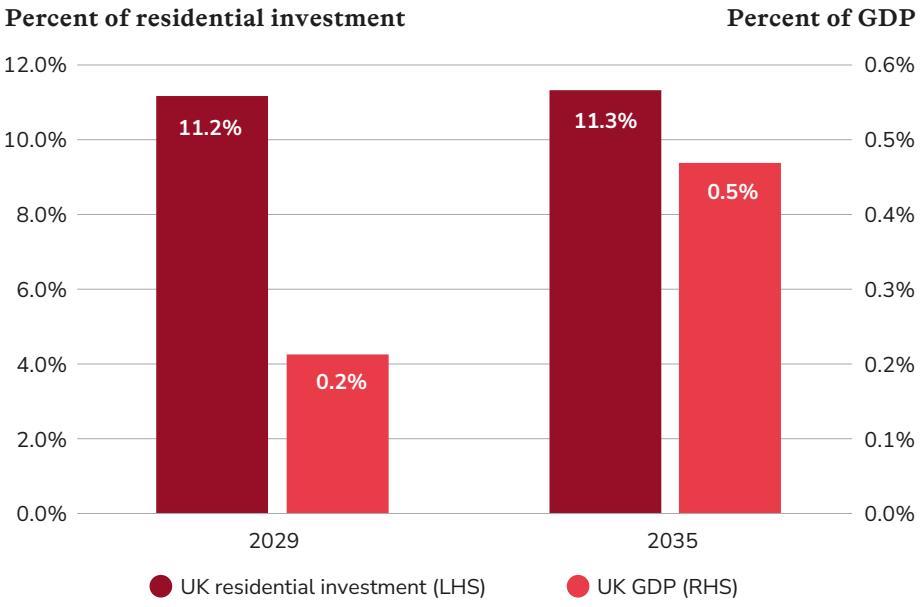
1.5 Planning reforms

In December 2024, the Government published a revised National Planning Policy Framework (NPPF).[34] The NPPF seeks to address long-standing constraints in housing supply and, by doing this, increase the availability of homes and support economic growth. It contains a range of measures – such as strengthened presumption in favour of sustainable development, stronger local housebuilding targets and requirements for some local authorities to meet their targets by releasing parts of the green belt (with a priority on grey belt land) for housebuilding – which enable higher levels of housing delivery by making the planning system more predictable, efficient and growth-enabling.

The Office for Budget Responsibility (OBR) estimates that the NPPF will deliver an additional 170,000 net new homes by 2029/30 and 340,000 by 2034/35.[35] The analysis in this report is based around the OBR's estimate of how the NPPF will contribute towards residential investment, productivity, house prices and Government revenues. Importantly, the Planning and Infrastructure Bill (PIB) is not included within the OBR's analysis. Measures in the PIB are likely to support the development of UK infrastructure, the delivery of new homes and business investment, which will also support economic growth.

The OBR's analysis finds that, in the short term, an increase in the construction sector's ability to produce houses will be the key driver of GDP growth. However, from 2030 onwards, growth will increasingly be supported by improved labour mobility, agglomeration effects and enhanced housing services. Over the next 10 years, the residential investment contribution from these reforms is expected to be £153 billion[36], contributing 0.2% to GDP in 2030 and 0.4% in 2035.[37]

Figure 4: The contribution of the NPPF to residential investment and GDP



Source: Oxford Economics

34 HM Government, "National Planning Policy Framework", December 2024.
35 OBR, "Economic and fiscal outlook – March 2025".
36 Figures are in nominal terms.
37 Cumulative investment based on the new residential investment proportion published by the OBR. Actual figures have been estimated using Oxford Economics' baseline GDP forecast.

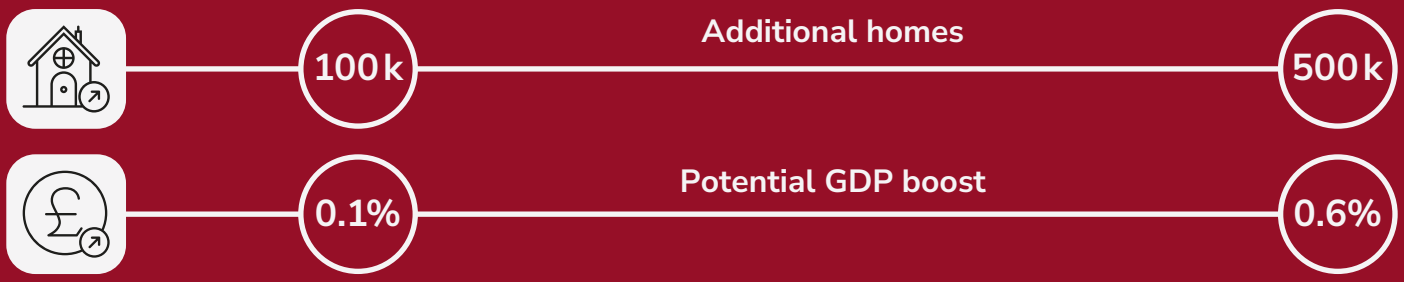
Scenario analysis: Delivering 1.5 million homes in England this parliament

The modelled economic contribution from the updated NPPF is based on the OBR's March 2025 estimate that these changes will deliver an additional 170,000 net new homes by 2029/30 which will contribute 0.2% to GDP in 2029/2030.

The Government's Plan for Change sets out a target to build 1.5 million new homes in England this parliament – which it recognises as "hugely ambitious" within the plan. We estimate that approximately half a million additional homes will need to be built this parliament to meet this target. This estimate is based on the OBR's March 2025 baseline forecast for new homes built over the current parliament and adjusted based on the average historical English share of UK housebuilding. This gap is smaller than a recent estimate from Savills.[38]

We have carried out scenario modelling which shows that achieving this target could potentially boost GDP by 0.6% in the final year of the parliament. If an additional 100,000 new homes were built (closing the current gap to the target by a fifth), this could boost GDP by slightly over 0.1%.

This is scenario analysis. It does not represent Oxford Economics' view on the realism of achieving this target.*



*This scenario analysis does not represent Oxford Economics' view on the realism of achieving this target., or the effects of any planning reforms, related policy enablers or wider factors that would be required to achieve this target. Importantly, this analysis uses a simple ready reckoner methodology based on the relationship between house building and GDP described above. It is possible that this relationship is non-linear so these exact figures should be taken as illustrative of the rough order of magnitude of the potential economic gains that could be realised by getting closer to the Government's 1.5 million target.

38 "*Housing Completions Forecast for England*", June 2025.

1.6 Increasing auto-enrolment contributions and eligibility

Auto-enrolment has played an important role in increasing pension coverage across the UK. There are now more than 22 million people saving into a workplace pension,[39] which is over 10 million more than when auto-enrolment was introduced. However, Government analysis also suggests that 43% of working-age people are undersaving for retirement.[40]

Under the current auto-enrolment system, employers contribute a minimum of 3% of employee earnings to their workplace pension, while employees contribute at least 5%. Eligibility is restricted by age and earnings thresholds, which exclude many younger, part-time and lower-paid workers. A policy that increases the rate of contribution and removes eligibility criteria will help to tackle the UK's pension adequacy challenge. The reform modelled in this report would see:

- **Phased contribution increases** – employer and employee contributions would both rise to 6% (12% total) over six years, from 2026 to 2031.
- **Expanded coverage** – the removal of age[41] and earnings[42] thresholds would ensure broader participation, extending pension saving to younger workers and those on lower incomes and in part-time jobs.

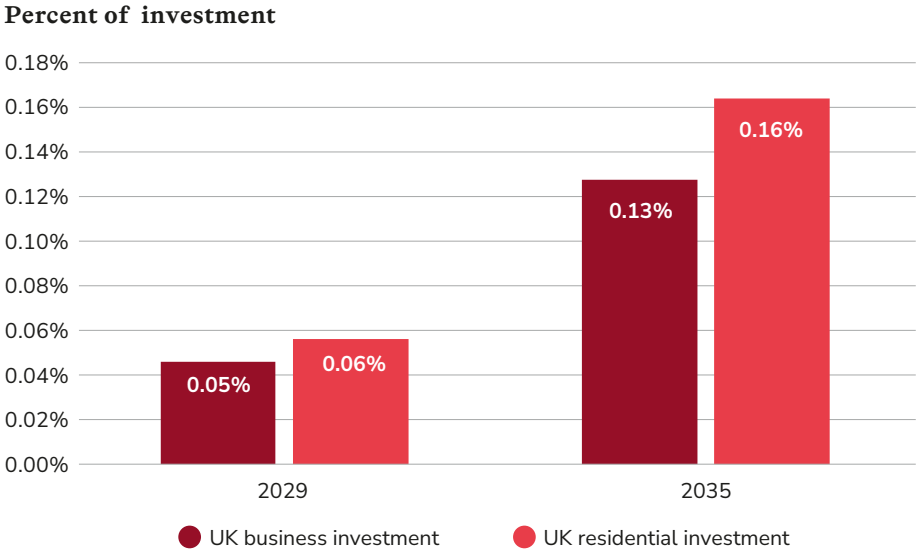
The proposed new reforms to auto-enrolment would represent a major shift in the pension landscape. The core rationale for the reform is to tackle the pension adequacy challenge, thereby improving household incomes later in life and reducing reliance on the state via means tested benefits. These proposals need to be viewed in the context of a wider review of the adequacy landscape currently being undertaken by the Pensions Commission, which will explore barriers to saving for retirement. However, by raising total contributions, this policy has the potential to increase the flow of pension capital into UK productive assets – supporting business investment.[43]

The Wealth and Asset Survey from the Office for National Statistics has been used to estimate the increase in UK pension capital that would be generated by this policy. This is then combined with data from the Pensions Policy Institute[44] on the proportion of DC investment into UK productive assets to assess the policies investment contribution. The additional flows of pension capital into UK investments are based on a portfolio allocation consistent with Mansion House Accord commitments.[45]

Over a 10-year horizon, the policy is forecast to contribute £5.0 billion to UK investment, driven by higher inflows.[46] Of this, business investment contribution is forecast to reach £3.2 billion, with a residential investment contribution of £1.8 billion. At the end of the current parliament in 2029, the direct contribution to business investment will be 0.05% and the contribution to residential investment will be 0.1%. This increases to 0.1% and 0.2% by 2035 for business and residential investment, respectively.

The auto-enrolment analysis also quantifies the impact of the policy on household disposable income, Government revenues and company profits. This ensures a comprehensive range of economic channels are captured within the economic contribution analysis in Section 2 (see the technical appendix for further details). The increase in employee and employer (through the downward pressure on wages it creates) contributions weighs on household disposable incomes over the next decade despite an increase in some households' pension income. This is offset by the wider economic contribution from the suite of policies.

Figure 5: The contribution of auto-enrolment reform to business and residential investment



Source: Oxford Economics

39 HM Government, "Analysis of Future Pension Incomes 2025", September 2025.
40 Measured on the target replacement rates before housing costs. The target replacement rate is a commonly used metric for the percentage of pre-retirement income an individual needs to receive in retirement to maintain their standard of living.
41 Expanding auto-enrolment requirements to apply to 18-21 year olds.
42 Employees pensionable earning can be based on total earning, basic earning or qualifying earnings and will depend on the type of workplace pension scheme they are enrolled on. Basic earning excludes earnings such as bonus and holiday while qualifying earning are capped between £6,240 and £50,270 of total pay.
43 The investment contribution is partially offset by reduced company profits that result from higher rates of contributions but most of this cost is assumed to be passed on to employees through lower wages and consumers through higher prices.
44 Pension Policy Institute, "Pension Scheme Assets – How is Asset Allocation Changing and Why?", June 2025.
45 See the Technical Appendix for further details.
46 Figures are in nominal terms.

1.7 Further reforms to Solvency UK

In 2024, the Prudential Regulation Authority (PRA) set out Solvency UK – their new regulatory framework for the insurance sector. Solvency UK aimed to make it easier for insurers to invest in productive assets through a reduction in the Risk Margin[47] and by allowing the inclusion of highly predictable assets within Matching Adjustment portfolios.[48] Supported by these reforms, the ABI estimated that the insurance industry invested £10.9 billion into UK productive assets in 2024.[49]

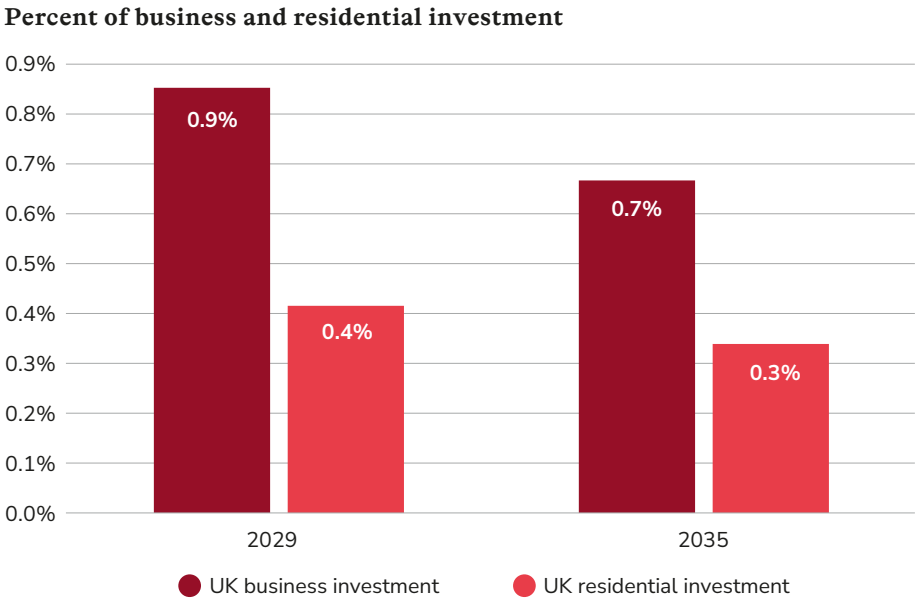
The proposed new policies aim to build on the success of the 2024 Solvency UK reforms to unlock further long-term investment from insurance companies into UK productive assets, using two levers:

- **Investment accelerator** – this will provide a route for firms to place new asset types into the Matching Adjustment portfolio ahead of subsequent application to the PRA. The accelerator will enable applications to be bundled together, focused on the more material changes and hence make the process more efficient. This will make it more feasible to invest in UK productive assets. It is assumed that this policy will enable investment from 2026 onward.
- **Improved regulatory treatment of "whole projects"** – this new reform would make investment in UK productive assets more attractive as it would limit the need to securitise or pool project assets into bonds or other debt instruments. For the purposes of the economic modelling in this report, it is assumed that this policy will be enacted in 2028.

The modelling calculates the investment contributions that result from these policies by scaling up the investment that L&G expect the policies would generate within its business, based on its market share. The investment accelerator is estimated to contribute an additional £10 billion of investment from 2026 (£1 billion per annum), while the improved treatment of whole projects adds £20 billion from 2028 (£2.5 billion per annum)[50].

Together, these measures are estimated to contribute £30 billion to UK investment over the next 10 years, with £24.7 billion flowing into businesses and £5.3 billion into residential property.[51,52] In percentage terms, the policies contribute 0.9% to business investment in the final year of this parliament and 0.7% in 2035. In addition, they contribute 0.4% to residential investment in 2029, declining slightly to 0.3% in 2035.

Figure 6: The contribution of investment accelerator and treatment of whole projects reforms to business and residential investment



Source: Oxford Economics

47 The additional buffer designed to ensure that funds are available to transfer the liabilities of a failing insurer to a third party without negatively impacting policyholders.
48 The mechanism that allows firms to increase the discount rate used to value their liabilities allowing firms to invest more heavily in long-term illiquid assets without breaching capital constraints.
49 The ABI, "From pledge to progress: £10.9 billion invested in UK productive assets", July 2025.
50 Figures are in nominal terms.
51 Figures are in nominal terms.
52 Split between business and residential investment is based on assumptions provided by industry experts.

2. Economic contribution

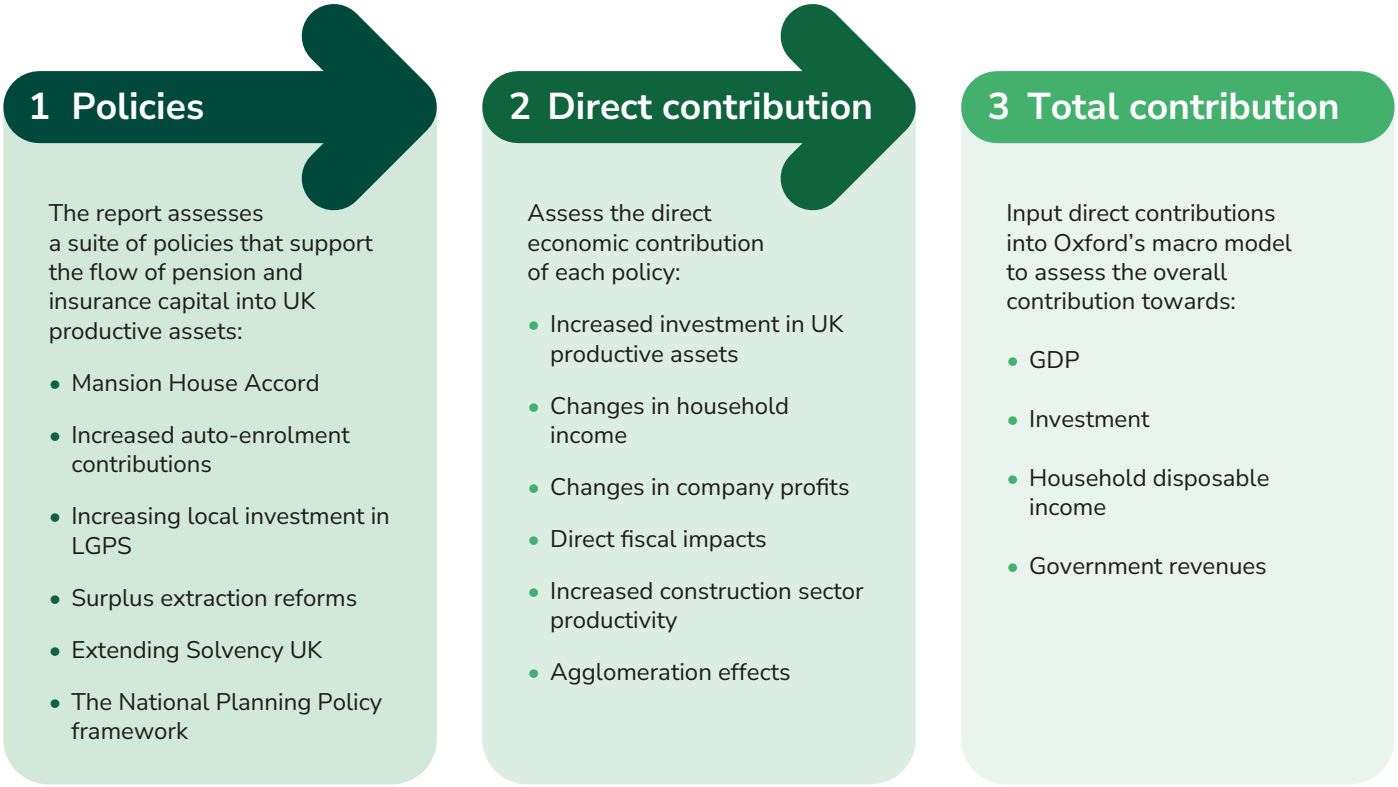
2.1 Overview

This section explores the potential economic contribution from the full suite of reforms through two scenarios. The first assumes the **full potential economic contribution** from the suite of policies is realised. This scenario will be challenging as it is based on rapid shifts in the allocation of pension and insurance sector investment into UK productive assets, and for this investment to be additional – rather than crowding out investment from other sources. As such, a **reduced-scale economic contribution** is also modelled. In the reduced-scale scenario only half of the investment arising from the suite of policies flows into UK productive assets and is additional.

In reality, the economic contribution from this suite of policies will rest on the ability of the pension and insurance sector to invest into UK productive assets without crowding out other investment. In turn, this will depend on the attractiveness of the investment environment in the UK over the coming years. These scenarios provide a helpful picture of the potential economic prize that could be delivered.

The modelling approach combines the direct economic contributions that result from each policy across a range of economic variables in Oxford Economics' Global Economic Model. The model combines these with a dynamic response to estimate the overall contribution to investment, GDP, disposable income and Government revenues from the policies.

Figure 7: Overview of the modelling framework



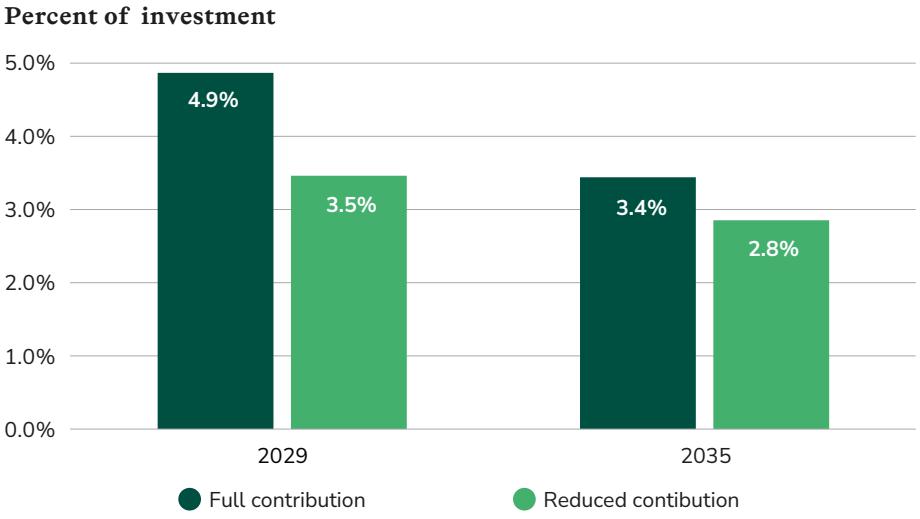
2.2 Investment

The contribution to investment from the suite of policies is projected to rise sharply in the first half of the forecast period. The business investment contribution will be driven by the reallocation of portfolios towards UK productive assets under the LGPS, the Mansion House Accord, and the reforms to Solvency UK. In parallel, the contribution to residential investment will accelerate rapidly as the housebuilding increases in response to the NPPF.

The business investment contribution continues beyond the current parliament, sustained primarily by the continued effects of Solvency UK reforms and Mansion House Accord. Other measures – including surplus extraction, auto-enrolment reforms and LGPS – will continue to contribute to investment, but to a lesser extent.

Under the full potential economic contribution scenario, the policies are expected to cumulatively contribute to £220 billion[53] of UK real investment over the next decade. By the end of the parliament, the contribution to investment is expected to reach 4.9%, then 3.4% by 2035. Under the reduced-scale scenario, the policies cumulatively contribution £160 billion[54] of UK real investment over the next decade, reaching 2.8% in 2035.

Figure 8: Total contribution to UK investment from the suite of reforms



Source: Oxford Economics

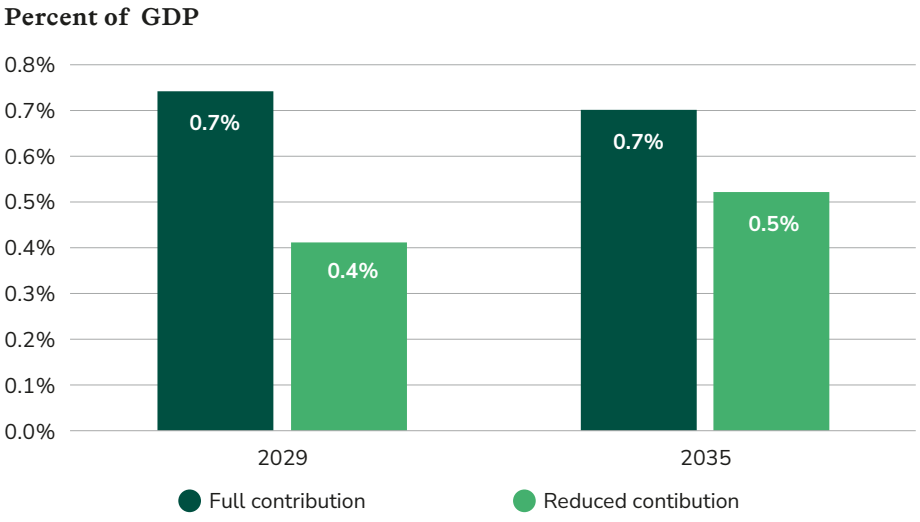
2.3 Gross domestic product (GDP)

In the full contribution scenario, the policies contribute 0.7% to GDP by the end of the current parliament, primarily driven by an increase in demand resulting from the rapid increase in investment. By 2035, the suite of policies permanently add 0.7% to UK GDP driven by supply-side gains resulting from capital accumulation and wider productivity channels linked to the planning reforms. In the reduced-scale scenario, the policies contribute 0.4% to GDP in 2029 and permanently add 0.5% to GDP by 2035. The demand and supply dynamics follow the same pattern as seen in the full contribution scenario. The scale of the potential economic contribution is significant in both scenarios.

The scale of the contribution in both these scenarios is significant. In comparison, the Office for Budget Responsibility (OBR) estimated that:

- The effect of permanent full expensing will increase GDP by just under 0.2% in the long run.[55]
- A major labour supply package, increasing the generosity of the Government's childcare offer (among other policies), would boost GDP by 0.2% after five years.[56]
- A cut to National Insurance contributions and other welfare reforms would boost GDP by around 0.2% after five years.[57]

Figure 9: Total contribution to UK GDP from the suite of reforms



Source: Oxford Economics

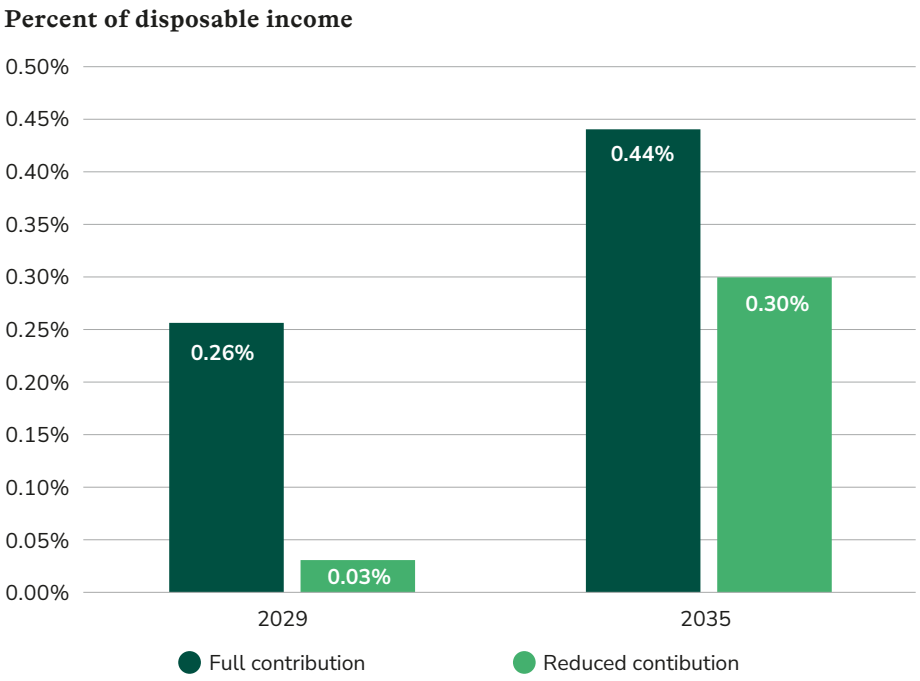
53 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.
54 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.
55 Office for Budget Responsibility, "Economic and Fiscal Outlook – November 2023"
56 Office for Budget Responsibility, "Economic and Fiscal Outlook – March 2023"
57 Office for Budget Responsibility, "Economic and Fiscal Outlook – November 2023"

2.4 Disposable income

In both scenarios, higher pension contributions – from the auto-enrolment reforms – initially weigh on household disposable income. However, the GDP contribution from the suite of reforms offsets this effect, resulting in a significant overall contribution to household disposable incomes. Over the medium term, household disposable incomes are further supported by rising pensioner incomes resulting from surplus extraction and expanded auto-enrolment coverage.

In the full contribution scenario, the policies contribute 0.3% to household disposable income in the final year of this parliament and 0.4% in 2035. In the reduced-scale scenario, the policies contribute 0.03% to household disposable income in 2029 and 0.3% in 2035. This is equivalent to a contribution of over £330 and £220 per household in 2035 (2024 prices) in the full contribution and reduced-scale scenarios, respectively.

Figure 10: Total contribution to UK disposable income from the suite of reforms

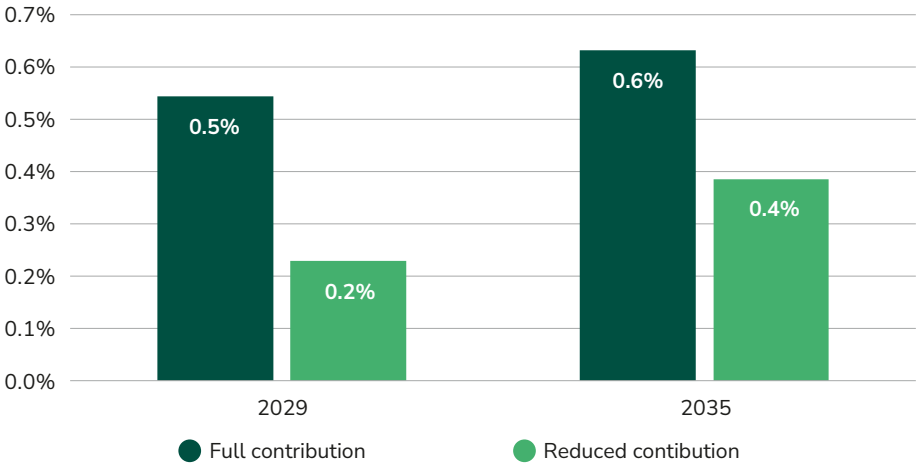


Source: Oxford Economics

2.5 Government revenues

The suite of reforms will also support the public finances indirectly through their contribution to GDP and directly through revenue contributions resulting from surplus extraction and stamp duty (due to increased housing transactions). In 2035, the reforms are expected to contribute 0.6% to Government revenue, equivalent to £8.8 billion (2024 prices) in the full contribution scenario. The corresponding figures in the reduced-scale scenario are 0.4% of real Government revenue or £5.3 billion (2024 prices).

Figure 11: Total contribution to Government revenues from the suite of reforms



Source: Oxford Economics

Conclusion

Pension and insurance sector capital already plays an important role in the UK economy, but more can be done. This report outlines a suite of policies that will help mobilise this capital to help the Government deliver on its growth mission. Some of these polices – the Mansion House Accord, reforms to surplus extraction, the National Planning Policy Framework and reforms to facilitate localised LGPS investment – have already been announced. In these cases, the challenge is to maximise their potential economic contribution by creating a conducive investment environment. Two policies – increased auto-enrolment contributions and further reforms to Solvency UK – represent areas where the Government could go further to support the economy.

The two economic contribution scenarios set out in this report provide helpful benchmarks for the potential size of the prize from this suite of policies.

- The **full potential economic contribution** scenario estimates a cumulative contribution of £220 billion[58] to UK investment over the next decade. This results in an estimated GDP contribution of 0.7% at the scheduled end of the current parliament in 2029 and permanently adds 0.7% to UK GDP by 2035.
- The **reduced-scale economic contribution** scenario – in which only half the investment arising from reforms targeting pension sector capital is assumed to be additional – estimates a cumulative contribution of £160 billion[59] to UK investment over the next decade. This results in an estimated GDP contribution of 0.4% in 2029 and 0.5% in 2035.

However, the economic contribution from the policies ultimately will rest on the ability of the pension and insurance sector to invest into UK productive assets without crowding out other investments.

The findings of this report demonstrate that policy reform in the pensions and insurance sectors can unlock significant additional capital for productive investment. The challenge now lies in ensuring that this capital can be deployed efficiently across the economy, supporting the UK's long-term growth ambitions.

The next phase of this project will therefore examine the practical investment opportunities created by this policy agenda – identifying how pension and insurance capital can be directed towards the real economy. This will include exploring areas such as housing, clean energy and digital infrastructure, which together highlight the scale of potential returns for savers, businesses and the wider UK economy.

58 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.

59 This figure is reported in 2024 prices, while the individual investment contributions are reported in nominal prices to maintain consistency with how they are reported in other sources.

4. Technical appendix

4.1 Auto-enrolment

The Wealth and Assets Survey (WAS) provides a wide range of financial data on individuals and households in the UK. The dataset has pension contributions from both employer and employee by type of scheme, which underpins our estimate of the economic impacts of auto-enrolment reforms.

However, it exhibits three shortcomings for our modelling which we correct for:

- **Representativeness of the data** – the distribution of pension contributions does not match that of the more reliable, employer-provided Annual Survey of Hours and Earnings (ASHE). We therefore update the pension contributions of individuals in the WAS to align with ASHE. In addition, missing contributions are estimated using sector, firm size, age and earnings data. Employee contributions are then adjusted to match ASHE proportions and distributions are aligned within employer contribution bands by making small changes at the margins.[60]

- **Removal of lower band on qualifying earnings** – employees in a DC scheme can be in one of three schemes. Each has a different pensionable pay and minimum contribution requirements, one of which – pensionable pay – is based on qualifying earnings[61]. The WAS does not identify the type of scheme an individual is in, so this has been estimated. Pension scheme type is inferred from contributions. Employees paying exactly 4% are assumed to be in total earnings schemes; those with 4% employer contributions in basic earnings schemes; and 3% in qualifying earnings schemes. Only minimum qualifying earnings can be identified. We have then reduced the lower band of qualifying earnings for these individuals in the baseline. The change in pension contributions in the scenario will therefore be based on all earnings below £50,000. This change is modelled to come in immediately at an 8% contribution level and for the group to then see employee and employer contributions increase in line with the wider cohort.

- **Expansion of automatic enrolment to those aged 18-21:** we assume this group will be automatically enrolled and we have identified eligible employees between 18-21 in the WAS dataset. The WAS dataset provides age groups, not exact ages. For 20–24-year-olds, those not enrolled or opted out are assumed to be 20–21. For 16–19-year-olds, Annual Population Survey (APS) data and logistic regression (using income, work status and household tenure) are used to predict who is 18–19. Wages then identify those earning at least £10,000 and are eligible under the new policy. To match DWP estimates, 530,000 eligible 18–21-year-olds are auto-enrolled in the scenario, selected by a score reflecting sector, firm size and wage, aligned with enrolment patterns.[62] Minimum qualifying contributions are assumed. This change is modelled to come in immediately, lowering the age to 18.

Assumptions underpinning the wider economy modelling

Increasing mandatory pension contributions impacts households, businesses and the broader economy. We model direct impacts on business costs, disposable income and investment, with second-round effects estimated using Oxford Economics' Global Economic Model.

Higher business costs – Businesses will face higher costs from increased pension contributions. The cost is expected to be shared as follows:

- **Lower wage growth:** We assume that 71% of employer costs are passed on through lower wage growth[63], based on evidence from Australia.

- **Absorb the higher costs and increase prices:** The rest is split between reduced profits and higher prices. Survey evidence suggests businesses are four times more likely to cut profits than raise prices, so 23% of costs reduce profits and 6% increase prices.[64]

60 Banded data are published from ASHE 2021 and used in the analysis. The individual contributions are adjusted to ensure the proportion of households in each band are consistent with ASHE.
61 Employees' pensionable earning can be based on total earning, basic earning or qualifying earnings and will depend on the type of workplace pension scheme they are enrolled on. Basic earning excludes earnings such as bonus and holiday while qualifying earnings are capped between £6,240 and £50,270 of total pay.
62 Pensions (Extension of Automatic Enrolment) 2023 impact assessment.
63 Robert Breunig and Kristen Sobeck, "*The Economic Incidence of Superannuation", Australian Treasury*" 2020
64 Employers' Pension Provision Survey 2019, DWP

Disposable income – The direct impact on disposable income will take into account both the reduced income of wages and salaries, as well as the higher disposable income of pensioners.

- **Wages and salaries impact:** Workers will see a fall in their wages and salaries as higher employee contributions cut take-home pay and employer costs slow future pay growth.
- **Pensioner income impact:** Higher contributions are expected to raise retirement income. We account for both growth in pension assets over time (5% per year, on average)[65] and individuals drawing down on their pension pot equally over their life expectancy after retirement (21 years on average)[66].
- **Opt-out rates:** It is assumed that this reform doesn't change the opt-out rates currently seen among individuals eligible for DC pension schemes.

Private sector investment – total pension assets are derived from contributions and employment, then used to estimate private sector investment based on two key factors:

- **Savings displacement:** We estimate additional UK savings, allowing for displacement of other assets. Evidence from Australia shows each extra dollar saved adds 91 cents to net wealth, so we assume a 9% offset.[67]
- **UK-based investment:** Investment in UK productive assets is estimated using data from the Pension Policy Institute (PPI) and the Mansion House Accord. In 2025, 2.6% of all DC pension assets are invested in UK productive assets.[68] Within this, 1.4% of default assets and 3.3% of non-default assets are UK-based.[69] The Accord targets raising the default share to 5%, while we assume no change for non-default schemes. Applying a weighted average by scheme size (38% default, 62% non-default), the share of DC pension assets invested in UK productive assets is projected to rise from 2.6% in 2025 to 3.9% in 2035.[70]

The increase in the rate of contribution rate follows phase path, an approach that has been taken in other countries. The phasing can be seen in figure 12.

Figure 12: Changes to auto-enrolment contribution rates

Year	Employer	Employee	Total
2026	3.5%	5.0%	8.5%
2027	4.0%	5.0%	9.0%
2028	4.5%	5.0%	9.5%
2029	5.0%	5.0%	10.0%
2030	5.5%	5.5%	11.0%
2031	6.0%	6.0%	12.0%

Source: Oxford Economics

4.2 Surplus extraction

There are two stages of our surplus extraction modelling:

- **Size of the extracted surplus.** This stage distinguishes between schemes seeking infrequent access to their surplus and those requiring regular access. It begins by setting out the assumptions underpinning the calculation of surplus size, with a higher-impact alternative scenario provided where relevant. The total surplus in defined benefit (DB) schemes is established first, before adjustments are applied to account for the proportion expected to be accessed.
- **Assumptions underpinning the wider economy modelling.** Using a set of assumptions, the modelling estimates how the surplus is divided between employers, pension scheme members and the Government. These are then used to estimate the direct impact on investment and disposable income, with second-round effects estimated using Oxford Economics' Global Economic Model.

65 Asset growth consistent with Pensions (Extension of Automatic Enrolment) 2023 impact assessment where they assume a 3% real asset growth. We have assumed CPI is at the target rate and nominal assets should grow by 5%.
66 Base on ONS estimates of life expectancy and the average retirement age.
67 Ellis Connolly "*The Effect of the Australian Superannuation Guarantee on Household Saving Behaviour*", Reserve Bank of Australia, 2007
68 Pension Policy Institute – Pension Scheme assets 2025
69 Non-default assets are derived from Mansion House Accord figures, which show £252bn in default schemes (covered by the Accord) out of a £664bn DC market (PPI). If the market overall invests 2.6% in UK productive assets and default schemes invest 1.4%, then non-default schemes must invest 3.3%.
70 Weight estimated based on £252bn in default schemes (covered by the Accord) out of a £664bn DC market (PPI).

Size of the extracted surplus

The size of the extracted surplus follows the methodology set out in the impact assessment on reforms to the flexibility in the Pension Scheme Bill, a summary of which is set out below.[71]

Based on the latest data from The Pensions Regulator (TPR), pension schemes collectively hold around £164 billion in surplus on a low-dependency basis. The Government expects new guardrails to be introduced to protect both schemes and members from reduced funding levels. A funding level of 110% is assumed as a reasonable benchmark, representing a total surplus of approximately £97 billion.

Not all schemes are expected to extract surplus. Survey data from TPR indicates that 7% of schemes aim to "run on" to generate a surplus, while 27% intend to operate with low dependency on their sponsoring employer. Based on these assumptions, the total extractable surplus can be estimated. Of the £97 billion available (assuming a 10% funding safeguard), schemes are expected to access surplus in two ways:

- **Infrequent access:** Schemes with a long-term low-dependency objective may access surplus occasionally, typically following improvements in funding positions. Approximately 27% of schemes fall into this category, with an estimated £26 billion available (£97 billion × 27%).
- **Regular access:** Schemes aiming to generate a continuous surplus may extract funds on a regular basis. While 7% of schemes have this long-term objective, the Government's impact assessment adjusts this to 10% of assets to reflect that larger schemes are more likely to run on for a surplus. This approach yields roughly £63 billion (£630 billion × 10%).

Take-up rates for surplus extraction are uncertain. Surveys suggest high support – 44% in the Pensions UK survey and 48% in the Government consultation, averaging 46% – but historical data shows only about 4% of eligible schemes have extracted surplus. The Government's central assumption is therefore a 25% take-up rate. Furthermore, around 80% of schemes are not currently eligible for surplus extraction, according to the Government's estimates based on data received through the Government's Call for Evidence and could potentially benefit from the proposed surplus extraction measures.

Estimated surplus extraction by type:

- **Infrequent access:** £5.2 billion is estimated to be extracted (£26.1 billion × 25% take-up × 80% eligible schemes) and assumed to occur through lump-sum payments over two years from infrequent access. Economic conditions could allow surpluses to re-emerge, but this is not explicitly modelled.
- **Frequent access:** Over the next ten years, it is estimated that £7.5bn will be extracted through frequent access to pension surplus. Although 7% of schemes aim to run on for a surplus, this is adjusted to 10% of assets to reflect that larger schemes are more likely to do so. Schemes targeting a surplus are estimated to hold £12.6bn in assets, calculated from £630bn in surplus-holding assets × 10% × 25% (take-up) × 80% (eligible schemes), in comparison to these schemes having around £10bn in liabilities.[72,73] Over the next ten years, surplus extraction is assumed to be gradually extracted, as well as assets increasing due to investment returns. The total surplus extracted over the next ten years is then estimated based on an extraction profile and asset growth assumptions.[74]

Once combined, the total extracted surplus is estimated to be £12.7bn over the next ten years.

Figure 13: Extracted surplus of frequent access and infrequent access

Year	Frequent access (£m)	Infrequent access (£m)	Total (£m)
2026	160	2,620	2,780
2027	230	2,620	2,850
2028	320	-	320
2029	390	-	390
2030	530	-	530
2031	650	-	650
2032	820	-	820
2033	1,030	-	1,030
2034	1,370	-	1,370
2035	1,990	-	1,990
Total	7,490	5,204	12,730

Source: Oxford Economics.

71 Pension Schemes Bill
72 The Pensions Regulator - Table 3
73 Calculated as Assets – (Liabilities × 110%), assuming liabilities remain constant over 10 years.
74 Investment returns of ~5% per year are assumed, increasing assets and surplus annually (eg, Year 1: (£12.6bn–£0.2bn) × 1.05, with £0.2bn extracted). Surplus extraction is assumed to increase over time, above a 110% buffer, reflecting schemes' preference to leave surplus invested. Year 1 extraction is 10% of available surplus, rising gradually to 20% in Year 6, 25% in Year 7, 33% in Year 8, 50% in Year 9 and the remainder in Year 10.

Assumptions underpinning the wider economy modelling

The distribution of the extracted surplus is assumed to be split between employers, pension scheme members and the Government.

- **Employers and pension scheme members:** Surplus is assumed to be equally split between employers and scheme members. This equal division is consistent with the Government's impact assessment, supported by both industry discussions and survey evidence.[75] The assumption also aligns with a Brightwell survey, which found that 44% of schemes intend to share surplus value with their members.

- **The Government:** 25% of the surplus through taxation. The surplus utilised for the benefit of scheme members remains within the pension scheme and is not subject to surplus extraction tax (although it may be taxed on receipt by the member, subject to their tax situation). However, employers are required to pay tax on the excess surplus as it is extracted from the scheme.

Based on these assumptions, scheme members are allocated 50% of the extracted surplus, while the employer is allocated 37.5% and the Government 12.5%.[75] The next step is to estimate the impact on private sector investment and disposable income using the following assumptions:

Private sector investment
25% of the employer's surplus is assumed to be reinvested in their UK business, thereby contributing to productive assets. This is derived from Brightwell survey results, which showed that 49% of firms plan to reinvest surplus into business priorities within the UK.[76] Given the wide variation in responses – ranging from reinvesting a small portion to the entire surplus – a mid-point assumption of 50% is adopted. In practice, this translates to 25% of the overall surplus being converted into productive assets, since half of employers reinvest half of their share.

Disposable income
The direct impact on disposable income is assumed to arise from increasing benefits for members within the pension scheme, thereby increasing retirement income. To estimate this effect, we first determine the current proportion of pensioners enrolled in defined benefit schemes and project its growth over the next ten years. Currently, 34.9% of those with a defined benefit pension are drawing down their pension.[77] To estimate future figures, the proportion of those who are still active or have deferred their defined benefit pension is combined with data from the Wealth and Assets Survey to identify individuals likely to retire within the next decade.[78] Based on this analysis, it is projected that by 2035, 46.8% of members with defined benefit pensions will be receiving a pension. In addition, it is assumed that this additional income is distributed evenly over their expected post-retirement lifespan, which averages 21 years.[79]

75 The impact assessment assumes that the excess surplus will be distributed equally and paid in cash to both the employee and employer. However, following discussions with L&G, it was suggested that the surplus will remain within the scheme for employees and used to increase the pension benefits. In this scenario, the surplus extraction tax will only apply to the portion of the surplus extracted by the employer.
76 Brightwell, UK businesses eager to put DB pension scheme surplus to work
77 The pension regulator, Occupational defined benefit landscape in the UK 2024
78 The proportion of those likely to retire in the next 10 years is identified as the portion who have a defined benefit scheme and are aged over 55. This equates to just under 20% of those who have a defined benefit scheme and are not retired.
79 Based on ONS estimates of life expectancy and the average retirement age.

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