Pension Schemes Bill – DC measures

Sackers

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The Government's aim for the future of workplace DC schemes is "fewer, bigger, better run schemes" that can "deliver better returns" and "boost investment in the UK".

The Pension Schemes Bill ("the PSB") will lay the groundwork for achieving this by:

- ✓ requiring most DC providers and master trusts to create at least one, large "main scale default arrangement" ("MSDA") by 2030
- ✓ introducing a contractual override to allow FCA-regulated pension providers to consolidate more easily, subject to appropriate protections ("the Contractual Override")
- ✓ introducing requirements for a new value for money ("VFM") framework for trust-based schemes
- ✓ creating a framework for a new multiple default consolidator system
- ✓ placing new duties on trustees to offer a guided retirement solution.

The PSB is expected to receive Royal Assent in 2026.

Achieving scale

Measures under the PSB will:

- require DC GPPs and master trust providers to have £25bn in assets under management ("**AUM**") in at least one MSDA by 2030 – the assets in question must be managed under a "common investment strategy". If a scheme fails to achieve the required scale, it will cease to be a qualifying scheme for auto-enrolment purposes.
- allow certain schemes additional time to reach scale – to be eligible, they will have to demonstrate that they will have at least £10bn in AUM in an arrangement by 2030, and meet any other conditions set out in regulations
- provide for a "new entrant" pathway – allowing new market entrants who can demonstrate "strong potential for growth" and an "ability to innovate" to seek authorisation
- permit certain exemptions – eg for hybrid schemes and default arrangements that serve protected characteristics such as religion. We understand that the Government also intends to exclude from scope single employer trusts and CDC schemes which are only available to a closed group of employers, related through their industry or profession.

The Contractual Override will be available broadly where:

- its use is in members' best interests, and
- the change has been reviewed and certified by an independent person.

Individuals will be able to opt out.

Timing

With the changes being phased in, the contractual override and default consolidation are expected to start in 2028. A review will follow in 2029, ahead of the 2030 deadline for the creation of MSDAs.

Achieving UK growth

The PSB includes a "last resort" reserve power which will allow the Government to mandate certain asset allocations within default arrangements (not necessarily MSDAs). Before using this power, the Government must:

- publish a report on, among other matters, the effects of the measures on members' financial interests and UK growth, and
- consult with HMT.

However, the Government is hoping that the industry will meet its UK investment expectations voluntarily. If the power is not used by the end of 2035 it will fall away. For further commentary, see our blog.

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VFM

In August 2024, the FCA issued a consultation on detailed rules and guidance for a new VFM framework for contract-based schemes. Having been devised in collaboration with the DWP and TPR, the metrics and concepts were intended to be suitable for application across the DC universe.

The PSB will introduce requirements for trust-based schemes to complement those being established by the FCA, with detailed rules to follow in regulations.

The VFM framework is intended to shift focus from cost towards value amongst employers, trustees and managers of workplace pension schemes. By encouraging a holistic view of value (assessing investment, costs and services), it also aims to improve outcomes for pension savers through a potential improvement in performance (where achievable) or removal (where not possible) of poor performing pension schemes or arrangements from the market.

Timing

The aim is for the VFM regulations consultation process to be carried out during 2026/27, with the first assessments expected in 2028.

Automatic consolidation

In future, members with certain deferred small pots will be automatically consolidated into a small number of authorised consolidator schemes. Both master trusts and contract-based schemes will be eligible to become consolidators and will be subject to comparable regimes. In the trust-space, requirements will build on the current master trust regime.

A pot will become eligible for automatic consolidation 12 months after the last contribution was made into it. Initially pots of up to £1,000 (with no minimum amount) will be in scope, with the Secretary of State having the power to increase or decrease this limit in the future. Members will be able to opt out of the process but will be subject to a default solution if they do not respond to relevant communications.

A new industry body, the Small Pots Data Platform, will be responsible for data verification, data matching and facilitating the consolidation process.

Timing

The Government intends to consult on regulations in 2027/28, with master trusts able to apply to become an authorised consolidator around the same time. The aim is for consolidators to be selected in 2029, with scheme transfer duties due to come into force in 2030.

Guided retirement

Occupational pension scheme trustees will be required to:

- design and make available to eligible members (broadly, those accruing or entitled to DC benefits), one or more default pension benefit solutions, and
- review their design (and if appropriate their number) at prescribed times or intervals.

These solutions must be "designed to provide a regular income… in retirement" and meet any prescribed conditions.

Schemes may provide their own solution(s) or, where "it is not practicable" for them to do so or the trustees consider another scheme's solution would provide better outcomes, by partnering with another arrangement. However, the individual's consent to the transfer will be needed.

Comparable provision will be made by the FCA for contract-based schemes.

Guided retirement will overlap, to some extent, with the FCA's targeted support initiative, which will allow individuals to receive suggestions which have been developed for a similar group of consumers. While it is currently unclear how such support can be made available in the trust-space, it will be essential that these measures work together effectively.

Timing

The plan is for DWP regulations and FCA rules to be agreed during 2026/27 and for the duty to be phased in from 2027, with master trusts first to comply.

The FCA's targeted support rules are due to be in place in 2026.

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