Pension Schemes Act 2026 – DC measures

August 2026

The Pension Schemes Act 2026 (“PSA26”) will introduce a raft of new measures for DC schemes. This hot topic sets out the key details of each initiative.

Achieving scale

Measures under the PSA26 will:

- require DC GPPs and master trust providers to have at least £25bn in assets under management (“AUM”) in at least one main scale default arrangement (“MSDA”) by 2030 – the assets in question must be managed under a “common investment strategy”. If a scheme fails to achieve the required scale within the relevant timeframe, 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 with innovative products to seek authorisation where they are offering something significantly different that could benefit savers or employers, and have plans to reach scale in the longer term
- 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.

A contractual override will also allow FCA-regulated pension providers to consolidate more easily, subject to appropriate protections. Broadly, this will be available 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.

VFM

The VFM requirements for trust-based schemes are designed to complement those being established by the FCA, with detailed rules to follow in regulations. In so far as it is possible, the intention is to create a consistent policy across workplace schemes, while reflecting the distinct regulatory regimes that apply.

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.

On 13 July 2026, the DWP published a consultation on a “detailed proposed approach” alongside draft regulations and draft FCA rules. TPR has issued practical information for trustees and scheme managers on the latest proposals and how they can start preparing to comply.

Timing

A phased implementation is now proposed. All in-scope schemes will be required to submit data in 2028, but only master trusts, larger single employer schemes (50,000 or more active and deferred members) and multi-employer contract-based default arrangements will have to undertake a full assessment and ratings in that year. Formal consequences will not apply to ratings in year one, but firms and trustees will still be subject to their existing duties. Full disclosure, assessment and ratings will apply to all in-scope schemes from 2029 onwards.

Final regulations and FCA rules are due in Q1 2027 and TPR intends to consult, as appropriate, on any necessary codes of practice and/or guidance.

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 reasonably 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.

A July 2026 DWP policy paper sets out the following key principles and expected outcomes for "default pensions":

- **no requirement for complex decision-making by the member.** Most savers will only have to decide when to access their pension and whether to remain in the default pension. But, those who wish to take a more active role will still be free to shop around
- **protection against longevity risk** – default pensions must provide an income that lasts throughout retirement, although it will be possible to incorporate different phases, such as a "flex then fix" approach
- **freedom of choice** – the Government recognises that some people may want to make their own decisions so it is committed to ensuring that individuals can get the right support with their pension choices
- **consent** – everyone must engage with their pensions at the point of access, so this is the perfect time to explain to members what their options are. To start receiving payment via the default, they will need to consent.

The requirements are intended to ensure the pensions industry does the heavy lifting on behalf of members.

Timing

The DWP intends to consult on thorough and considered policy proposals in autumn 2026. The FCA will be publishing a discussion paper on introducing equivalent requirements for contract-based workplace schemes, to align with the Guided Retirement framework policy consultation and Retirement CDC ("R-CDC") regulations consultation. The duty is set to be phased in from 2029, with master trusts first to comply. Single employer trusts and schemes who are committed to offering R-CDC as their default solution may have until 2030.

Automatic consolidation

In future, members with certain deferred small DC 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 when no contributions have been paid into it for a period of at least 12 months and its holder has made no active investment decision in respect of it. Initially pots of up to £1,000 (with no minimum amount) will be in scope. 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

A policy consultation is due later this year and will include a "more definitive timetable". Currently, consolidation is set to begin in 2030.

Achieving UK growth

The PSA26 includes a "last resort" reserve power which will allow the Government to mandate certain asset allocations within default arrangements (not necessarily MSDAs) if it considers that the industry has failed to diversify its investments adequately into private markets. This power was the subject of significant debate in Parliament and eventually agreed to following the inclusion of additional safeguards. For example, the power:

- can only be exercised after 1 January 2028 and only once the Secretary of State has taken certain steps, including publishing a report (which must set out, among other matters, the economic impact of the proposed measures)
- is limited to no more than 10% (by value) of all of the assets held in a scheme's main default funds, with no more than 5% (by value) of these assets to be of a "UK-specific description", being "a description framed by reference to whether an asset is located in or meets any other condition linked to economic activity" in the UK
- can only be used once and will be repealed if it has not been used by the end of 2032.

Whether or not the mandation power has been exercised, the entire regime will now fall away at the end of 2035.

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