Guided retirement – significant change in the pipeline

November 2026

What's the latest?

On 3 November 2026, the Government published its latest consultation on initial policy proposals for guided retirement for trust- and contract-based workplace schemes with draft DWP regulations and draft FCA rules to follow in the second half of 2027.

Master trusts and FCA-regulated schemes will need to comply 12 months after regulations are made with a compliance deadline of summer 2029, unless they are offering retirement collective pensions (RCP) as a default pension, in which case there is a 12-month easement to summer 2030.

Single-employer trusts will need to comply 24 months after regulations are made with a compliance deadline of summer 2030.

There is a lot to do in a short space of time.

What is guided retirement looking to achieve?

Guided retirement is a key pillar of the Government's agenda to turn DC pots into pensions and develop a pensions system that adequately supports people through retirement. It is the most significant of all the DC reforms in the pipeline with real potential to transform member engagement and awareness and improve retirement outcomes.

While automatic enrolment has successfully encouraged millions of people to save for their retirement, and freedom and choice has given people flexibility in how to use their DC pots, neither of these policies help and support savers to deal with the complex decisions they face at retirement. Statistics show that roughly half of pension pots are fully encashed on first access, half of working adults have no retirement plan, and very few take financial advice, raising the risk that individuals will run out of money later in life. For good reason, Nobel Prize-winning economist William F. Sharpe described decumulation as the "nastiest, hardest problem in finance".

Decumulation is hard because the UK has an accumulation system based on inertia. Most people are "triple defaulters": they remain in their scheme's default investment option; they pay the default contribution rate; and they retain the default retirement age. But it's all change at retirement: people suddenly need to wake up; they need to become fully apprised and aware of their options; and they need to make difficult judgements about how to access and use their pension pot, often without taking financial advice. In doing so, they must balance three concurrent risks:

- longevity risk (not knowing how long they will live, meaning their money risks running out)
- sequencing risk (suffering market downturns early in retirement, which permanently shrinks their capital base – we saw this risk surface significantly during the pandemic), and
- inflation risk (the gradual loss of purchasing power over retirement).

Poor decisions can significantly affect whether an individual's pension savings provide a sustainable income throughout later life.

To combat these issues, reduce the risks borne by individuals and improve the sustainability of retirement incomes, the Government introduced the guided retirement regime in the Pension Schemes Act 2026 with equivalent requirements for contract-based schemes.

What are the key components of guided retirement?

Guided retirement will require all DC schemes (other than those with DC AVCs only) to provide one or more default retirement solution(s) for their members – the Government is referring to these solutions as "default pensions".

DC schemes will need to design and make available default pensions in-scheme, or they will need to partner with a third party.

For most, if not all, DC master trusts, this is a no brainer. In a world of DC megafunds, master trusts need to provide default pensions to be competitive and retain assets and members in retirement. Master trust trustees will need to design and make available at least one default pension which provides a regular retirement income and meets the needs and interests of the scheme's membership (likely broken down into cohorts). In practice, we expect most master trusts will provide a range of retirement solutions (including more than one default) to reflect their diverse membership, particularly since, as proposed, deferred members with low pension savings of £10,000 or less (net of any tax-free lump sum) will fall outside the eligibility criteria and likely still target cash.

For single-employer schemes, the decision is far from simple. If trustees consider it is impracticable to design and make available default pensions in-scheme (condition 1) or if they believe a third-party master trust or personal pension scheme will provide a better outcome (condition 2), they can partner with a third party instead of offering solutions in-scheme. We expect most single-employer trusts will seek to adopt a partnership arrangement to the extent they do not do so already.

But trustees will not simply be able to outsource the problem. They will need to show how they have satisfied one of the two conditions; they will need to demonstrate how the default pensions they have identified reflect the needs and interests of their membership (including how assumptions about life expectancy are reasonable and appropriate) and, in establishing a transfer arrangement for members at retirement, they will need to be satisfied the receiving scheme(s) is suitable, fit for purpose and reflects the needs, interests and circumstances of transferring members. In practice, we expect this will require a like-for-like comparison of the ceding and receiving scheme(s) and how the default in the receiving scheme (and its membership profile) is suitable for members transferring into it.

To do this, we expect trustees/providers will need to establish sufficient information sharing with the third party pre- and post-retirement to ensure suitability, understand the respective membership profile and cohorts and ultimately, to ensure both they and the receiving scheme fully comply with their legal duties. The Government is consulting on proposed rules for the transfer agreement, which may include sharing of members' payment instructions and information to inform the ceding scheme's ongoing monitoring of the receiving scheme.

Guided retirement is set to expand the role and remit of DC schemes significantly. Irrespective of whether schemes offer default pensions in-scheme or through a third party, trustees will need to adopt a retirement strategy and produce and publish a "Pension Benefits Strategy"; they will need to segment their membership into cohorts to determine how many retirement solutions (including defaults) to offer; they will need to communicate the retirement strategy clearly to members; and they will need to look outside their scheme to determine members' retirement behaviours and consider wider factors, such as housing, health, family circumstances and other wealth. This will require far better and more granular understanding of members' retirement planning and wider financial circumstances.

What about longevity protection?

The most crucial of the guided retirement principles is protection against longevity risk. Default pensions must provide a retirement income that lasts throughout retirement.

To protect against longevity risk and provide a sustainable retirement income, it's looking likely that schemes will be faced with a binary choice of annuities (ie guaranteed income) (but note the Government does not expect individuals to purchase their own individual annuity via open market brokerages) or an RCP (ie non-guaranteed income). There will need to be a "fix" element at some point in the design of the default pension; schemes will not be able to simply provide a form of managed drawdown.

The Government is clear that schemes will have flexibility about how to deliver this fix element. We are seeing most master trusts veer towards the flex then fix models to give flexibility through flexi-access drawdown in the early years, before switching to a fix element at a specified transition point ranging from age 75 to age 85. This fix could take the form of bulk purchase of annuities, RCP or other forms of innovative longevity protection.

If a default pension includes different phases, members should be informed at the point of access and throughout their pensions journey about when their ability to take a different choice would become restricted, but schemes will not be expected to seek consent multiple times. This means members could consent to access a "flex, fix" solution at the point of access and start drawdown payments under the "flex" element, before automatically transitioning to the "fix" element to provide a lifetime income from a specific age. The role of tax-free cash will require careful consideration where there are multiple pensions within a solution (eg flexi-access drawdown and annuities).

Where a default pension includes an irreversible component (eg an annuity), schemes will have to use their best endeavours to engage the individual before a payment is taken for any irreversible element. This will give individuals the opportunity to update their personal circumstances and notify schemes if they wish to opt-out of their default pension prior to any transition to irreversible elements. A 30-day cooling-off period prior to benefit crystallisation for irrevocable default pensions is being considered.

RCP is the new kid on the block. It will involve trustees transferring members' DC savings into a collective fund at retirement which converts savings into a collective pension – this is a non-guaranteed, targeted income for life which pools investment and longevity risk. Because it will not be legally permissible to bulk transfer members into an RCP arrangement without their consent, trustees will need to carefully design the consent requirement. On joining, members will likely be allocated to a cohort which reflects their starting level of income, market conditions and targeted benefits.

What will default pensions look like?

We know from the Government's guiding principles that default pensions will need to meet specific criteria which, as confirmed in consultation, will inform the draft regulations for guided retirement.

Default pensions will need to provide a regular retirement income which reflects the needs and interests of the scheme's membership (likely broken down into cohorts); protect against longevity risk and last through later life; not require members to navigate complex financial decisions; and members will have to consent to start receipt. Importantly, members will only have to make a single decision at a single point in time, as they will be able to consent to the entire default pension at the point they enter into it. This consent will cover moving into any future phases later in retirement.

What does the communications journey look like?

In consultation, the Government proposes that on joining the pension scheme and during the accumulation stage, schemes will need to make individuals aware of default pensions and that they will be available when individuals access their benefits. Schemes will need to incorporate information on default pensions and consolidation into their existing retirement "wake-up" communications from five years before an individual's normal minimum pension age.

However, it appears communications at these stages will be high level, generic and simply explain the purpose of default pensions (ie to provide a retirement income). Schemes will not need to communicate a specific designated default to individuals on joining the scheme, nor during the accumulation phase.

While we can see the logic in not designating a default pension to individuals on joining the scheme, trustees/providers may struggle to design (or offer via transfer) suitable defaults for their members, including streaming people into specific cohorts, without taking into account potential default pensions during the accumulation phase.

What is the proposed trigger point for default pensions?

On a related note, the Government proposes that the "trigger point" for allocating a default pension to an individual (including allocating individuals to cohorts) and for communicating information on the default pension is when an individual comes to access their pension. In our view, this is too late in the retirement journey because members need to understand and be fully apprised of their designated default pension sufficiently in advance of this trigger point to build trust, confidence and understanding of what happens when they come to access their pension.

We would urge the Government to re-consider the trigger point and the timing of communications, as they may be more effective if activated earlier in the member's retirement journey.

Action plan

Trustees should begin their preparations for guided retirement now by considering:

- their member profile and demographic, analysing data and seeking to collate further information on membership (member surveys, questionnaires etc)
- which default pensions may be most suitable for members and how many would be appropriate, including (non-default) retirement solutions
- whether to design and make available default pensions in-scheme or use a third-party partner (and recording the rationale for this decision)
- a potential communications strategy and access point, including ways consent could be obtained.

In-scheme solution(s)

Schemes designing their own default pensions will need to ensure they:

- take into account existing and prospective members (ie those transferring-in from other arrangements at retirement)
- reflect the DWP's principles.

Partnership arrangements

Schemes using a third party will need to:

- carry out due diligence on third parties' default pensions offering and consider which to use
- agree a data sharing mechanism to ensure on-going suitability and monitoring
- agree heads of terms for transferring members.

As a starting point, trustees may wish to map their scheme's existing retirement journey(s) to identify which actions will need a closer review.

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