XPS Group

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XPS Express

Pensions news for employers

How can employers get the most from their DC schemes?

This edition of XPS Express considers current developments in the market for defined contribution (DC) pension schemes and what employers can do to maximise outcomes.

At a glance

New Value for Money (VfM) requirements for own-trust DC schemes are expected to be introduced within the 2025 Pension Schemes Bill, resulting in a likely increase in costs and governance burden for employers.

With April 2025's increase to employers' National Insurance (NI) rates to 15%, material savings are available to employers if they use salary exchange for pension contributions.

Returns are a major driver of value from a pension arrangement and can vary a lot across providers.

This presents an opportunity for employers to review their providers to ensure the best outcomes are delivered to their employees, including wider member experience and benefit offering.

Contribution structures (often unreviewed since the launch of automatic enrolment) could be under increased focus in the Government's pensions review.

New VfM requirements

What will be covered in the Pension Schemes Bill?	A revised and more detailed VfM test, which is expected to increase competition between DC schemes, and drive better member outcomes.
What risks will it introduce for employers?	Additional compliance risks and costs of running own-trust based DC schemes. Failure to comply may result in forced wind-up from The Pensions Regulator.
What are the opportunities?	Improved governance for own-trust based schemes. VfM tests will help ensure the DC scheme is delivering a good pension offering to employees, by highlighting ways to improve member experience, enhance returns and manage costs.

Is salary exchange now a must have?

Salary exchange, whereby employees agree to reduce gross pay in exchange for the employer making pension contributions on their behalf, can generate NI savings.

For example, with employee pension contributions of £1 million, a salary exchange could **save an employer up to £150,000 p.a**.

✓	Employer pension contributions are not subject to NI, so moving employee contributions to employer provides savings to both parties
!	Can be used with almost all DC arrangements, but may not be suitable for employers with low income employees
✓	Typically takes just a few months to introduce, at a cost often recouped within months or even weeks

Actions employers should take

1. If you sponsor an own-trust DC scheme, consider how the new Pension Schemes Bill could affect your costs, risks and compliance requirements, and whether consolidation would be beneficial.
2. Consider whether the introduction of salary exchange would result in material cost savings for the employer and employees.
3. Review your DC pension provider to ensure that it is delivering competitive returns to members and a compelling benefit offering from the employer.
4. Review your DC scheme's contribution structure to ensure it is delivering sufficient consistency, flexibility and competitiveness across your workforce.

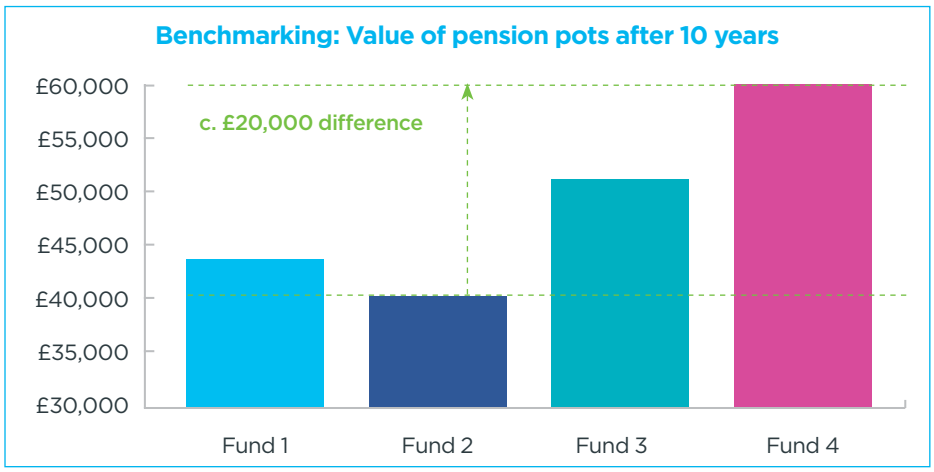
Will your employees have adequate funds when they retire?

When considering whether employees' retirement pots will meet their needs in retirement, both investment returns and contribution rates are paramount. With phase 2 of the Government's pensions review expected to look at adequacy of retirement benefits, we recommend employers review these areas. The Pension Schemes Bill may also include a requirement for employers to periodically review their pension provider.

Investments – Massive variations between providers' returns

There is a stark difference between returns achieved for members within DC arrangements (including Master Trusts and Group Personal Pension Schemes), so employers should consider benchmarking the returns from their schemes against other providers.

In the example below, a salary of £30,000 (increasing at 2.5% p.a.) with a contribution rate of 8.8% (based on the average rate from our DC fund research), could lead to a materially different pension pot after 10 years.



The difference in investment returns between the lowest and highest returning default funds is 7.7% p.a. for the providers shown here (over a five-year period to December 2024).

This equates to a difference in pension pots over 10 years of c. £20,000.

Source: Corporate Adviser.

Contributions - Does your employee contribution structure need reviewing?

Making the most of an employer's significant pension spend remains vital. Key questions include:

Consistency

Is your contribution structure and offering consistent across your workforce?

If not, is that okay, or would you want it to be?

Efficiency

Is your new joiner rate competitive?

Do you want employer to employee matching contributions in addition?

If you have this already, is it effective?

Good member outcomes

Will the contributions paid lead to good member outcomes at retirement?

Is this the same across your whole workforce? Are some being left behind?

Are different contribution rates or communications needed?

Find out more

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