XPS Group

July 2025

DC Briefing

How can trustees and employers prepare for the coming changes to DC schemes?

The UK pensions environment is evolving rapidly, especially where related to defined contribution (DC) benefits. This evolution is accelerating under the current government, which would like to see improved value for money from DC arrangements and increased amounts of consolidation. Ultimately, the aim is to create bigger pension pots, in fewer schemes.

In this briefing, we look at the coming changes and how both trustees and employers with various types of DC schemes can prepare.

At a glance

The government plans to achieve its aims via a combination of actions, which were set out in the Pension Schemes Bill laid before Parliament on 6 June 2025:

- More rigorous assessment of **Value for Money (VfM)** for DC benefits, with consequences for schemes that fail.
- Introducing **guided retirement options** providing additional support to members both at and through retirement.
- **Consolidation of small dormant pots** (less than £1,000) into larger schemes.
- The creation of **'Megafunds' of £25bn+** within multi-employer DC arrangements.

In addition to the Bill, the government has completed phase one of its 'pensions review'. The final report set-out the goal of establishing 'Megafunds' for multi-employer DC schemes, such as Master Trusts and contract schemes like Group Personal Pensions (GPPs). By 2030, these providers will need to have a default fund size of at least £25 billion, or £10 billion with a pathway to reach £25 billion by 2035.

The government's rationale is that larger funds provide better value to members and enhance the schemes' capability to invest in private markets, potentially within the UK. Its view is that this approach promises dual benefits: contributing to UK investment and economic growth, while simultaneously increasing pension pots through potentially higher returns.

The timeline for pensions change

The Pension Schemes Bill (the Bill) is expected to receive Royal Assent by mid-2026. It begins the process of setting out requirements for trust-based schemes (single-employer trusts and Master Trusts). The Financial Conduct Authority has set out similar for 'contract' based arrangements (e.g. Group Personal Pensions 'GPPs').

The finer details on what is required is expected following consultation and regulation.

The government's planned DC changes are an absolute game changer. If implemented as proposed, we expect this to drive further market consolidation and result in material changes to the way all DC schemes need to operate. Therefore, for all trustees and employers, making sure their scheme is prepared, and fit-for-purpose, is going to be essential.

Christopher Barnes, Partner, DC Consulting

The introduction of a Value for Money framework

The ethos of the new 'Value for Money' framework, is that DC benefits via various provider types (i.e. Master Trust, single-employer trust, and contract schemes) be assessed in the same way. This will combat the age-old issue of consistency when considering different pension schemes. However, having a one size fits all approach can be a challenge! Consultation and regulation on the framework is expected in 2025/6 with the finer details following, including clarification on whether defined benefit scheme AVCs are to be included.

Under the proposed changes:

1 Prepare and publicly publish scheme metrics

Trustees (for Master Trusts and single-employer trusts) and providers of contract based schemes will be required to publicly publish certain scheme data and metrics. This means, for many schemes over 500 data points will need to be collected, but quite possibly more (dependent on scheme design). These are likely to include:

- investment performance (both past, and future looking projections);
- costs and charges on members and employers; and
- quality of services provided to members (measured in part via a new member satisfaction survey).

2 Determine value for money

Trustees (for Master Trusts and single-employer trusts) and providers of contract based schemes will need to assess a range of the metrics against industry benchmarks or comparator schemes (which are to be confirmed) and then determine whether the scheme is:

- **Fully delivering** - indicates the scheme is delivering value for money;
- **Intermediate** - which may require an Improvement Plan detailing the actions to be taken, restrictions on receiving new employers to the scheme and notification to current participating employers on any actions they should take; or
- **Not delivering** - which will require an Action Plan, which may include transferring members to a better-performing scheme if it is deemed beneficial, trustees notifying participating employers and ensuring no new employers join the scheme.

Expected timeline	
Schemes will need to:	
2027	• collect data up to 31 December each year, starting year to 31 December 2027
2028	• publish data by the following 31 March, so first year 31 March 2028
2028	• complete the first Value for Money assessment later in 2028

For Master Trusts and single employer trusts, it is widely expected that the 'Value for Money' framework will replace the current 'Value for Member' framework. The existing requirements in relation to the Chair's Statement also remain in place, although there has been talk of this being amended or removed at some point - and we suggest a watching brief on this.

Increased monitoring

It's clear that The Pensions Regulator (TPR) is going to be much more active in monitoring all schemes in the future, and the Bill also suggests greater powers to intervene including requiring wind-up of non-performing schemes or monitored Action Plans. Also, the penalties for non-compliance are greater including fines of up to £100,000 for organisations, or replacement of trustees.

Guided retirement options

The government wants individuals saving into DC schemes to receive suitable benefits at retirement by default. It recognises that members generally take the 'path of least resistance' when it comes to accessing their pension savings, and so by 'defaulting' them into something appropriate, it believes outcomes will be maximised.

Under the proposed changes:

- schemes must provide a default retirement benefit solution for every member;
- schemes can have different default solutions, for different cohorts of members;
- the default solution(s) must reflect the needs of the membership;
- members will be put into the default solution unless they opt out and choose an alternative;
- the default solution is triggered when the member asks to 'take their pension'; and
- the default solution may be provided from within the scheme using its own functionality, in the scheme but in partnership with another provider, or via transfer to another scheme with a suitable default.

Expected timeline	
2026	• Regulatory consultation, followed by guidance
2027	• Master Trusts will need to comply with guided retirement
2028	• Remaining DC arrangements (including single-employer trusts and contract based schemes) will need to comply

The consolidation of small dormant pension pots

A growing issue is the accumulation of small, often forgotten pension pots built up over a working lifetime. According to the government, there are now 13 million of these small pots - each holding £1,000 or less - with the number increasing by around one million a year. These small pots may also be in poorly performing legacy funds.

To tackle this, the government is encouraging the transfer of small pots into members' largest existing pension pots. This is intended to improve investment returns, lower charges and reduce the risk of being forgotten.

Under the proposed changes:

- small pension pots with a value of less than £1,000 will be automatically consolidated into providers acting as consolidator schemes, but the member can opt out of this;
- TPR will be responsible for authorising and supervising consolidator schemes; and
- a new centralised data platform will match the dormant pot to the member's active or nominated consolidator scheme.

Expected timeline	
2027	• Regulations to be developed and consulted on (over 2027/28)
2029	• New consolidators are expected to be selected
2030	• Duties to transfer and consolidate eligible pots to come into force

Scale and Asset Allocation - the creation of 'Megafunds'

Under the proposed changes:

The Bill proposes that multi-employer DC schemes (e.g. Master Trusts and contract-based schemes) must hold at least £25bn in a default arrangement by 2030. Schemes with £10bn by 2030 would need a clear plan to reach £25bn by 2035. There will also be an 'innovation pathway' to permit new market entrants. To allow further consolidation, the Bill introduces the ability for without member consent bulk transfers of benefits from contract-based schemes, into other contract-based arrangements, or Master Trusts. This is currently not possible (or prohibitively difficult), so will deliver increased options for providers to consolidate their arrangements, subject to appropriate safeguards on the transfer being met.

In addition to the new minimum asset threshold, trustees and providers may also need to:

- allocate a prescribed percentage of their default assets to qualifying assets including UK private equity, private debt, venture capital and other long-term investments;
- secure regulatory approval for significant alterations to the strategy; and

The Bill includes provision for the government to mandate investment allocation. It has however stated, that it does not intend to do so, unless its desired amount of investment in private markets, including the UK, is not reached.

Expected timeline	
2030	• Scale requirements are to be met (or 2035 if certain criteria are met)

Actions for trustees and employers

Preparation for the new environment is key!

For single employer trusts (employers and trustees):

Trustees should start work to:

1	**Review current DC arrangements** to ensure they are fit for purpose under the anticipated new requirements. This should include reviewing recommendations under the current Value for Members framework and implementing these before the new Value for Money framework arrives, together with ensuring the collection of the data points for the new framework can be done efficiently.
2	**Begin preparation for the guided retirement requirements,** including understanding what benefits members currently select at retirement, considering why this is, and what options may be most beneficial for them. Start to consider the membership groups within your scheme and also the current communication structure, to ensure you are already helping members understand their retirement options so they can select that most suitable for them ahead of the new requirements.
3	**Consider the number of members with dormant i.e. deferred pots.** Will this be material? How is the scheme designed and could this lead to a material number of new small dormant pots (all of which may increase administration in future)? Do you therefore want to make any changes in anticipation of this?
4	**Consider broader consolidation options for your pension arrangement.** Do you want to continue operating the scheme (and make the changes explained here), or consider consolidation? This discussion would usually involve the scheme sponsor, and trustees may therefore wish to reach out to them.

Employers should start work to:

1	**Discuss the upcoming changes** with your scheme's trustee board.
2	**Agreeing actions needed** by the trustees, and ensure the trustees have suitable sponsor support where needed (which may include finance and resource).
3	**Discuss consolidation options with the trustees,** and conclude whether to maintain the current scheme (ensuring it is prepared for the new requirements), or consider consolidation.

For employers with Master Trusts or contract-based schemes (such as Group Personal Pensions)	
1	Consider whether your arrangement is likely to meet the new requirements and review the provider's plans for doing so.
2	If you haven't one already, introduce a structured method of overseeing your DC pension provider(s). For example, by undertaking an annual review of your DC arrangement. Or, if you already have a committee or 'department' overseeing your DC arrangement, by engaging with them to determine whether they consider the scheme fit-for-purpose.
3	If your arrangement does not currently meet the scale (£25bn in the main default) and asset allocation requirements, consider the feasibility of the provider's plans to meet the requirements by 2030.

Find out more

To discuss any of the issues covered in this edition, please get in touch with Christopher Barnes, Pranesh Gathiram, or your usual XPS contact.



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