

We have lift off: What the Pension Schemes Act really means

In the same month that humankind returned to lunar orbit, the Pension Schemes Act (the Act) has finally launched. After years of anticipation, the direction of travel is becoming clearer, but the real journey is only just beginning. Where do we go next?

The Act sets ambitious scale requirements: most multi-employer commercial providers must reach £25bn in a qualifying default investment by 2030, or £10bn by then with a credible plan to reach £25bn by 2035. Via new mandation powers, the Government can also direct up to 10% of the main default fund into “qualifying assets”, including up to 5% in UK investments.

They believe that this will add return. We agree, it can. But it must be in the right investments as not all “qualifying assets” are the same. Additionally, in the UK, we question whether the scale and quality of investments are available. Provider schemes’ governance structures will also need to be of high quality to pick the winners and maintain oversight.

A question of value

The Value for Money (VfM) framework is included in the Act, with further detail expected through consultation and regulation later in 2026. While its intent is positive, there are important challenges.

The framework places significant emphasis on investment return and risk. Rightly so, but it gives less weight to engagement and service, while currently excluding decumulation (although this may evolve over time). As it stands, the lens remains relatively narrow.

More fundamentally, the structure of the framework risks driving unintended behaviours. VfM assessments - expected to apply to almost all workplace DC schemes - require schemes to benchmark themselves against comparators, with the risk of failure including closure or consolidation. In that context, the incentive to deviate from the pack is limited. Why take the risk of standing apart? The result may be convergence on similar strategies, where avoiding underperformance becomes more important than delivering differentiated outcomes.

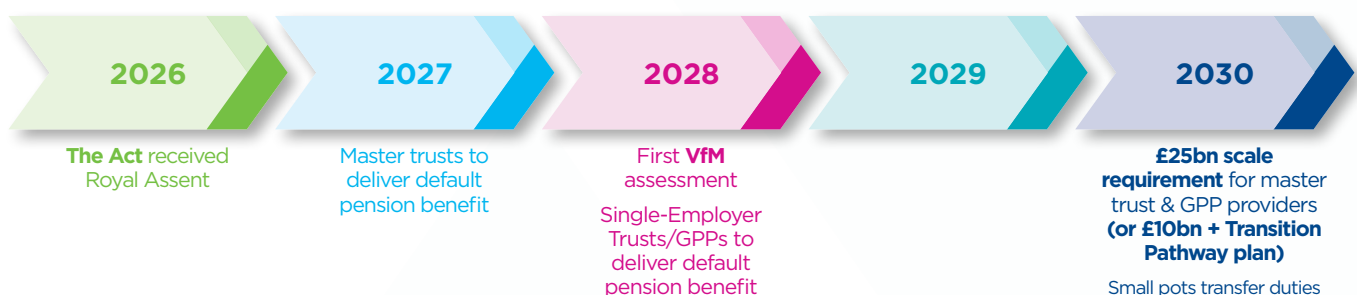
The journey to decumulation

It’s well understood that people struggle to convert their pension pot into a sustainable retirement income, so the introduction of a default pathway within workplace DC arrangements is a positive step. What schemes launch by Spring 2027 (for master trusts) and 2028 (for other workplace schemes) will be critical in shaping outcomes. Retirement CDC is an exciting development, but is it as good as some suggest? “Flex and Fix” is looking a popular default pension benefit solution amongst providers, but questions remain over whether it can deliver a consistent and trustworthy income throughout retirement.

Ultimately, while innovation is welcome, the core challenge remains unchanged: no two individuals are the same, and the optimal solution is inherently personal. A single default may represent a meaningful improvement on the status quo, but it is unlikely to meet the needs of all members.

The way ahead

So, the rocket is not assembled yet, but all the pieces are nearly ready. We are expecting the Government to make some modifications to the current flightpath of reforms (shown below), after which we will have lift-off!



The Pension Schemes Act 2026 - In brief

The Pension Schemes Act 2026 has now received Royal Assent. The key DC provisions of the Act are set out below.

Area	What does the Act introduce?
DC scale requirements	The Act introduces minimum asset size requirements for the main scale default arrangement of workplace DC master trust and GPP providers, where used for auto enrolment. A narrow exemption may apply for schemes designed to meet the needs of persons with protected characteristics under the Equality Act, and hybrid schemes for closed employer groups. Broadly, funds in scope must hold at least £25bn by 2030; those with £10bn by this date must have a “credible plan” via a ‘Transition Pathway’ to reach £25bn by 2035. There is also provision to enable new entrants into the provider market via an ‘Innovation Pathway’, where a strong potential for growth and an ability to innovate can be demonstrated. A consultation on draft regulations is expected later in 2026/27.
Mandation	The Government has an expectation, through the Mansion House Accord, that master trust and GPP providers will invest at least 10% of their main default funds (which interestingly is not the same definition as the main scale default for the scale requirements) into ‘qualifying assets’, with at least half of that in UK investments. The TPR and FCA have the power to decide whether schemes meet these requirements. Should providers not be doing so, the Act includes a reserve power, to enable the Government to direct DC master trust and GPP providers accordingly. The power will be subject to a ‘savers’ interest test’ which the TPR/FCA have powers to introduce, allowing a master trust/GPP provider to apply for exemptions from the requirements for a specified time. The Government’s mandate power can only be used once and, if unused, will cease in 2032 to be fully repealed in 2035.
Value for Money (VfM) framework	The new VfM framework for most DC schemes (including single-employer trusts, hybrid schemes, master trusts and GPPs) will require assessment against comparator schemes in terms of set metrics on investment performance, cost and service quality. There will be a standardised grading system with schemes that do not meet the required standards expected to take action or else close and consolidate. Further consultation and secondary legislation is expected H2 2026 into 2027, with the first assessments required in 2028. Further XPS thoughts on an earlier detailed consultation on VfM can be found here .
Default retirement option	Most workplace DC schemes must provide a default pension benefit solution to members from 2027 (for master trusts) and 2028 for other arrangements. Members will retain the freedom to make their own decisions, but the default is aimed to provide an additional level of support. The default may be provided in-scheme or via transfer to another scheme with a suitable product at retirement. Draft regulation and further consultation is expected in H2 2026 setting out much of the detail of this requirement. Interestingly, the Government also intends to bring legislation to implement retirement CDC in 2026 to permit earlier implementation by providers considering this.
Small pot consolidation	The Act introduces the much-awaited automatic consolidation of small, dormant DC pots of £1,000 or less, starting as early as 2030. Further consultation on details is expected in 2027/28.
Trustee investment duties	The Act did not include the anticipated amendment to enable statutory guidance on trustees’ exercise of their fiduciary investment duties. The guidance is being drafted regardless, with the government looking to introduce this in the future.

Find out more

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