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XPS Express

Pensions news for employers

New DC scheme requirements: What employers need to know

This edition of XPS Express explores **how employers could be impacted by the UK Government's drive to consolidate defined contribution (DC) funds and improve governance within these arrangements.**

At a glance

The Pension Schemes Bill provided further emphasis on the need for additional scale in auto-enrolment DC schemes through 'megafunds', potentially limiting the options available for employers.

Employers may wish to consider switching providers if their current scheme does not meet the more onerous Value for Money (VfM) requirements (which assess performance against competitors), nor provides a default decumulation solution.

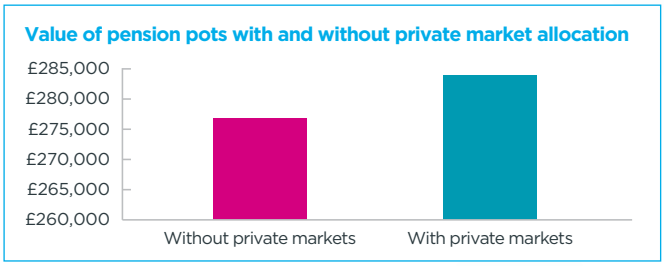
There is now an opportunity for employers to proactively undertake a review of their employees' benefit provision to identify any concerns early, and mitigate the risk of their schemes not complying before the legislation comes into force.

Consideration should also be given to the impact on members' retirement outcomes if the government potentially mandates a percentage of default funds to private markets by 2030.

More importance placed on private markets

XPS research shows on average, **having a private markets allocation can enhance member outcomes**, as shown below. Employers should note that adding private markets introduces more complicated governance, so should check with their providers on their approach and the impact on members.

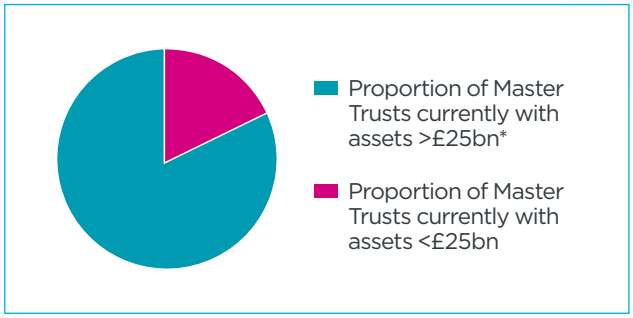
Seventeen providers have already committed to including private markets allocations in their default fund strategies.



The chart above is an illustration of a 40-year-old member's pension pot at age 65, in today's terms, with a current salary of £30,000 (increasing at 2.5% p.a.) and a contribution rate of 8.8% (based on the average rate from XPS research) and XPS's return assumptions as at 31 March 2025.

Introduction of new 'megafund' DC schemes

Any providers who do not hold assets of at least £25 billion by 2030 (or £10 billion by 2030 and are on track to reach £25 billion by 2035) will face scrutiny from The Pensions Regulator and may be forced to merge with a larger provider. Such consolidation may lead to a change in retirement solution for members, so employers should discuss this with their provider to ensure retirement outcomes are not impacted.



*Of the c.17 commercial master trusts, only 3 have assets currently over £25bn but this number may rise to around 8 depending on whether other workplace pensions are included.

Actions employers should take

1. **Review the effectiveness of your default strategy** for delivering retirement outcomes, particularly the provider's intended approach to incorporating private markets.
2. **Be proactive** and approach your scheme's trustees or provider to ensure they have equipped themselves appropriately to abide by new legislation around scale, default retirement solutions and VfM.
3. **Assess your current provider** against the new VfM measures, and whether their proposed actions to meet the legislation are appropriate for your employees, or whether a different provider may be preferable. If it is decided a change of provider may be appropriate, ensure you have a project plan for the move.

What will the VfM framework introduce?

From 2028, DC schemes will be required to record and publish ratings on how they perform in providing adequate outcomes for members, based on over 500 data items split into three categories.

1. Investment performance	2. Costs and charges	3. Quality of service
How well members are protected against unfavourable outcomes	How management charges are managed, and efficiencies utilised	Service provided to savers through good communication and clear guidance

Schemes that fail to meet the necessary VfM rating could be forced to stop accepting new employers or potentially close and transfer assets and liabilities to another scheme. **This introduces reputational risk as your scheme could be transferred to another provider if they fail the VfM assessment.**

Actions for employers to take to mitigate reputational risk

- **2025** – New VfM requirements announced: Approach scheme trustees/ provider to understand how they will comply
- **2026** – Framework laid in parliament: Carry out review of existing benefit provision and how this compares to other providers
- **2027** – Consultation period: If any concerns raised, consider provider selection exercise to pre-empt any providers not meeting requirements
- **2028** – First VfM assessments to be carried out: Ill-prepared employers may be forced to change provider if existing provider fails tests

What default decumulation solutions are available?

Trustees and providers will need to offer default pension benefit solutions for members who fail to make an active decision about their pension savings. These may include one or more of the following, either within the current arrangement or another that is deemed to provide better outcomes:

Income drawdown	Allows greater flexibility in accessing funds later in life (e.g. to meet care needs)
Guaranteed annuity	Greater certainty of income over whole lifetime (similar to a DB pension)
Option to take lump sums	May suit large one-off cash needs (e.g. paying off debts)

Employer oversight is key to ensuring that the available solutions align with their employees' needs and characteristics:

Identify employee needs → **What does your provider offer?** → **Do these solutions meet your employees' needs?**

Find out more

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