

+ DC update

Welcome to LCP's latest quarterly DC update, in which you will find our views on key developments in the DC arena over the last three months, together with any actions and issues heading your way.

August 2025



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Mansion House – a damp squib

Chancellor sets out reforms to the financial services sector in her Mansion House speech

In her speech on 15 July, the Chancellor pledged informed risk-taking, less red tape, pushed for more public market investment and more support for foreign firms. But there was no announcement on the second phase of the pensions review covering pension income adequacy, which had been expected. You can read more about it [here](#). Highlights included:

Retail investment reforms

The Government wants to encourage savers to move away from low-return cash holdings and make better use of investment markets to grow their wealth.

Targeted support

From April 2026, the FCA will introduce a new "targeted support" regime, allowing firms to highlight specific investment opportunities to customers, continuing the theme of encouraging a shift from cash into potentially higher-return assets.

Risk & ISA reform

Risk warnings on investment products will be reviewed to ensure they are helpful and proportionate. Long Term Asset Funds will be allowed in Stocks & Shares ISAs from 2026 to improve access to long-term investments.

The question is: [will it deliver](#)? We shall know soon enough.

Pension Schemes Bill – the next ‘big thing’

Pension Schemes Bill – highlights

In direct contrast to the Masion House announcement, after its [first](#) and [second](#) reading, the Pension Schemes Bill is proving to be considerably more significant.

Key points impacting DC schemes:

- DC scale and asset allocation: the £25bn minimum fund target for 2030 remains in place for DC multi-employer schemes operating in the auto-enrolment market.
- There is also an easement until 2025 for providers with over £10bn in assets, but with a credible plan for achieving scale, to have until 2035 to do so.
- DC value for money: a 'not delivering' rating will start a process that could result in the scheme being transferred to a better one. An 'intermediate' rating also starts an 'improvement plan'.
- The contentious scope for potential Government influence over asset allocation in main default arrangements, a proposal unbeloved by the Governor of the Bank of England, remains in place – read more about this [here](#).

If your provider's scheme has less than £10bn in funds under management, a review of its strategic plans to achieve the requisite scale would be a sensible precaution.

Regulator calls on DC trustees to take steps now to prepare for the Pension Schemes Bill

TPR has urged DC trustees to start preparing now for the sweeping changes contained in the Pension Schemes Bill, given the extent to which it will fundamentally reshape the DC market.

With three to five years' worth of reform imminent, it has called on trustees to:

- Tighten investment governance;
- Assess long-term sustainability and value;
- Explore consolidation where needed; and
- Suggest early discussions on designing decumulation solutions.

Specifically, the Bill's new powers around DC scale, value for money and consolidation are echoed in TPR's push for trustees to evaluate their schemes' sustainability and to ensure better member outcomes.



Market volatility - the beginning of the end?

Recent market volatility - what trustees should do

Recent trade and geopolitical tensions generated by President Trump's trade tariffs continue to drive market volatility. Concerns around inflation, interest rate movements and global growth are contributing to a dynamic and unpredictable investment environment.

TPR has issued guidance on best practice with advice on how trustees can improve their member communications, investment and risk management, and strategic oversight. Read more about this [here](#).

SPP look at the impact of tariffs on pensions

'Individuals saving into a DC scheme will be the most impacted by Trump's tariff turmoil'

Whilst those in DB schemes or relying solely on the state pension are mostly unaffected by volatile equity markets and bond yields, some DC savers may be facing significant reductions in their retirement income.

While UK portfolios weathered the tariff impact with minimal equity dips, market volatility still affects fund values and member outcomes.

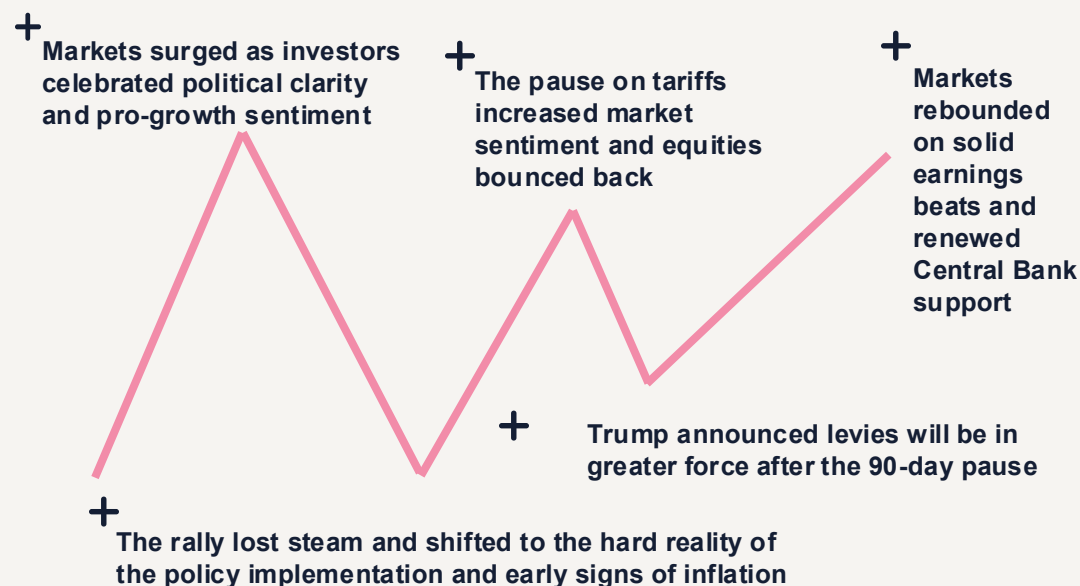
Although many pre-retirees have low equity exposure, inflationary pressures could erode real returns and raise the costs for retirees. Trustees and scheme sponsors should review equity allocations, especially in sectors exposed to global supply chains.

Read more about this [here](#).

How have equity markets reacted?

Equity markets initially responded calmly to President Trump's tariff announcements, with initial dips quickly reversing as major indices like the S&P 500 and Nasdaq returned to near-record levels. Investors appear to be treating the tariffs as political posturing rather than immediate economic threats, focusing instead on strong corporate earnings, which have broadly exceeded expectations. Similar sentiments were in evidence at the beginning of August when US markets dropped significantly but have since rebounded.

However, underlying tensions remain, with inflationary pressure beginning to build and smaller, domestically exposed companies showing signs of strain. For now, markets remain steady, but longer-term risks from rising costs and slowing consumer demand are starting to take shape.



Pensions Commission – here we go again...

Tomorrow's pensioners currently on track to be poorer than today's

Nearly 20 years since the original Turner Commission concluded that private pension provision was in decline, the terms of reference for the recently-announced Pensions Commission once again recognise as much, having identified that “*private pension income for individuals retiring in 2050 could be 8% lower than those retiring in 2025*”.

The Commission has been asked to consider the long-term future of the pensions system including:

- Outcomes and risks for future pensioner cohorts through to 2050 and beyond;
- How to improve retirement outcomes, especially for those on the lowest incomes and at the greatest risk of poverty from under saving;
- The role of private pension provision and wider savings, building on the foundation of the State Pension, in delivery financial security in retirement;
- The long-term challenges of supporting an ageing population; and
- Proposals that build on the measures in the Pension Schemes Bill.

The DWP now estimate that number of people not saving enough for their retirement has increased from 12.5 to 14.6 million, largely because of the shift from DB to DC. This, coupled with lower savings rates, greater personal risk, higher living costs and weaker safety nets, compared to those who benefited from generous DB pensions in the past, means that future pensioners are on track to being poorer on average than today's pensioners.

And the release of the latest Pensions UK Living Standards, details on which can be found [here](#), puts this in stark context.

The Commission's final report is due in 2027.

The reality of the issue facing the Commission

Although it seems that pension contributions will have to increase, the Government is currently ruling out any increase in minimum auto-enrolment (AE) contribution rates in this Parliament.

Alongside the main announcement, the DWP has [published reports](#) providing insight into the scale of the issues facing the Commission:

- + [Analysis of Future Pension Incomes 2025](#) – 43% of working-age people are under-saving for retirement.
- + [Gender Pensions Gap](#) – there is a 48% gap in private pension wealth between men and women.
- + [Analysis of Auto-Enrolment Saving Levels](#) – average contribution rates as a percentage of total pay for those saving are lower in 2023 compared to the level before AE was introduced in 2012. This reflects how AE has brought in new members saving at lower rates.

Steve Webb of LCP has provided [his own insight](#) on the Commission and the scale of its problem.

According to Steve, as key policy levers such as the ‘triple lock’ and pensions taxation were not in the review, it will be hard to map out a blueprint for the future of pensions.

He describes the members of the Commission as having “one hand tied behind their back”.

Essentially, the Government are keeping the main issues they need to deal with out of their review, making it hard to understand why the number of people under-saving has increase by two million in two years.

Government policy and guidance developments

FCA sets out its rules on targeted support



The FCA is concerned that decisions people make regarding pensions and investments are sub-optimal, amplified by changes such as the shift from DB to DC and the impact of inflation.

To address the low take-up of advice (only 9% received regulated advice by May 2024), the Government will consult on a new targeted support (“TS”) service, which was first flagged in the Mansion House speech. Firms would offer free, non-personalised guidance to similar consumer groups, funded through cross-subsidisation.

Limitations / exclusions

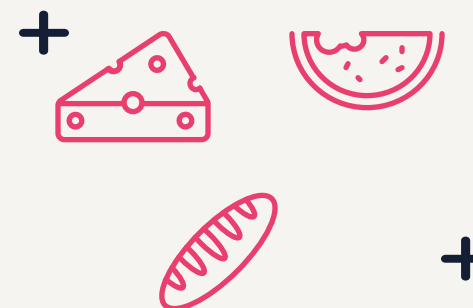
- Other products such as mortgages are deemed to be too far beyond this scope.
- Recommendations on giving up safeguarded pension benefits.
- Recommending certain annuities and products for consolidation, for example DC pots – TS is based on limited information.

Likely use cases

- Suggesting an alternative pension contribution rate for those under-saving.
- Advising on tax-efficient pension access options for near retirees.
- Recommending types of investment products to consumers ready to invest and suggesting alternative products, based on group characteristics.

The FCA expects firms to design support aligned with Customer Duty standards but stresses no obligation to offer the service. Trustees may also play a role, and support in the context of guided retirement is also being considered.

We expect TS to be mainly offered by pension providers and Master Trusts, although single-employers trusts can explore TS options for their members.



New Inheritance Tax twist for death benefits

Inheritance Tax reforms and how they impact pension benefits

If someone dies after 6 April 2027, their unused pension funds and death benefits will now be drawn within the scope of IHT.

However, there are two key exclusions:

- Lump-sum death in service benefits from registered pension schemes will **now be excluded** from IHT scope, as well as those paid on a non-discretionary basis.
- Dependants' scheme pensions and survivor elements of join-life annuities will also remain out of scope. However, we believe that HMRC has not clarified whether the survivor annuity needs to be purchased prior to death to be excluded.

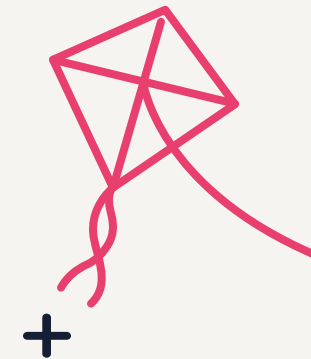
Originally, pension scheme administrators were liable for reporting and paying IHT. Personal Representatives will now assume this role, many of whom are not experts in financial matters, particularly in the numerous cases a year where HMRC expects IHT is due on pension benefits where none is payable.

IHT must be paid within six months of the end of the month in which death occurred, or late payment interest applies – schemes may be pushed to accelerate benefits processes much faster than currently practices allow.

There are also new 'Scheme Pays' options, depending on the size of the IHT payment.

Why does this matter?

- Tax implications: bringing pension funds into the scope of IHT removes a long-standing planning advantage – unused DC balances used to pass on tax-free.
- Even annuities remain exempt but most lump sums and unspent pots now count towards an estate's value.
- IHT revenue is estimated to increase government forecasts, potentially raising £1.46bn by 2029/30, rising to £3bn+ annually in later years.



LCP Insight

#PensionsTrending – TikTok spreading misinformation (who knew..?)

TikTok is the most popular youth social media app, but 49% of users are encountering misleading or fake news, which includes headlines that pensions are a “terrible investment”: this threatens to undermine many member engagement strategies.

If your scheme’s primary communication media are still presentations and hard copy newsletter, it is time to review your strategy and use different communication methodologies to reach your members, using different content that reflects your scheme’s demographic.

Read LCP’s Head Of Communications David Millar’s insights [here](#).

AI in pension scams

With the growing functionality of AI, pension scheme members are ever more susceptible to suffering at the hands of [pension scammers](#).

Identity scams using AI are also on the rise, with fraudsters using it to take over member accounts. **Members should stay alert to this growing threat, as should trustees and corporate sponsors.**

Typically, scams tend to be poorly composed, making it more obvious that the sender is not legitimate. However, with AI, scammers can make their scam more elaborate by using simple prompts.

Interestingly, AI is now being used to counter this trend – both TPR and the Pension Scams Action Group are using machine learning to detect fraudulent websites and protect members.

It’s all in the data

The increasing number of scams and misinformation on social media makes it even more imperative that members of DC schemes have confidence that their data is being handled and stored securely.

All of which makes PASA’s latest [published guidance for trustees and providers](#) to help protect member data very timely.

Commenting on the release of this helpful guidance, PASA chair and LCP Partner David Fairs said:

"The guidance is designed to help schemes be confident in their controls, knowing they are doing the right things, proportionately and proactively. It supports PASA's mission to raise practical standards, and we urge all trustees, administrators and service providers to use it as a foundation for better, safer data practices."



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Any questions?

If you would like any assistance or further information on the contents of this DC update, please contact the team below. We would also like to thank our Summer interns Vivek Kanani and Marycielo Rest for their valuable input to this edition of our DC Update and wish them well.



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