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 2026

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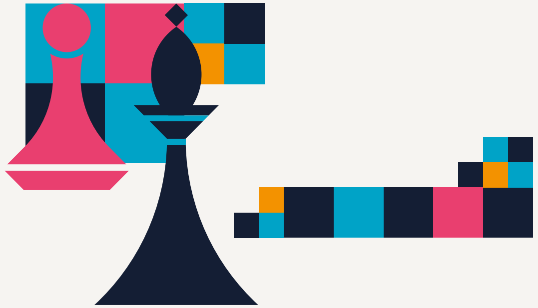


The World Cup may be over, but in the pensions arena the post-tournament lull has proved as elusive as harmony between FIFA and UEFA.

- The Regulator has been keeping a watchful eye on schemes' readiness for deadlines that then moved, a bit like insisting everyone is match-ready before moving kick-off.
- Master Trusts are being told to get bigger, then billed extra for the privilege.
- A 44-page report has landed on the desk of the Pensions Commission with an unwelcome question: what happens to "adequate" retirement income when half your outgoings are rent?
- The Prime Minister now has an adviser with strong opinions on where your members' funds should live.
- Elsewhere, you can find LCP's views on annuities, UK investment and guided retirement – all topics that sit at the heart of some of the most important debates currently facing the DC market.

The Government takes a hydration break

Agreement on sequencing – not on substance

Pensions minister Torsten Bell (who remains in post) published an updated Implementation Roadmap on 13 July, which re-sequenced several elements within the Pension Schemes Act 2026.

The Government's defence is that this is a capacity problem to align the timelines for Guided Retirement and Retirement-CDC (R-CDC), not cold feet. The reform programme still stands, just not based on the original anticipated timetable. Whether this distinction lands well with a member waiting on a Guided Retirement default that will now arrive two years later is, politely, a separate question – ask them again in 2029.

- VFM still launches as part of a phased roll-out in 2028; full assessments will be limited at first to larger schemes (Master Trusts, GPPs and single employer trusts with 50,000+ members in a default). Other schemes need only submit data at outset (initially unpublished), and the “automatic consequences” for under-performers – the bit with actual teeth – are suspended for the first year. By 2029, **all in-scope schemes will be required to complete full disclosure, assessment and rating**.
- The introduction of Guided Retirement has been pushed back and is now timed to land alongside R-CDC, rather than ahead of it. Supporting regulations / rules are expected in 2028: Master Trusts and GPPs must comply by 2029 and single-employer trusts by 2030.
- Contractual override – the power letting providers move members out of poor-value contract-based arrangements – is still scheduled for March 2028, with small pots consolidation expected from April 2030.

> *“We welcome the decision to revise the delivery approach for the new Value for Money framework. It is important to strike the right balance between making timely progress and ensuring the framework is sufficiently developed to avoid unintended consequences across the DC pensions market.”*
>
> **Helen Shackelford, LCP Partner**

The Government takes a hydration break (contd.)

Why the delay is being sold as sensible

The Minister defended the revised timetable without much apology, framing it as a matter of delivery capacity rather than lost enthusiasm. Even if the original dates have moved, he has insisted that everything remains on track, given that VFM has already been the subject of detailed analysis for the best part of a decade.

The DWP's own supporting data makes an oblique case for patience: a sample of large schemes shows annualised five-year returns for younger savers ranging from 5% to 13%. This is a spread wide enough that VFM may have real dispersion on which to bite, once it is running at full strength.

LCP's take

LCP Partner Lydia Fearn called the coordination sensible in principle, while declining to let the Government off the hook lightly with this trade-off. Some members will now have to wait longer for default retirement support purely because the timetable has decreed so, not because their circumstances have changed.

Her framing is worth pinning above the desk: the test for this roadmap will be whether playing extra time generates *"better implementation, not simply slower progress."*

In the meantime, schemes should not rest on their laurels and would be well-advised to conduct pre-season training in 2028, to the extent possible, given that there will be no extra time awarded in 2029. TPR has already been contacting schemes to assess their readiness for the Act, specifically warning smaller schemes that they might not meet the new requirements in time.

As there has been a 15% fall in schemes with fewer than 5,000 members in the last year, the message to trustees and scheme sponsors is clear: **know where your scheme stands now.**

Before we crown the champions …

The evidence so far – why league position and value are not always the same thing.

TPR's emerging evidence review somewhat spoils the consolidation / scale lobby's recent commentary.

The report finds that whilst Master Trusts tend to undercut single-employer trusts on charges, they are also running lighter on UK equity and private-market allocations at smaller scale, which is precisely the exposure that scale is supposed to unlock in the first place.

For now, TPR has discovered that a scheme can win on cost and still lose on investment sophistication, which means scale and value are two different teams, despite siren voices trying to sell them as holding midfield.

This conclusion appears to have subverted the current assumption on which most of the consolidation debate has been built. If charges are already competitive at modest scale, then the case for forcing further consolidation must rest entirely on investment capability. This is a much harder thing to regulate for than a headline charge, and much easier for a smaller-scale scheme to claim it already has.

The scale lobby's own numbers make the same point, but differently

Standard Life and WPI Economics' June report, has suggested that an early-career saver's fund could be up to £49,000 better off (a 17% uplift) under a consolidated, private-markets-heavy scheme, rising to £80,000 under favourable conditions, with even a 45-year-old mid-career saver potentially £17,000 ahead.

However, the report does not use the regulatory £25bn as its definition of meaningful scale. Its own 'megafund' threshold is £50bn – double the legal minimum – which suggests that a report making the most enthusiastic case for consolidation concedes that £25bn is a compliance floor, not the point at which scale starts to change outcomes.

Let us leave the post-match analysis to LCP Partner Sam Cobley:

"Overall, the analysis shows that whilst there could indeed be benefits to members of moving from smaller schemes to a large Master Trust, there are also plenty of members who are getting a great outcome by being part of a well-run single employer trust, especially where the employer is meeting the costs of running the scheme.

It is already clear that there is not a 'one-size-fits-all' right answer to what is best in any workplace or for any group of workers, and that scale is not a panacea for good outcomes in DC."

So, before we crown the champions, some of the trophy-winning performances may be coming from a different league altogether.

VAR check on scale

DWP's new discussion paper

In an 8-week, discussion paper that runs until 7 September 2026, the DWP has asked the question that everyone has been dancing round, rather than the political one: how do you measure a £25bn scheme, and stop it being gamed?

The mechanism on the table is a “Main Scale Default Arrangement”, paired with a “common investment strategy” requirement and a common-control test for schemes judged to be “connected”. In plain terms, an anti-fragmentation rule so that a provider cannot reach £25bn on paper by stapling together several smaller, differently-invested arrangements and hope nobody notices.

The Government's preferred model allocates every member's assets in the same proportions, varying only by age. Schemes that use Lifestyling and target-date approaches should pass this test comfortably.

Bespoke strategies - the kind that some trustees and governance bodies specifically pay extra for - that deliver demonstrably better outcomes, should survive. Those that merely reflect historic design choices may face tougher challenges defending them under the new regime.

“How scale is delivered matters. It cannot be fragmented in multiple arrangements.”

Torsten Bell, Pensions Minister

The bill for getting bigger: general levy to rise fastest for Master Trusts

And here's the rub: just as Master Trusts are being told that scale is the answer, the DWP has proposed to make scale more expensive to run.

Its consultation (which closes on 8 September 2026) proposes bringing the DC general levy into line with DB and hybrid schemes, while extending the levy recovery period by three years. The DWP says that the current flat 6.5% annual increase simply is not keeping pace with the rising cost of running the pensions system.

It does feel ironic that just as the entire current regulatory push is towards fewer, larger schemes delivering lower costs and potentially better outcomes, the schemes doing the actual consolidating are the ones about to be handed the steepest invoice for their trouble.

Bigger is apparently better. It is not, apparently, cheaper to referee. It will be interesting to see if this manifests itself in higher member charges.

“Government will need to demonstrate why these schemes should face the fastest increases and ensure that higher regulatory costs do not ultimately reduce value for pension savers”

Calum Cooper, President, Society of Pension Professionals

Auto-enrolment: still in training

The scale of under-saving

Recent reports continue to highlight the challenges associated with long-term retirement provision. The Pensions Commission's interim report has found that 43% of working-age adults (around 15 million people) are under-saving, rising to 46% for Generation X. And the latest Retirement Living Standards now define “moderate” retirement at £32,700 pa for one person: only 23% of workers are currently on track to reach it.

The latest IFS report also contains some interesting nuggets: although contribution rates are somewhat more equal across age and sex since AE was introduced, substantial differences by employer size, sector and level of earnings remain. The IFS models and compares the effects of four approaches to increasing minimum contributions. It does not recommend a preferred option but concludes (unsurprisingly!) that increasing minimum contribution rates would materially improve retirement adequacy, but would inevitably reduce employees' take-home pay, increase employer costs and that the impact would be uneven across the economy.

Where reform could help – and where structurally it cannot

At least PPI’s latest modelling delivers something other than a one-size answer: scrapping the earnings trigger and Lower Earnings Limit does the most for lower earners, while pushing the contribution rate to 12% has the bigger effect for anyone already earning above £18,700. Doing both costs real money; doing neither leaves the gap exactly where the last three reports found it.

Either way, the structurally-excluded remain on the bench, regardless. The self-employed have no AE mechanism at all. Multiple job-holders fare little better, as they are assessed on a job-by-job basis against the earnings trigger, rather than on combined earnings, so someone juggling two part-time roles that, together, clear the threshold, can still fall through the gap.

43%

of working-age adults are undersaving
for retirement – around 15 million people

vs

23%

of workers are on track for a moderate retirement (£32,700/year)

Source: BBC and The Pensions Commission

Never the twain: the high press for income

From freedoms to defaults

Kipling had East and West; until 2015, DC had drawdown or annuity, which most assumed would never meet. Since 2015, flexible retirement options have continued to comprise a member-led medley of largely unstructured cash, drawdown, annuity, or whatever inertia dictated.

With the advent of default income pathways and trustee-designed guided retirement, whilst the current pension freedoms still survive for those who want to make their own decisions, Government policy now points inexorably towards schemes needing to focus their attention on providing members with **income rather than cash as a default**. This starts to address the real risk that some DC retirees could run out of money in a way a DB retiree will not.

The thrust of the 'Guided Retirement' legislation is to ensure that members should not be required to make complex decisions when they retire, only being required to decide when to access their pension pots, and whether to use a default solution or an alternative. Above all, schemes must be able to offer default solutions that protect against longevity risk and generate an income that must last the whole of retirement.

This is why CDC keeps dominating the conversation, regardless of how niche it currently remains in practice. Schemes will need to offer a good, default-driven answer to the question "what happens to my pot?". CDC appears to be the front-runner (multi-employer schemes are now open for authorisation), but as our readers will know from previous DC Updates, CDC is not without its challenges in terms of how it is communicated and the possibility of future income reduction, depending on scheme experience.

Annuities still on the subs bench?

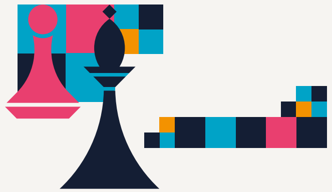
Given the relative complexities of CDC, it is tempting to ask if annuities now deserve a more prominent place at the table, particularly with gilt yields currently offering much better value than of late.

Annuity sales are already starting to climb*, helped by the impending IHT rules arriving in 2027, and by a renewed enthusiasm for guaranteed income after a decade of drawdown-by-default. The psychological value of a regular guaranteed income in an uncertain world cannot be over-estimated. The challenge for annuities as a product has been their relative lack of flexibility, particularly as income patterns in retirement are likely to change over time.

To address this, one type of contract may be worth re-visiting; **the temporary, or fixed-term, annuity**. Rather than committing to a lifetime income, the member buys an income for (say) 3, 5 or 10 years and then reassesses their position at the end of the term, which keeps their options open. These products can also offer a guaranteed maturity at the end of the term, which addresses one of the traditional objections to annuity purchase. In keeping with this quarter's theme, think of them as 'extra time before penalties', offering a secure income today without committing to a final retirement strategy.

The biggest challenge annuities face is that they are FCA-regulated products which require the member to take an active decision at the point of retirement, which needs considerably more effort and resource to implement.

(*source: ABI: Feb 2026)



Home advantage: the UK investment debate returns

Andy Haldane, associated with the British Chamber of Commerce (BCC) and the Bank of England's former chief economist, is now reported to be advising on the Prime Minister’s policy programme, alongside others.

Speaking at the BCC's annual conference on 25 June 2026, Haldane posited that the more than £50bn spent annually on pension tax relief (plus a further £10bn on ISAs) is a “ready-made” and largely fiscal-free lever that the UK is not using. Rather than mandate where pension money goes (bearing in mind the latent provisions within the Pension Schemes Act 2026), make tax relief conditional on UK investment, which survey evidence from Pensions UK in 2025 supports.

He was explicit that this is a “third way” between leaving markets alone and forcing allocation: unlike Business Secretary Peter Kyle (see later), he does not support outright mandation of UK asset holdings.

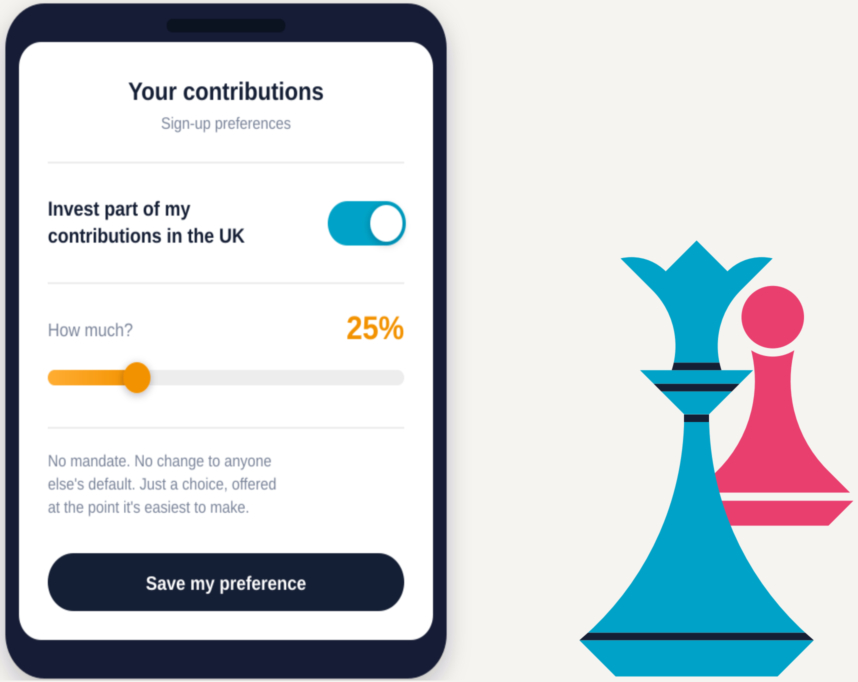
Pension assets held in UK shares have fallen from over half in 2000 to under 5% today, which Haldane frames as roughly £2.5 trillion of cumulative divestment from British markets. In contrast, pension funds in Europe, Canada, Australia and Japan typically hold 20–40% of assets domestically.

The inference is that the UK is the only mature pension system in the world currently playing every match away from home. But maybe that is because, to date, global and US equities have delivered stronger returns, not because UK schemes stopped caring about Britain. Any policy that nudges savers back toward home bias is, at least for now, one that may cost them in returns – which is the tension that Haldane's “third way” is trying to finesse, rather than resolve.

It's all kicking off…

Haldane’s relatively nuanced approach contrasted with that proffered by Business Secretary Peter Kyle, who sparked a backlash in July after saying that pension fund managers should “Get off their high horses” and invest in the UK or be forced to do so by law.

LCP Partner Steve Webb branded these comments as “..outrageous and ignorant. Asset managers are managing other people’s money. They should not switch investments because they have been ‘told off’ by a minister.”



Keeping possession: AI, advice, and member trust

Where this is heading

Following the points made in our May DC Update which covered ‘finfluencers’ shaping member behaviour outside any regulated channel, TPR has outlined its first expectations covering AI in pensions.

Personalised member communications and guidance are fair game, but governance, testing and fraud-monitoring expectations accompany them. Trustees remain liable for member outcomes, regardless of how sophisticated this technology becomes. The Regulator is unlikely to accept automated decision-making as an adequate explanation for poor oversight, let alone a defence.

Why it matters now

As members increasingly take their financial cues from sources that no scheme controls, AI-driven guidance is fast becoming the same assistant coach, only now wearing a headset. Whether it is TikTok or a chatbot, having a **trusted, regularly-updated source of your own matters more, not less.**

We will be returning to this topic again, once TPR's expectations have had time to firm up in practice and the first wave of AI-driven member tools reaches the market.

Same question, three sources – who's actually accountable?

	Finfluencer	Generic AI	Your Scheme
Reaches people on social media	Yes	Depends	No
Knows your actual pot and numbers	No	Depends	Yes
Accountable to a regulator	No	No	Yes
Tested for fraud and bias	No	Depends	Yes

Yes Depends No

LCP Insights

The referee has played (ad)Vantage

Mindful of the importance of continued scheme oversight on p10, we are setting aside our usual reticence to talk about ourselves to mention a governance solution we have developed, aimed at those who have outsourced their pension provision, using a Master Trust or Group Personal Pension.

With DC assets forecast to overtake the value of DB assets before the end of this decade, scheme sponsors need a straightforward way to get value for money from their schemes and manage the risk that comes with it.

Providers' governance MI has improved markedly over the years, but the quality of data supplied often lacks sufficient insight and, most importantly, **comparative, independent, measurable information.**

LCP Vantage is our governance service that now includes a new tool powered by our proprietary research. This online analytics tool enables governance committees to see their scheme's position relative to the broader workplace pensions universe. Ask your consultant for a demonstration.

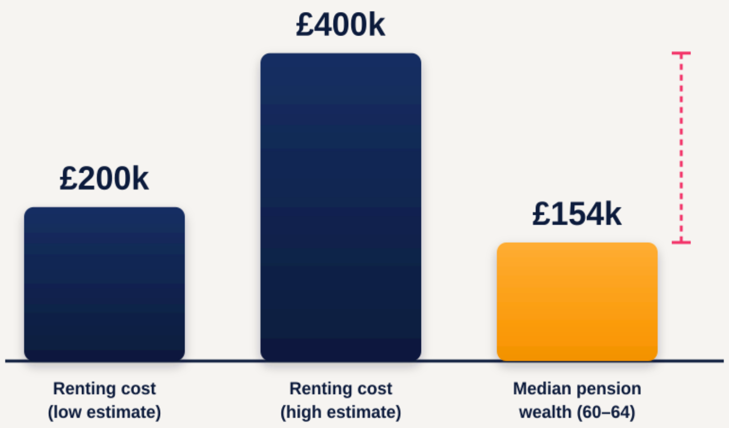
Home truths: the hidden adequacy gap

If the scale of the issue flagged on p7 is true, the PPI's latest report on pensions adequacy provides further evidence of the scale of the challenge the industry faces.

Almost 2 million more pensioner households are projected to be renting by 2044, concentrated most intensely among lower-income couples who face both the highest housing costs and the weakest capacity to save around them.

Renting a two-bed home through retirement runs to £200,000–£400,000 (depending on region), compared with private pension wealth of around £154,000 at age 60–64, and just £105,000 for women. Every current adequacy benchmark has been built on an assumption – outright home ownership by retirement – that is likely to be untrue for a growing number of savers.

The retirement housing gap



Even at the low estimate, renting through retirement costs more than median pension wealth – women (£105k) face a wider gap still.

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Any questions?

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