

+ 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 four months, together with any actions and issues heading your way.

December 2025



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Mind the cap: salary sacrifice now has a new limit

The NIC advantages of using pensions salary sacrifice are to be capped – but not until April 2029

On a tumultuous day, overshadowed by the unexpected early release of the Office for Budget Responsibility's (OBR) report after months of speculation, on 26 November the Chancellor delivered her second Budget to the House of Commons. You can read our reaction [here](#).

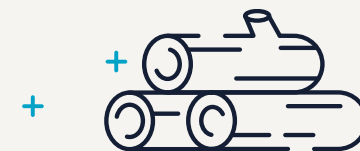
The biggest impact of the Budget on DC schemes was the Chancellor's [announcement](#) that the NIC advantages associated with salary sacrifice will be capped so that only the first £2,000 pa of salary that is sacrificed will generate NIC relief (both for the employer and the employee).

LCP Partner Alasdair Mayes, [anticipates](#) this will hit both employer budgets and employee take home pay (see p2).

Our short on-demand webinar also breaks down the latest announcements to help you navigate what's next.

[Reactions to the Autumn Budget 2025](#)

The Autumn Budget and its impact on salary sacrifice



Key points

The new £2,000 cap effective from April 2029 is the policy change that is likely to have the most immediate impact on DC scheme sponsors and members.

- Employer NICs at 15% will apply on any portion of salary-sacrificed pension contributions above £2,000 (these rates depend on the employee's NI category).
- For employees, pension contributions over the £2,000 level will attract employee NI at 8% (for earnings up to £50,270) and 2% on earnings above that.

As an illustration, someone earning £45,000 saving 5% of their salary will pay £20 more in NICs each year, and their employer £37.50 more.

The key point is that there will not be a cap on total salary sacrifice, but a £2,000 pa cap on the pension contributions that are exempt from NICs. Employees who choose to sacrifice salary to receive Tax Free Childcare or Child Benefit can keep doing so.

Employees will also still receive full tax relief up to their annual allowance and can continue to make contributions through a salary sacrifice arrangement.



What you should do about it

Employers need to start planning for the potential impact of this change, including:

- **Benefit redesign:** existing salary (and bonus) sacrifice policies and pension contribution structures may need to be reviewed to assess if they remain fit for purpose, given the potential cost increase. Some may want to consider alternative contribution structures, or potentially close current salary sacrifice arrangements altogether if the administrative cost of applying the cap outweighs the benefits.
- **Administrative readiness:** payroll and benefits systems will need to be able to track the £2,000 limit and apply the correct NIC treatment to contributions above the cap, whilst avoiding errors, so early discussions with payroll providers would be prudent (see p5).
- You will need to identify which employees will be most affected and consider whether **targeted guidance or support** may be helpful.
- **Communication planning:** clear employee communications will be essential to explain how the new rules may affect take-home pay. Existing guides / newsletters and websites should also be updated.

Our latest analysis of the impact on both take-home pay for employees and the additional costs for employers can be found [here](#).

Your LCP client team will be able to help with any queries.

“Who’s on first, What’s on second, I Don’t Know is on third”: making sense of retirement pathways, guided duties and CDC

Parallels between the Pensions Bill (see our [August DC Update](#)) and Abbott & Costello’s classic 1930s baseball sketch may not be immediately analogous, but Trustee Boards, Governance Groups and providers trying to understand and accommodate the latest retirement initiatives emanating from this legislation may be tempted to revisit it for solace.

First to the plate

By 2027, ‘Guided Retirement’ becomes a formal obligation for schemes, which must offer mandatory **default decumulation pathways**. These are designed to provide clear, pre-set routes for converting accumulated DC pots into retirement income for the many members who don’t make an active retirement choice.

Latest FCA data suggests that c70% of members accessed their DC accounts without the benefit of financial advice, so the need for greater support in this important area is self-evident. There has already been a distinct spike in drawdown activity, with a notable increase in withdrawals from larger DC pots (typically over £250k).

As LCP Partner Sir Steve Webb noted, too many savers are making “**snap decisions after a lifetime of saving**”, driven by speculation rather than strategy. HMRC’s confirmation that tax-free lump sums cannot be repaid has reinforced how easily DC freedoms can become permanent missteps. Behavioural risk has become as material to DC outcomes as investment risk, so the need for structured, timely intervention is now pressing.

What’s on second base?

It’s still not clear: the Bill stipulates that the pathway offered (i.e. drawdown / annuity / hybrid) should be designed around a scheme’s membership profile. However, the FCA, DWP, and TPR are still defining the boundaries between guidance vs advice and how ‘targeted support’ will operate alongside Guided Retirement.

On third base...

There is at least the prospect of a home run with further developments in the **CDC market**. Legislation to permit CDC provision by unconnected multi-employer schemes and an updated Code of Practice from TPR should come into force on 31 July 2026. These regulations will cater for ‘whole-life’ CDC provision, covering both accumulation and decumulation. In the retirement arena, CDC appears to offer the prospect of steady (and potentially higher) retirement income streams – time will tell.

For a balanced view on how CDC may re-shape the market, our latest analysis can be found [here](#).

“Who’s on first, What’s on second, I Don’t Know is on third”: making sense of retirement pathways, guided duties and CDC (cont’d)

Our view from the dugout

All this uncertainty will create a need for **new communications, data analytics, and governance frameworks** to deliver personalised nudges and maintain compliance with the new VFM regulations, without crossing into regulated advice. The impending decision by MaPS to withdraw its Retirement Adviser Directory on 17 December is particularly unhelpful in this context (see ‘LCP Insights’ on p10).

Schemes now face a perfect storm of regulatory complexity, behavioural hurdles and investment redesign. Few currently hold the depth of data required to reflect members’ full financial context, meaning collaboration will become essential. TPR’s latest survey found that while every Master Trust now provides in-scheme decumulation options, only around a quarter of smaller schemes do so, and fewer than one in three are even aware of the forthcoming legal duty. This gap between policy intent and operational capacity signals the **next major test of DC governance**.

We think that many schemes will be unlikely to deliver the proposed decumulation designs in isolation and will need to partner with Master Trusts or providers offering 'to-and-through' models that blend data-led nudges with guided income pathways / CDC. The emphasis going forward is going to be defined by sustainable income, not pot size.

The home plate still appears to be out of range, because the Government is still throwing curveballs.

From nest egg to scrambled: HMRC's IHT recipe for revenue



From exemption to exposure

In our last DC Update, we flagged the impending Inheritance Tax (IHT) reforms with effect from April 2027 that will extend IHT liability to uncrystallised and drawdown funds left on death.

Whilst the shift in reporting and payment duty from schemes to personal representatives has been welcomed as a pragmatic shift following industry concerns that administrators could not lawfully handle members' estate taxation, there are still issues to iron out. Personal representatives now facing the unenviable position of paying IHT on assets they don't control **(the Budget delivered an easement for personal representatives, but this will mean additional complications for schemes)**.

Many expect Trustees and providers to face surges in data requests as executors seek valuations and tax confirmations.

There are also concerns that financial dependants, especially unmarried partners, could lose protection if exemptions remain narrowly drawn. For administrators, the absence of integrated digital reporting channels could make compliance a major cost burden.

Our latest views can be found [here](#).

Strategic implications

This proposed policy shift changes the narrative around pensions at death. What were once inheritance-efficient vehicles may now generate significant estate complexity.

Communication and member guidance will need to evolve quickly, particularly for higher-balance savers who have treated drawdown as inter-generational wealth planning.

The IHT reforms signal a recalibration, with pensions again being defined by their retirement purpose, not their role in estate transfer.

Key actions you should take

- Scheme documentation should be reviewed for references to discretionary death benefits.
- Communications should be updated: members need to know what is planned; education on estate planning will be essential.
- Schemes will need to start putting mechanisms in place to help settle IHT bills, so you should check that processes and governance are ready.
- Data-sharing protocols with administrators and providers should be reviewed.
- Your scheme's beneficiary nomination processes need to be reviewed.

Avoiding auto-enrolment and payroll potholes: how to stay on solid ground

Auto-enrolment (AE) has been in place for several years, but our experience suggests that the finer details of the regulations continue to catch employers out, particularly in the context of wider payroll processes.

Although your payroll processes should be well embedded, many employers continue to experience issues when reviewing these in relation to their pension schemes (whether that is in connection with AE or how salary sacrifice is operated).

This is often due to the complex and detailed nature of the regulations.

Periodic reviews can help ensure your payroll systems and processes are compliant and aligned with current best practice. It is also an important part of good pension governance, as the impact on scheme members can be profound and could lead to calls for compensation.

Proceed to the highlighted route

This [Payroll and benefits support flyer](#) explains how our team can help you:

- Review your payroll processes to identify any gaps or risks;
- Confirm compliance with your AE and pension contribution duties; and
- Prepare for potential legislative or procedural changes ahead.

Your goal should be to stay compliant, efficient and reduce / mitigate reputational risk.

Mining the numbers

TPR's latest Compliance and Enforcement Bulletin shows that **payroll and data failures** remain the main drivers of intervention.

In the six months to December 2024, TPR closed over 52,000 automatic enrolment cases and issued more than 79,000 statutory notices, including:

- 31,740 compliance notices;
- 21,504 fixed penalty notices; and
- 7,608 escalating penalty notices, with fines reaching more than £87,000.

Cumulatively, more than one million enforcement actions have been taken since the start of AE in 2012.

This data highlights that most breaches stem from process errors, contribution delays and incorrect payroll operation, not deliberate avoidance.

Yet **these still attract fines and remediation costs**, reinforcing the case for tighter governance, reconciliation and system oversight.



AI spy with my little eye – digital DC’s next big test

One year to go

By Halloween 2026, every pension scheme within scope must be connected to the Pensions Dashboards ecosystem.

In his latest update, Pensions Dashboards Programme Principal Chris Curry has urged schemes to “make this final year count”, warning against complacency as the final connection deadline approaches.

Dashboards will give millions of savers a single view of their pension wealth for the first time, but this transparency also exposes new operational and behavioural risks. As schemes scale their data integrations, **cyber-readiness has become as critical** as technical connectivity.

Guardrails and governance

The dashboards’ success will hinge not just on data connections but on the protective ecosystem surrounding them, which needs to be built on trusted advice, digital literacy and rigorous oversight.

FCA monitoring continues to expose unregulated ‘finfluencer’ content targeting new dashboard users, **this while fewer than half of employers have reviewed their pension schemes in the past year.**

As the industry races toward connection, one truth is clear: visibility without vigilance is vulnerability. In the digital DC world, data security is governance.

Securing the connection

The Pensions Administration Standards Association’s latest [Securing Tomorrow guide](#) warns that dashboard integration will intensify exposure to data theft and fraud.

It is calling for the encryption of all member data, strict role-based access, mandatory multi-factor authentication, and integration of cyber risk into trustees’ effective system of governance.

Complementing this, TPR’s new [industry alert](#) highlights an escalation in impersonation fraud, with a third of recent Action Fraud reports involving attempts to breach pension systems and £17.5 million lost in 2024 alone.

Members aged 50–69 are most at risk. TPR is urging trustees to deploy stronger verification controls, run member education campaigns and use trusted resources such as [Stop! Think Fraud](#). This is particularly true for any vulnerable members.

We know that cyber risk and the increasing use of AI remains our clients’ biggest worry. For further details on how we can help, see this: [5 steps to improving your pension scheme’s cyber security](#).



Climate progress or climate promises?

Master Trusts under LCP's microscope

UK Master Trusts are showing progress on climate change policy advocacy, but key gaps remain

In the wake of COP30 which focused global attention on the policies and intervention needed to deliver a net-zero future, **LCP has analysed sixteen of the UK's largest Master Trusts**, representing over £200 billion in assets, to assess their progress in this important area.

Our [findings](#) reveal a growing awareness of climate policy advocacy but also highlight key areas where further action is required. Co-author and LCP Partner, Nigel Dunn, said:

“Some of the biggest risks we face today, including climate change, are systemic. Policy makers around the world have gathered at COP30 to find a way forward to a net-zero global economy. Master Trusts need to play their part and are well placed to play a larger role in shaping the climate transition because of their natural influence across the market and their position as credible long-term stakeholders.”

You can read our report [here](#). Findings include:

- **Policy views:** few Master Trusts articulate clear publicly available views on climate policy.
- **Delegation:** many Master Trusts delegate policy advocacy to sponsoring companies: this can work well if trustees maintain active oversight and regular reporting. However, oversight quality varies: some boards review quarterly, while others have less visibility.
- **Resourcing:** larger Master Trusts or those backed by large parent organisations have greater access to sustainability specialists. Smaller or stand-alone trusts may struggle to dedicate sufficient expertise, though some compensate through strategic partnerships or targeted collaborations.



Physical climate risk – hotter, wetter, wilder for trustees?

What is physical climate risk?

Physical climate risk is the threat posed by climate change's direct impacts, such as floods, storms, heatwaves, and rising seas. These risks can damage infrastructure, disrupt supply chains, and affect economies and companies alike.

Why should you care about physical climate risk?

Slower than needed progress to address climate change means that these kinds of events are happening more frequently and with higher intensity.

This has led to physical climate risk – the direct and indirect impacts of asset destruction on portfolios – moving up investors' agendas.

Why now?

However, quantification remains difficult. Where companies have long or complex supply chains, data has been very difficult to obtain. But there has been **significant improvements in recent years**, and the growing risks have increased the urgency felt by data providers.

If that wasn't enough, TPR's General Code notes that **trustees should assess investment risks relating to climate change** and calls out specific physical risks.

That means there's plenty to get started on and ample incentive to do so.

Don't be left high and dry

Our interactive tool – '**LCP Adapt**' – helps investors to:

- See how their **members'** investments are exposed to physical risks, like floods, drought or extreme weather.
- Challenge their managers to ensure they are managing risks effectively; and
- Comply with TPR's expectations (for trustees).

Ask your DC consultant for a demonstration.



LCP Insight – company and other updates

Georgina Smith promoted to Partner

We're really pleased to announce that [Georgina Smith](#) has been promoted to Partner.

After graduating, Georgina gained valuable experience at Willis Towers Watson and other firms, including a period working in Australia, before joining LCP in 2019.

Her specialist areas include DC pensions and investment.



MaPS withdraws key retirement navigation tool

The Money and Pensions Service is withdrawing its Retirement Adviser Directory on 17 December.

We think is a backward step for schemes that currently point members in this direction, just at the point that members will need even more help in this area (see Sir Steve Webb's article [here](#)).

Hopefully, replacement sites can be signposted going forward.



Employee financial wellbeing: building brighter financial futures together

Reflecting on five years of insights

Over the past five years, we have gathered data and insights from over 50,000 UK employees and 2,000 employers. The granularity of this data has allowed us to understand how financial wellbeing has evolved - shaped by the pandemic, economic uncertainty and rising living costs. As a result, we have a deep understanding of what employees need, and where support can make the greatest difference.

Our latest [report](#) goes beyond statistics. It highlights lived experiences, identifies disparities, and offers practical guidance to help organisations build strategies that are proactive, human-centric, and fit for the future.

Whether you're just starting out or refining your approach, our findings are designed to help you ask questions, challenge assumptions, and empower your people at every stage of their financial journey.

Save the date!

DC and Financial Wellbeing Conference

Time: 11:45am

Date: Tuesday 28 April 2026

Location: 1 Wimpole Street, London, W1G 0AE

Register your interest [here](#)



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For further details, visit our [preference centre](#).

Any questions?

If you would like any assistance or further information on the contents of this DC update, please contact the team below.



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