

# + 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.

February 2026



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## 2026 is here

As highlighted by LCP Partner Stephen Budge in [reflections on 2025 and the year ahead](#), the DC market enters 2026 with a strong sense of direction. Regulation is beginning to translate into real-world consequences, with value for money, scale and income-driven member outcomes firmly at the centre of policy and supervisory focus.

Alongside this, continued consolidation and evolving expectations around investment strategy and post-retirement support means that many schemes will need to demonstrate much greater clarity about how they will deliver good outcomes in practice.

You can find further details on what 2026 might bring in [this recent review](#).



# Value for Money: now with added chlorophyll

On 8 January, the FCA published its latest consultation on the Value for Money (VFM) Framework, which finishes on 8th March. Developed in close coordination with TPR and DWP, it provides the clearest indication yet of how VFM will operate across both contract-based and trust-based schemes. These latest proposals move the Framework from high-level ambition towards something more concrete and operational.

Here are our initial thoughts.

## Design changes reflect industry feedback

We are encouraged that the consultation addresses several of our concerns, including the limitations of relying solely on backward-looking metrics (there is now a forward-looking element to the assessment of investment returns).

The original 'RAG' rating has been changed to use a 'RAGG' approach by introducing both "light green" and "dark green" ratings to provide greater opportunities to identify schemes with scope to improve from genuinely high performers.

The FCA also appears to have taken on board comments about the compliance burden, simplifying some of these requirements and delaying the introduction of most saver engagement metrics (including the customer satisfaction survey), pending further industry development.

A significant development is the shift away from limited peer comparisons towards assessment against a wider commercial comparator group. Under the latest proposals, schemes will submit data into a centralised database, increasing consistency and reducing discretion in how comparisons are drawn. While operational detail will continue to evolve, this marks a clear step towards more standardised benchmarking and increased transparency across the DC market.

## Consequences become harder to ignore

Taken together, these developments reinforce that VFM is not intended to be a passive reporting exercise. Where arrangements are assessed as offering poor value, **trustees and providers will be expected to act**, either through material improvement or consolidation. VFM is therefore increasingly being positioned as a mechanism that will actively shape market structure, investment strategy and governance priorities.



# Scale: outcomes may vary according to size

With no one in the LCP DC Update team over six feet, this is a theme to which we can all relate. Unfortunately, when it comes to DC policy and regulation, sympathy for the ‘smaller’ end of the market is in increasingly short supply. The consistent message now is that size matters, and increasingly so.

## Scale is being designed into the system

Recent progress on the Pension Schemes Bill confirms that scale is no longer being left to market evolution alone but is increasingly being hardwired into the DC system.

In our [August DC Update](#) we highlighted that Master Trusts and Group Personal Pensions (GPPs), where used for auto-enrolment, must have minimum assets of at least £25 billion in a single “main scale default arrangement” by 2030.

The Pensions Bill has now clarified that, for connected Master Trusts and GPPs, where arrangements share a common funder, strategist or provider, their assets can be aggregated for regulatory tests. This will prevent providers from running multiple sub-scale schemes within one corporate group while still appearing compliant.

Connected to this is the decision to proceed (by 2030) with the automatic consolidation of DC pots <£1,000 (including those dormant for 12 months) being automatically moved, using a ‘Small Pots Data Platform’ model (as opposed to ‘pot follows member’). The latest quantified figures suggest that there was an estimated £4bn in sub-£1,000 pots in 2025.

Members will be able to opt out or choose their own consolidator, failing which a carousel system will assign one. Consolidators will need FCA/TPR authorisation and must accept all allocated pots.

This revised, federated approach to small pot consolidation continues to reinforce the direction of travel towards fewer, larger arrangements managing member outcomes over time. Taken together with the emerging VFM framework (see page 3), providers and schemes operating ‘below scale’ is increasingly at odds with regulatory expectations.



We will continue to monitor progress in these areas and provide further information in future DC Updates.

# Provider updates

With many of our clients using ‘bundled’ schemes with providers, we have introduced a new section within the DC Update to keep you up to date with latest developments, based on our independent research. As you will read, the theme of consolidation and restructure remains prevalent.



On 10 December 2025 Aegon announced that it had begun a “strategic review of Aegon UK, evaluating all options, including divestment”.

Aegon has not yet said that it will exit the UK, but it is actively considering selling the entire UK operation. We understand that it will move its holding company HQ to the US and rebrand under the ‘Transamerica’ name. The strategic review is expected to conclude around mid-2026.

This decision to some extent reflects the continuing challenges that UK providers are experiencing (see p4). However well managed, this decision may cause some disruption.



Following a review of suppliers, Mercer has decided to revise its ‘Mercer Workplace Savings’ (MWS) proposition. From 1 January 2027 Scottish Widows will no longer provide pension and administration services, nor access to Mercer investment solutions, for any MWS clients, including the Mercer Master Trust. These services will instead be transitioned to Aviva, one of Mercer’s existing partners.



Continuing the consolidation theme, Willis Towers Watson (WTW) has agreed to acquire Cushon from NatWest Group, adding almost £4bn in assets under management and around 730,000 members to its UK DC portfolio.

Cushon will sit alongside WTW’s existing ‘LifeSight’ Master Trust, with Cushon focusing on the mid-market and LifeSight continuing to serve larger employers. The acquisition is expected to complete in the first half of 2026, subject to regulatory approval.



Government-backed Master Trust Nest has announced a partnership with Rothesay to co-design an insured longevity risk solution for DC members. Described by Nest as a “UK market first”, this will involve the purchase of bulk deferred annuities for cohorts of members, pooling longevity risk as part of Nest’s sustainable retirement income proposition. Nest will set income levels and investment strategy to support sustainability, while the insured element is intended to provide certainty that members will not run out of money in retirement.

# There's a new dog (private markets) in the yard

## The dog that jumped the fence

Until relatively recently, DC schemes have been unable to access the type of return-enhancing private assets (from which DB schemes have long benefited), which have the potential to offer higher returns than publicly listed assets (e.g. equities or bonds).

Everything changed with the Mansion House Accord in May 2025 when 17 of the UK's largest workplace pension providers committed to increase significantly investment in private markets and UK economic growth assets (allocating at least 10% of default funds to private markets by 2030, of which at least 5% of those assets must be invested in the UK).

Although the Accord is voluntary, the Government has created a legislative "Reserve Power" to mandate investment if progress is insufficient. Political messaging on this issue has become firmer, with ministers signalling reduced tolerance for slow or selective implementation.

Providers have responded by starting to introduce **Long Term Asset Funds** (LTAFs) into default funds, often via the use of dual or multiple default strategies. LTAFs have fund structures created specifically to allow access to long-term, illiquid private market assets such as private equity and debt, venture capital, infrastructure and real estate.

## Apparently, we're keeping it...

As private market exposure expands, the long-standing emphasis on ever-lower DC charges is being tested. Higher charges across multi-defaults may be unavoidable as more expensive assets are incorporated.

While there is optimism around the diversification and growth potential of private markets, it remains to be seen whether these higher-cost assets will deliver consistently superior risk-adjusted returns, after fees.



# Latest insights into Master Trust default investment strategies

The fifth report in our series 'Master Trusts Unpacked: Default investment strategies' has just been released.



Scheme sponsors and/or trustees reviewing or choosing a Master Trust will find this report helpful in offering a practical view of the differences in default strategy design and how these have translated into performance.



*The Master Trust market is changing fast, and providers are adopting a wide range of different investment approaches.*

*With so much variation, well-thought-out investment design is crucial to securing good outcomes for members. It is important to look closely at how each strategy is constructed, what risks it introduces, and whether it will continue to deliver in different market conditions.*

**Edward Dixon**  
LCP Partner

Highlights include:

- **Many Master Trusts increased their exposure to overseas equities in recent years.** Those with higher allocations to US equities delivered the strongest growth-phase performance in 2025.
- **Private markets are becoming more common** (see p6): many Master Trusts are now including, or actively considering, private market allocations within their core default funds or through premium options.
- **Investment design remains the key driver of outcomes:** differences in strategic asset allocation, glidepath design and diversification continue to lead to materially different member outcomes, particularly as savers approach retirement.
- **Responsible investment (RI) is widespread:** while all Master Trusts integrate RI principles to some extent degree, only a few are making progress with strategies that aim to deliver measurable real-world outcomes.

# AI can do a lot. Pensions aren't one of them (yet)

AI is increasingly being used to help make sense of complex information, particularly because it allows people to start with simple questions and build understanding iteratively. But when the underlying information is wrong, that same process can quickly lead to poor decisions with significant consequences.

## The limits of AI in pension communications

Recent research by Quietroom highlights a growing potential governance issue as more members turn to AI tools to help interpret pension communications.

Testing of OpenAI's 'Operator' tool found that it frequently delivers incorrect answers on pensions, not because the information is missing, but because of how scheme websites present it.

Common website design features such as expandable accordions and complex layouts prevented AI tools from accessing key information. Rather than flagging this, the tools often generated confident but incorrect answers, sometimes pulling content from other schemes with similar names or directing users to inappropriate third parties.

This matters because the FCA's Consumer Duty makes clear that **schemes remain accountable for member outcomes**, even where AI tools sit between the content and the member. With AI increasingly acting as an interpreter of scheme communications, clarity and structure **are becoming governance issues**.



*We are seeing more evidence that members of all ages and socio-economic groups are using AI tools to help them understand complicated information, and very little is as complicated as a communication about pensions.*

*We've reached the point where we must ensure that our communications can be accurately understood by an AI tool, because there's a fair chance that an AI tool will be the intermediary between our content and the member's eyeballs.*

**David Miller**  
LCP Principal



# Important lessons for providers, trustees and advisers

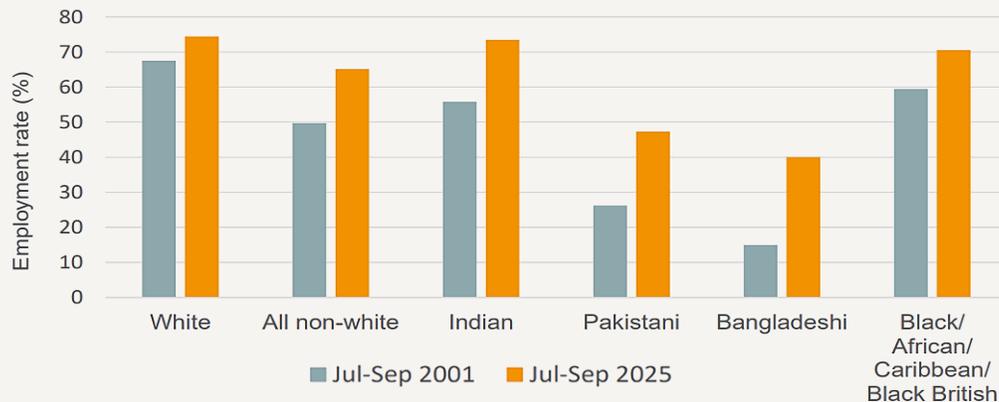
We turn now to important insights from LCP’s recent research on retirement saving among women from Britain’s ethnic minority communities. The report, co-authored by LCP Partner Sir Steve Webb, draws on in-depth qualitative research to highlight both persistent challenges and emerging opportunities for the pensions industry.

## Structural disadvantage, shifting foundations

Long-standing pension inequalities have deep structural roots, shaped by historic assumptions about work, gender and financial dependency. Women from ethnic minority communities often sit at the intersection of multiple disadvantages, reflected in lower pension wealth and lower confidence in pensions. However, these patterns are shifting. Younger generations are more likely to be in paid work, better qualified and expect financial independence.

The chart below shows how employment rates among women from ethnic minority groups have risen materially over the past 25 years, narrowing the gap with White British women. While differences between groups remain, this trend is consistent with the research finding that younger women are more likely to build retirement provision through work.

Employment rates (%) for women aged 16-64 by ethnic group



Source: [A09: Labour market status by ethnic group](#)

## Engagement is low, but appetite is high

Across the focus groups, knowledge of pensions and levels of trust were generally low, but this did not reflect disengagement or indifference. Participants consistently expressed a strong desire to understand pensions better, particularly basic questions around access, value and what pensions could realistically deliver in later life. The barrier was not motivation, but clarity.

For DC schemes, this reinforces that engagement challenges are often driven by **how information is delivered, rather than whether members care.**

## One size does not fit all

The research highlighted significant differences between communities, generations and individual circumstances. Attitudes to saving, risk and retirement were shaped by cultural norms, faith, family expectations and past experiences with financial services. Treating ethnic minority members as a single, homogeneous group risks missing these nuances. For trustees, **this underlines the importance of recognising diversity within the default DC membership** and avoiding assumptions about behaviours or preferences when designing communications and support.

# LCP Insight

## Go with the floe



The FCA recently deployed its 'Emil the Seal' campaign at Waterloo Station to warn commuters about investment scams and to promote its [Firm Checker](#) tool, which can help people verify whether a financial firm is genuine and authorised before they 'seal the deal'.

According to Action Fraud and the FCA, **more than £17.5m** was stolen through pension scams in 2024, **affecting 700,000 people**.

Schemes can do their bit by continuing to highlight these risks through regular member engagement programmes.

## Join us at our 2026 DC and Financial Wellbeing conference

Registrations are now open for our in-person-only DC and Financial Wellbeing Conference on **Tuesday 28 April 2026**. The event returns to 1 Wimpole Street, just a short walk from our London office on Wigmore Street, and will run through the afternoon, followed by a drinks and canapé reception.

This year's conference centres on **collaboration** - bringing us together to improve outcomes for members. The event will begin with lunch at 12:00pm, followed by presentations from LCP and leading industry speakers. Attendees can also join one of three breakout sessions:

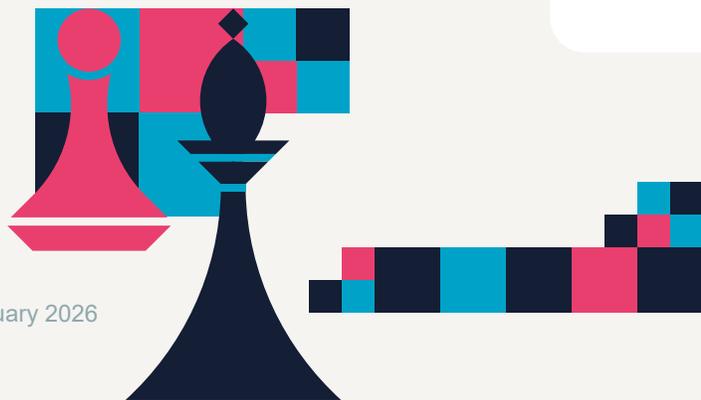
1. Psychology of money: shifting how employees think and feel
2. Beyond retirement: Guiding members confidently through life after work
3. Designing tomorrow's benefits: Future proofing strategies



For further details, to view the agenda and to register, [please visit our website](#).



Watch highlights from our 2025 conference



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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.



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