DC update

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

February 2025

What's inside?

Reflections and resolutions: what 2024 taught us and how to shape 2025

2024 was characterised by breakthroughs and bold moves, tempered by many challenges along the way.

What worked? What didn't? And how can schemes use these lessons to improve member outcomes, refine strategies, and seize new opportunities in 2025?

Here's a look back at some of our key reflections from 2024 — and some resolutions to help you make 2025 a standout year for your schemes.

Mansion House – the most significant changes to pensions in 20 years?

On 14 November 2024, the Chancellor delivered her Mansion House speech, referring to her proposals as "the most significant set of changes to the pensions landscape since the Turner Review".

The Chancellor prioritised increasing private investment to drive economic growth, criticised by the lack of pensions capital for British start-ups and infrastructure, and proposed the creation of 'mega-funds' through pension consolidation.

These proposals have the potential to alter the current DC pensions landscape radically which will affect millions of individuals. Here we explore these issues further and explain how they might impact your scheme.

The changes proposed could cause considerable upheaval in the DC market: whilst some may be adjusted once all the consultation responses have been assessed, there appears to be considerable enthusiasm and momentum behind this.

The consultation closed on 16 January and attracted widespread comment. You can read our response here.

Our advice to ministers was to be explicit about what they want to achieve and to regulate for this, rather than using the proxy of scale and hoping that this will indirectly and eventually lead to the same outcome.

Summary of proposals

The proposals are designed to accelerate and help enable scale and consolidation in the DC market.

They include:

+ Restricting the number of default funds
+ Setting minimum size requirements (£25-50bn) for default funds used by both trust and contract-based schemes by 2030, aiming to create funds that have sufficient scale to invest in UK infrastructure and private markets
+ Overriding individual contracts to allow for the bulk transfer of assets from contract-based schemes without members' consent, which has been identified as a major barrier to consolidation
+ Placing a greater emphasis on employers to assess their schemes in terms of value as opposed to cost.

Mansion House – our views on what this means for DC

What impact might this have on the DC market?

+ Consolidation from own-trust schemes to Master Trusts was already well underway before the Chancellor's announcement – this trend is likely to continue, although the pace may slow, as the number of own-schemes is already dwindling.
+ Master Trust provider consolidation is likely to continue. There are now fewer than 20 commercial providers, many of which do not yet have default funds of sufficient size to meet the Government's intended default target. Providers that operate both Master Trust and GPP/Stakeholder schemes may have a potential advantage here.
+ We may see the secondary Master Trust market (i.e. clients moving from existing schemes) start to gain momentum, as clients search for better terms / schemes with larger asset sizes as part of a VFM initiative.
+ Many scheme sponsors of smaller scale contract-based schemes may consider moving to Master Trusts offering better terms and more advanced default fund propositions.
+ Many contract-based schemes that use legacy or bespoke default strategies may start to consider moving (or be forced) to providers' in-house alternatives.

Steps should you take

Trustee boards and scheme sponsors will want to know how these proposals might affect their schemes in the short and longer term, so they should take steps to initiate reviews.

The DC market is about to become more febrile.

Our views on DC "mega-funds" and the future of DC investment

DC Practice Lead Laura Myers outlines her views here.
Comments and recommendations include:

+ The proposals may not lead to the predicted material increase in member outcomes;
+ The reforms will take longer to implement than anticipated;
+ There is a potential for the DC market to become over-concentrated - a lack of competition could compromise the need to improve value.
+ Combining schemes is far from straightforward: the cost will almost certainly be borne by members.
+ The Government should be more explicit about the types of investments that it wants to see, including a better definition of 'productive finance', i.e. should this cover all UK investment, or just certain 'productive' assets.
+ A new 'comply or explain' regime for DC scheme investments should be introduced, offering trustees and providers the freedom to invest in the best interests of members, but having to explain to TPR (via the 'Value For Money' framework) why investments are not compatible with a specified minimum allocation to, for example, UK infrastructure.

Responsible investment – progression or regression?

NZAMI suspends all activities after BlackRock's exit

The Net Zero Asset Managers Initiative (NZAMI) published an article on 13 January 2025 that the entire initiative is under review.

It has suspended publishing the list of signatories, which follows a period of increasing political pressure in the USA, heightened following the election of Donald Trump. Signatories with a significant US client base, including de Baillie Gifford and most recently BlackRock (statement here), have withdrawn from the initiative, citing a combination of exclusion from new business opportunities, direct pressure from clients and threats of legal action.

Whilst it's clearly disappointing to see managers stepping away from their NZAMI commitments, perhaps a more important consideration is whether an investment manager has a credible plan to align portfolios to net zero, as well as addressing real-world emissions through engagement with companies and other relevant parties.

We think it unlikely that workplace pension providers will allow creeping eco-scepticism to affect their plans for decarbonising portfolios and promoting responsible investment strategies.

ESG rating providers to be FCA regulated

The Government is going to regulate providers of ESG ratings, with the Treasury intending to expand its "regulatory perimeter" to capture ESG ratings which are likely to influence a decision to make a financial services-regulated investment.

Once these regulations have been passed, the FCA will develop the standards and regulatory requirements that will need to be met by ESG ratings providers. The Treasury anticipates that it will take four years.

Over the hills and far away

Chancellor suspends second phase of the Pensions review

The Government's "landmark" review of the UK pension system, which was launched in July 2024 (see our November DC Update), now appears to be in trouble, with media reports suggesting that the launch of the second phase has been "delayed indefinitely" because of concerns about adding further costs to businesses, after the budget.

This second phase had been expected to be launched imminently, but its terms of reference have yet to be published. The most notable casualty of this delay could well be any future increase in auto-enrolment minimum contribution rates, as well as the extension of auto-enrolment coverage, which was a cornerstone of 2017 review.

This is really disappointing news.

Pensions adequacy is a debate that needs to happen, even if implementation is delayed. The debate won't go away, but once again it seems that it is being put off for another day.

“Get outta my pub!”

EastEnders episode prompts call to report scams to Action Fraud

TPR helped to facilitate a storyline in EastEnders (aired in November 2024), which highlighted the devastating impact of pension scams, to urge the pensions industry to report scams and suspicions of scams to Action Fraud.

It wants pension schemes to report any knowledge or suspicions of pension scams and those involved if:

- The scheme believes a scam has already happened; or
- A red flag is raised when making a transfer.

TPR’s ‘Avoid pension scams’ webpage contains more details.

It is crucial that members know what to do and where to find the correct support when they have suspicions or have fallen victim to a scam.

This issue should continue to feature prominently in your scheme’s member communication programme.

Pensions Dashboards updates

Progress update report - provider passes testing

The Pensions Dashboards Programme (PDP) has published its latest progress update report, which says that it is continuing to work towards the connection timetable and begin testing with providers and schemes from spring 2025.

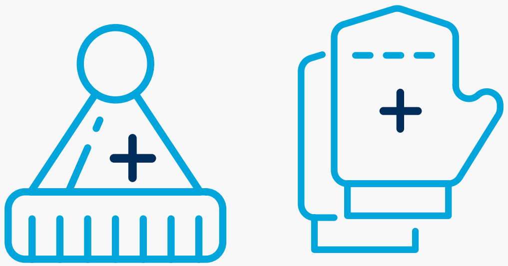
Legal & General has become the first major pension provider to pass integration testing with the PDP, ahead of the April 2025 launch.

MaPS annual report reveals sharp rise in PDP costs

The Money and Pensions Service latest annual report and accounts reveals a substantial increase in the cost of delivering the PDP, with expenditure up from to £14.1m in 2023/24 (£8.1m in 2022/23). Nearly all the increase is down to “contracted services” which rose to £8.6m (£3.4m).

The report provides some detail about the reset of the project, following its red rating in July 2022. Although delivery now carries an amber rating, the report recognises that “the risk to delivery remains high risk”. Reassuringly, in her foreword to the report, Chair Sara Weller says that the dashboard is “on track for its industry-wide October 2026 deadline”.

Time will tell.



Government policy and updates

'Returning' pre-Budget tax-free lump sums – HMRC says no!

HMRC's latest newsletter contains details on the "Tax treatment of tax-free lump sums paid back into a registered pension scheme".

This is in response to those who took their tax-free lump sums early in the run up to the Autumn Budget, on the strength of speculation at the time that the Government was about to restrict lump sums with immediate effect.

Unsurprisingly, HMRC has confirmed that members cannot return their now unwanted tax-free lump sums to their schemes.

State Pension Age increase – Government also says no!

On 17 December 2024, the Government published its response to the investigation into the well-publicised issue of women's state pension age and associated issues.

It has decided not to introduce a financial compensation scheme for women affected by the delay in sending individual letters informing them about the changes to the state pension age.

Liz Kendall, Secretary of State for Work and Pensions, said that the proposed flat rate compensation scheme isn't "fair or a proportionate use of taxpayer's money".

Although the Government may have hoped that this would bring this matter to a close, the Parliamentary and Health Service Ombudsman has now said that the DWP knew that awareness of planned state pension age changes among women was not as high as it wanted it to be, which has again questioned the Government's argument for denying compensation to women born in the 1950s.

We may not have heard the last of this contentious issue.

Benefit, pension rates and auto enrolment triggers for 2025/26

+ The new State Pension increases to £11,973 (£11,502.40).
+ The old Basic State Pension increases to £9,175.40pa (£8,814).
+ The standard minimum guarantee of the Pension Credit increases to £11,809.20pa (£11,343.80) for single people and £18,023.20 (£17,313.40) for couples.
+ The automatic enrolment earnings trigger remains £10,000 pa.
+ The lower limit of the qualifying earnings band remains £6,240 pa.
+ The upper limit of the qualifying earnings band remains £50,270 pa.

LCP Insights (1)

Pension schemes, life assurance and inheritance tax

In the Autumn Budget, the Chancellor announced that most unused pension funds and death benefits would be brought within a person's estate for inheritance tax purposes from 6 April 2027, which has triggered genuine concern that this could cause delays in payouts, including to those not liable for the tax.

Under current rules, inherited pensions can be paid faster to beneficiaries and used to pay for probate costs, funeral charges and other urgent bills.

Alasdair Mayes and Jonathan Balkwill explore the details of these policy changes, as well as outlining key actions for trustees and employers in our news alert. You can also watch our webinar on this important development here.

Communicating with members will be key to help ensure they are aware of the changes and give them an opportunity to review their positions – including updating expression of wish nominations and reviewing any flexible benefit options and choices around death benefits.

"Hey Siri, invest my money": the evolving role of AI in financial planning

Imagine a future where retirement planning could be as easy as saying, "Hey Siri, invest my money."

The rise of AI use in financial services is almost here, which could help making money management simpler and more accessible than ever. Lizzie Potter explores how far AI has come so far, and where it might be headed in the future in this blog.

A key talking point is what employers and pension providers can do with the technology available. AI-based financial tools can empower people to make more informed decisions, increasing financial awareness, literacy and confidence. However, this is not without risk.

Staying informed is key to benefiting from this technology safely and securely. To learn more, visit our AI Insights Hub or reach out to your usual LCP contact.

LCP Insight (2)

LCP's Impact Report 2024

Our 2024 Impact Report highlights not only some of LCP's key achievements but also the principles that guide us when it comes to making a difference to our industries, our planet, people and wider communities. There is a lot we can be proud about, but whilst we celebrate how far we've come, we also recognise that we must remain ambitious in terms of the impact we can create.

LCP CEO named in top 100 influential people for 2025

Aaron Punwani has been named as one of the winners of the 2025 Top 100 Influential People. He has led LCP to strong growth within its traditional pensions and investment consulting markets, including our award-winning DC consultancy, while diversifying into new areas relevant for today's society, such as energy and health analytics.

Under his leadership LCP has grown to become a £200 million business with over 700 clients.

We are all really proud of this accolade!

DC and Financial Wellbeing Conference:

Save the date!

When: Tuesday 29 April 2025

Where: 1 Wimpole Street, London, W1G 0AE

We look forward to seeing you at our annual DC and Financial Wellbeing conference, where we will be exploring the changing DC pensions landscape. Please ensure that you register to attend and select one of the three workshops to join.

More in our Master Trusts 'Unpacked' series coming your way in 2025!

+ The first will examine the key areas of focus for Master Trusts (outside their default strategies); by looking at what providers are doing to support members throughout their savings journey in terms of engagement strategies and support with their retirement decisions.
+ The second provides in-depth analysis of Master Trusts' default fund performance in 2024, highlighting market drivers such as volatility, which will help scheme sponsors and trustees reviewing or selecting a Master Trust to understand the different default design approaches now available.

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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 Update, please contact one of the team below.

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