DC update

Welcome to LCP's latest quarterly DC update, in which we share our views on key developments in the DC arena over the last three months, together with actions and issues you need to consider.

May 2025

What's inside?

Trump's tariffs – what do they mean for DC?

Trump shakes up the market following 'Liberation Day'

On 2 April – dubbed 'Liberation Day' – President Trump unveiled significant and sweeping new tariffs on US imports, in response to which most equity markets deteriorated by c8-10%, with far-reaching geo-political impact.

Since then, in a rapid U-turn, the US introduced a 90-day moratorium on tariffs, which are scheduled to take effect in early July, apart from China, which has responded in kind with its own tariffs.

In response, markets have experienced a mixture of gains and losses. We are undoubtedly in a period of heightened market volatility, with equity indices often reacting sharply to tariff announcements and trade negotiations, all of which makes it challenging for trustees and scheme sponsors to know how to react in response to genuine concern from their members.

Trump's tariffs – what do they mean for DC members?

Timeline of policy announcements (as of 9 May 2025)

'Liberation Day'

On 2 April, President Trump unveiled significant and sweeping new tariffs on US imports, with reciprocal tariffs including China 34%, Vietnam 46%, EU 20%, UK 10%. China retaliated with 34% tariffs on US goods.

Tariffs raised further

Trump raised tariffs on Chinese imports to a total 104% on 8 April, China raises tariffs on US imports to a total 84%.
On 9 April, Trump paused reciprocal tariffs above 10%, excluding China, with announced minimum tariff of 145%.

China retaliates

As of 14 April, the US had 145% tariffs on Chinese imports (excepting electronic goods) while China has a rate of 125% on US goods. As many as 50 countries have sought bilateral trade and tariff negotiations with the US.

Tariff moderation?

Since April 14, Trump has moderated certain tariffs, particularly in the auto sector, amid rising yields and softer growth forecasts. U.S. equities have responded positively.

Impact on DC schemes and the wider market

Although the UK economy is significantly less exposed than many other countries (and a potential trade deal is imminent), nearly all DC schemes operate 'growth phases' that are invested largely in global equities.

In addition, as DC strategies de-risk there is often a move towards lower risk assets such as corporate bonds or gilts. In the UK, 10-year nominal yields are currently close to levels seen before 'Liberation Day'. But credit spreads have widened materially, and bond market volatility measures are elevated.

This uncertainty has made it really challenging for DC members wanting to access their accounts, with some members having withdrawn their funds during the market downturn, increasing sequencing risk. Others have delayed retirement to allow their accounts to participate, potentially, in any bounce-back but also remain exposed to the risk of another downturn.

In response, many DC members have been calling provider helplines and being directed to support collateral such as this. There has also been a significant increase in switch activity, and an acceleration in retirement payments. It will be interesting to see what impact this has on overall service levels when providers issue their next round of governance statistics.

Although market volatility is not a new phenomenon, we believe it is important for schemes to maintain their focus on long-term outcomes and objectives.

But what this latest scenario does call for is a renewed focus on the structure and target outcome of current default funds, coupled with a renewed emphasis on member education, communication and support initiatives to make sure that members respond proportionately to headlines and avoid rash decisions.

A recap of our DC and Financial wellbeing conference 2025

Downhill all the way? What can we learn from pensioner spending through retirement?

Sir Steve Webb captivated the audience with the results of detailed analysis of pensioner spending data, which offered a rare and revealing look into life after retirement.

LCP and the University of Bath analysed the spending patterns of more than 100,000 pensioners collected over five decades (sourced from annual government surveys of households), which revealed major differences across this demographic.

You can read this research here.

A look into the future of DC

In several shorter sessions, we discussed some of the most pressing issues facing the industry today — from the future of CDC and the challenge of delivering clear, engaging communications, to the provocative question of whether Trump's return now signals a decline in ESG investing.

Breakout Workshops

In these workshops, we engaged in some thought-provoking discussions on the evolving shape of retirement, what defines a strong Master Trust, and how employers can better support their people through every stage of their financial journey.

Pensions Ministers galore

In a lively and often forthright session, LCP Partner – and former Pensions Minister, Sir Steve Webb closed the conference in conversation with current Pensions Minister Torsten Bell MP, who was kind enough to spare time to share his views on a wide range of topics, including: 1) the future for CDC schemes, 2) developments in DC investment strategy, 3) the potential risks associated with 'mega-fund' over-concentration, 4) the need for prescriptiveness on post-retirement defaults, and 5) the prospects for action on 'adequacy'.

Watch highlight video from the day and speak to your usual LCP contact if you would like to find out more about any of the topics covered.

Master Trusts: LCP 'Unpacked' and other news

Master Trusts Unpacked: Evolving Propositions in a time of change

In an increasingly competitive market for providers, our Master Trusts Unpacked report published in February, examines the key areas of focus for Master Trusts outside of investments.

In this report, LCP's Nigel Dunn, Rachel Crowther and John Reid analyse:

- How the market has developed
- Improving service standards
- Member engagement and financial development
- How post-retirement offerings are evolving.

DC landscape report shows consolidation is increasing and Master Trusts are continuing to dominate

TPR's latest Occupational DC landscape report reveals continued and significant consolidation in the DC market. Key themes highlighted include:

- A further decrease in the number of schemes
- Membership growth
- The predominance of Master Trusts
- Continued asset growth.

Master Trusts Unpacked: Default investment strategies

Whilst last year equity markets exceeded expectations, we have seen volatility increase dramatically. Our latest Master Trusts Unpacked report published in April, the fourth one in the series, examines the performance of default strategies both over recent periods of market volatility and throughout 2024.

In this report LCP's Nigel Dunn, Rachel Crowther and John Reid analyse:

- As members approach retirement, some follow a smooth glidepath whilst others get a bumpy ride
- All Master Trusts are integrating Responsible Investment into their default strategies
- Most Master Trusts are still in the process of building up allocations to private markets, but there is big variation in the size, costs, and type of investments.

Overhauling the regulatory system

On 17 March, the Government announced a regulatory reform plan to support the UK's new Industrial Strategy and growth mission.

Key points of interest for DC schemes included TPR's pledge to review Master Trust capital reserving to release significant funds by 2025/26, promoting further consolidation, improving asset allocation data transparency, and further work to develop the Value for Money framework.

Government policy and guidance developments

Government announces small pensions pot consolidator

The DWP has confirmed plans to address the growing issue of small DC pots by introducing a consolidation policy.

We set out our proposal to solve this problem in our "Magnetic Pensions" paper last year and are pleased to see it favourably considered in a recent Institute for Fiscal Studies report entitled "Small pension pots: problems and potential policy responses".

This DWP's initiative, expected by 2030, will initially target DC pots under £1,000, covering 57% of deferred pots but just 11% of total assets.

The aim is to reduce the administrative burden on providers and help savers keep track of pensions accumulated through job changes, which is a common bi-product of automatic enrolment.

The policy introduces a framework for "authorised and multiple default consolidators," with clear rules on how pots are assigned for consolidation, based on saver choice or existing pot holdings. Consolidators must be financially secure, offer good value for money, and include Sharia-compliant options.

The system will use a Small Pots Data Platform (SPDP) for data matching and process facilitation, with a feasibility review starting later this year to shape necessary legislation and operational infrastructure.

While the policy is a step forward, it leaves several important details unresolved, including implementation timelines, data standards, and the SPDP's final remit. Additionally, there is interest in whether the £1,000 threshold will eventually be raised to broaden the policy's reach.

Pensions Regulator to supervise DC schemes 'differently'

TPR has announced an evolved supervisory approach for the UK's largest DC schemes, particularly Master Trusts, to increase its focus on member outcomes.

It proposes to segment schemes into four categories, with tiers of engagement based on specific risks to market and saver outcomes. These are:

- Monoline Master Trusts (larger schemes that carry higher market risk)
- Commercial Master Trusts
- Non-commercial (or industry-wide) Master Trusts and collective DC schemes
- Single and connected employer DC schemes.

TPR has already carried out a pilot with three large Master Trusts with positive results. Having dedicated supervisory teams should be more productive, but we also hope that it will continue to have sufficient resources to protect saver outcomes in single employer DC schemes as well.

Government policy and guidance developments (cont'd)

IFS proposes reforms to help individuals make good use of their DC pension wealth throughout their retirement

In the latest contribution to its pensions review, the IFS is suggesting that reforms are needed to address the risk that many could exhaust their private resources and fall back purely on state pensions and benefits, especially later in retirement.

The IFS also focuses on default retirement income solutions, where it is expected that DC trustees will have to make these available to their members, because of provisions in the forthcoming Pension Schemes Bill.

Government to enable surplus extraction from DB schemes

Earlier this year it was announced that the Government intends to legislate to enable the surplus from DB schemes to be paid to employers or to be given to scheme members as additional benefits. It stated that "approximately 75% of schemes are currently in surplus, worth £160 billion: such surplus extraction will allow employers to invest in the wider economy".

While details are sparse at this stage, the willingness of the Government to look at its policy on surplus extraction is to be welcomed, both from the standpoint of freeing funds for productive investment, but also for improving member outcomes **by using surpluses to finance DC benefits**. You can read our policy proposal here.

Pension scams prevention

TPR blog on pension scam prevention

TPR has published a blog on pension scams to highlight its push to build a stronger intelligence base on pension fraud.

This includes seconding experts to the City of London Police and the National Economic Crime Centre – a move that should boost collaboration with law enforcement and better align TPR with national anti-fraud efforts.

The blog also hints at plans for "stronger legislation," likely referring to the much-criticised Conditions for Transfers Regulations from 2021. The pensions industry has been calling for fixes since their release; we look forward to the date when these issues are addressed, so that transfers (where there are no scam concerns) are not blocked or delayed unnecessarily.

Clear and present danger

TPR has updated its pension scams leaflet webpage again, with no publicity.

The two-page leaflet no longer contains a reference to Pension Wise, because the focus of this service is retirement guidance, as opposed to scam avoidance.

We believe that there remains a clear risk that if issues such as this are not flagged prominently, the material will not be read, and important messages about pension scams may not be taken on board.

Insights

FCA floats the idea of using pension savings for house deposits

In a speech by Nikhil Rathi, Chief Executive of the FCA on 28 March, the possibility of using pension savings to help finance a deposit for house purchase was suggested as part of “bold ideas for a joined-up future”.

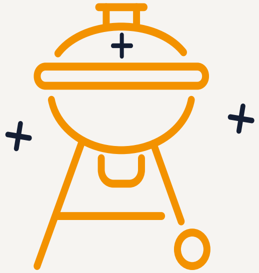
Mr Rathi pointed to Australia, New Zealand, the United States, Singapore and South Africa which he said all permit their citizens to leverage their pension savings to buy a first home. Read more about this here.

SPA break

According to financial journalist Sandra Wolf, one in six people whose state pension age (SPA) is 66 or 67 either do not know their SPA or underestimate it, with those who have lower levels of wealth particularly likely to be mistaken.

Among those born after 6 April 1960 (whose SPA is between 66 and 67 and who retire between next year and 2028), fewer than half (42%) know their SPA correctly within three months. The same proportion overestimates their SPA, and a significant minority of 16% either not know or underestimate it.

You can read more about this here.



Gold rush following Budget change to Inheritance Tax on pensions

LCP’s analysis suggests that the Government’s plan to include pensions within the scope of Inheritance Tax is likely to yield significant funds over the coming years.

According to published figures, the change (due to be implemented in April 2027) will raise £640m in the first year, £1,340m in 2028/29 and £1,460m in 2029/30. However, our estimates suggest that this figure will rise sharply through the 2030s and beyond, raising well over £3bn per year at its peak.

This is contingent on these proposals passing the consultation phase, which isn’t due for another two years, in anticipation of which **schemes should continue to emphasise the importance of getting members to complete beneficiary forms.**

10 years of pension freedoms: how people are accessing their retirement savings

A decade on from the introduction of pension freedoms, new research from Royal London reveals that many eligible savers have continued to withdraw their funds **without seeking any advice at all.**

Almost one in five savers (18%) eligible did so without taking any form of advice and only 40% of people considered the potential tax implications of withdrawing a lump sum.

Do you enjoy hearing from our experts?

It’s important to us that we deliver what you want, and don’t clog up your inbox with things you don’t.
Please take a moment to let us know your preferences; in return we will try our best to only send you the things that matter to you.

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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