DC update

Welcome to LCP's latest DC update, in which we highlight the developments shaping the DC market, explain what they mean in practice, and look ahead to the issues likely to be on your agenda.



November 2026

The rumours were right

Competing visions, emerging policies

Fifty years ago, Fleetwood Mac were recording their seminal album ‘Rumours’. Behind the music lay personal upheaval, creative tension and fundamental questions about the band's future, its direction and even its survival.

The current pensions arena has a similar feel. There is no shortage of theories, proposals and competing visions for the future, whether on guided retirement, consolidation, adequacy or State Pension reform. Everyone agrees the system needs to evolve. The debate is no longer about whether change is needed, but about what the future should look like, who will build it and the standards by which we judge a ‘good retirement’.

In this edition:

- The Government has just published its guided retirement proposals, promising a default pension for life for around 17 million private sector workers.
- Retirees can still go their own way, but schemes will have to offer a 'default route' predicated on generating income, with longevity protection on pots above £10,000 (based on the total combined value at each provider).
- The Budget contained only seven things that impact DC, which by recent standards counts as a wonder.
- The triple lock survives, with a new allowance to stop the State Pension tripping over the personal allowance.
- A small pots landslide begins in 2030.
- Dashboards are now connecting everywhere.

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Save the date!

We are delighted to confirm the date for next year's DC and Financial Wellbeing Conference: *Completing the DC and Financial Wellbeing puzzle: From saving for, to living well, in retirement*

Tuesday 27 April 2027

11:00am

1 Wimpole Street, London.

Please add this date to your calendar - more information coming next month.

The Chain

Guided retirement and the search for a cohesive system

On 3 November, the Government released two complementary consultations, both designed to improve member outcomes by providing a more robust framework for members to take their DC savings into retirement. The **Guided Retirement** regulations aim to provide more robust, tailored solutions for members post-retirement. **Retirement Collective Pension Schemes** (RCPS, formerly R-CDC) provide an initial framework for how, post-retirement, risk-sharing models could also be used to benefit certain member cohorts.

Keeping up with the terminology is becoming a retirement strategy of its own (see p8 of our August edition for further background).

The unequivocal press release promised to "resurrect genuine pensions" for 17 million private sector workers, with a clear statement that **retirement income** now sits ahead of 'freedom and choice' in the policy hierarchy. Proposed features under consultation include:

- **Cohort-based retirement solutions**
  Providers will need to identify cohorts, apply screening questions and allocate members to an appropriate retirement solution, with a clear rationale for each outcome.
- **Ongoing reviews**
  Providers must document and review the evidence and rationale for their decumulation solution in a 'Pension Benefits Strategy' at least every six years.
- **Ongoing safeguards rather than repeated decisions**
  Members will make a single informed choice at retirement (supported by a 30-day cooling-off period), with consumer protections embedded into the retirement solution, rather than relying on repeated intervention.
- **A stronger focus on income for life**
  For pots above £10,000, retirement solutions will be assessed not only on flexibility but also on their ability to provide sustainable lifetime income.
- **Special circumstances support**
  Special provision must be made for members in serious ill-health or financial difficulty.

LCP's observations

- The scope is broader in some places and narrower in others. DC AVCs in DB schemes, whole-life CDC arrangements, deferred pots eligible for small pots consolidation (see p6) and, for now, non-workplace pensions all sit outside the framework, which leaves notable gaps in coverage.
- Providers will have more discretion than many expected. While the arrival of screening was anticipated, the regulations place considerable emphasis on providers defining member cohorts first, then determining the appropriate questions, which are not prescribed.
- Some vulnerable groups are recognised, but important questions remain unanswered. The framework identifies members in poor health or financial difficulty as potentially requiring different outcomes, but there is little insight into how recommendations will interact with means-tested benefits and the wider welfare system.
- The model places significant weight on the initial decision point. The single consent event had been widely expected, but the extent to which guidance, data gathering and decision-making are front-loaded means that providers are likely to have to revisit both product design and member communications strategies.
- You can find more details on LCP's response to the consultation here.

"Whilst we welcome the alignment of broader decumulation and R-CDC specific regulations, different cohorts of members will have different retirement needs that need to be catered - a single solution is unlikely to be appropriate for everyone".

LCP Partner Sam Cobley

Second Hand News

The Budget: no major pensions surprises

Every autumn, the rumour mill turns to tax-free cash, with estimates that in 2025/26 pre-Budget speculation led savers to crystallise around £14bn more than they otherwise would have. This year, however, it proved to be little more than second hand news, with Chancellor John Healey's first Budget on 28 October delivering no major pensions surprises.



Seven measures that matter for DC. By recent Budget standards, a genuine wonder.

Also worth noting

- The National Living Wage rises 3.9% to £13.21 an hour from April 2027, and the Lower Earnings Limit for National Insurance to £6,916.
- The Pensions Commission's final report is due in February 2027.
- There was nothing new on the £2,000 salary sacrifice cap, so employers' 2029 preparations should continue **(see p8).**

1. **A new tax break, and a new tax trap**. A new Pension Tax Allowance from April 2027 will remove income tax for many pensioners whose income is no more than the full new State Pension. But the allowance is withdrawn as income rises, creating an effective marginal tax rate of around 53% for pensioners just above that level.
2. **The two-year rule goes.** The two-year rule for the payment of lump sum death benefits is abolished, removing a long-standing administrative trap just as the industry gears up for pension funds falling within IHT.
3. **A new approach to taxing death benefits.** Excess lump sum death benefits paid before age 75 will be taxed directly on beneficiaries at their marginal rate, rather than through the pension income tax rules.
4. **Clearing the path to guided retirement.** The Government is removing technical obstacles to moving retirement savings between different decumulation vehicles, including R-CDC and drawdown, while retaining key pension protections.
5. **Serious ill-health lump sums.** Under the revised eligibility test, members who "can be reasonably expected to live for less than a year" may receive a serious ill-health lump sum. Awareness will be crucial, particularly given the short timeframe for administrators to implement any required changes.
6. **Higher taxes for savers, but cash ISAs survive.** Savers face another tax rise from April 2027, with savings income tax rates increasing to 24%, 44% and 49%. But cash ISAs survive and there's a new 'First Time Buyer' ISA from April 2029.
7. **Mansion House Accord.** The Government will continue to work with providers and asset managers to accelerate UK investment, a move expected to unlock around £25bn of extra private markets investment.

Don’t Stop (thinking about 2030)

The beginning of the end for the triple lock?

While the triple lock remains, legislation is planned during this Parliament for a new post-2030 State Pension guarantee linked to inflation and earnings.

The Government argues the change could free up billions over the coming decades to support a National Care Service, an objective that has parallels with LCP Partner Steve Webb's proposal for a care funding system modelled on auto-enrolment.

Why it matters for DC

The State Pension underpins retirement income planning. Changes to its long-term trajectory will have an impact on DC adequacy targets, contribution debates and guided retirement design.



LCP’s view

This is a modified, 'soft' triple lock rather than a straightforward double lock. There is an annual check against average earnings, but no permanent ratchet, so in the long run the State Pension will sit at or around a fixed share of average earnings. It will be interesting to see how the Pensions Commission takes this into account in its final recommendations.

With earnings growth of 3.9%, the full new State Pension rises in April 2027 by £9.40 to £250.70 a week (about £13,036 a year), above the £12,570 personal allowance for the first time. LCP Partner Steve Webb called the earlier Government plan “a mess” that protected only one in 16 retirees. The Budget’s answer is the new Pension Tax Allowance (p4).

Spousal protection moves centre stage

LCP's research links rising pensioner poverty to the growing number of people living alone in retirement.

Against that backdrop, the paper proposes **joint-life pensions** as the default within Master Trust retirement pathways, a timely intervention as policymakers consider how guided retirement solutions should protect surviving partners.

Never going back again: consolidation continues

Small pots, big numbers and the continued push towards fewer, larger schemes

Automatic enrolment (AE) has succeeded in bringing millions into pension saving but has also created millions of small deferred pots when members change jobs.

The Government estimates that there are 13m+ deferred pots of £1,000 or less, holding over £4bn. These 'micro-pots' are estimated to cost c£240 million a year to administer and can steadily lose value where flat charges apply.

Rather than relying on disengaged savers to act, eligible small pots would be transferred automatically into a designated 'consolidator scheme', unless the member chooses to opt out.

- The DWP is proposing to launch multiple consolidator models that will be operational from **2030.**
- Default-fund pots of **£1,000 or less**, created since 2012 and with no contributions for 12+ months, would transfer automatically to an authorised consolidator, unless the member opts out or chooses another.
- Pre-AE pots, self-select funds and religious or values-based arrangements are excluded initially.
- A new digital matching system will need accurate member data, **with new AE duties on employers** (for example, requesting personal email addresses).



13m+ pots of £1,000 or less. From 2030, gravity does the rest.

LCP's take

Consolidation may sound straightforward (see also p7), but its success will depend on good data.

Member matching, transfers and communications will all come under scrutiny, with schemes carrying poor-quality data likely to feel the pain first.

I (don’t) want to know?

Blurring the lines between capital and income

Connectivity achieved - governance begins

The Pensions Dashboards Programme has reported that more than 70 million pension records were connected ahead of the 31 October 2026 deadline. Now the challenge is no longer connectivity, but to ensure that data is accurate, secure and available when members need it. TPR has already signalled that dashboard duties will be an area of regulatory focus.

Trustees and scheme sponsors should be clear about what has been delegated to administrators, providers and dashboard connection partners, while retaining oversight of data quality, matching performance, operational reporting and service availability. Dashboard compliance should also now feature in schemes' ongoing governance framework and risk register.

The member experience will make or break dashboards

Dashboards are expected to present pension savings in terms of estimated retirement income, yet members may not respond to this information in the way policymakers expect.

A projected retirement income of £7.75 a month could be easy to ignore, whereas uncovering a forgotten pension worth £26,000 may feel like an unexpected windfall. Whether dashboards drive engagement may depend as much on the psychology of discovery as the information they present.

In any event, scheme members should be encouraged to explore dashboards in more detail. They may not like what they find, but they need to know what they have.



Visibility creates vulnerability?

Dashboards will also show members the millions still locked away in high-charging, low-value legacy accounts. Whether they act is another matter.

Providers have long viewed dashboards as another catalyst for consolidation. The logic is simple: members discover forgotten pension pots, decide to tidy up their finances and transfer assets into a provider's scheme, boosting assets under management in the process.

But some worry that app-based rivals are already stealing a march. With transfer journeys now measured in clicks rather than forms, these firms are already encouraging consolidation today.

The fear is that by the time dashboards reach the mass market, app-based rivals will already have siphoned off many of the pots that providers had hoped dashboards would help them win.

Go Your Own Way?

Preparing for a less generous salary sacrifice regime in 2029

We make no apologies for returning to the issue of the £2,000 cap on salary-sacrificed pension contributions that is due to take effect in 2029, last trailed in our May update.

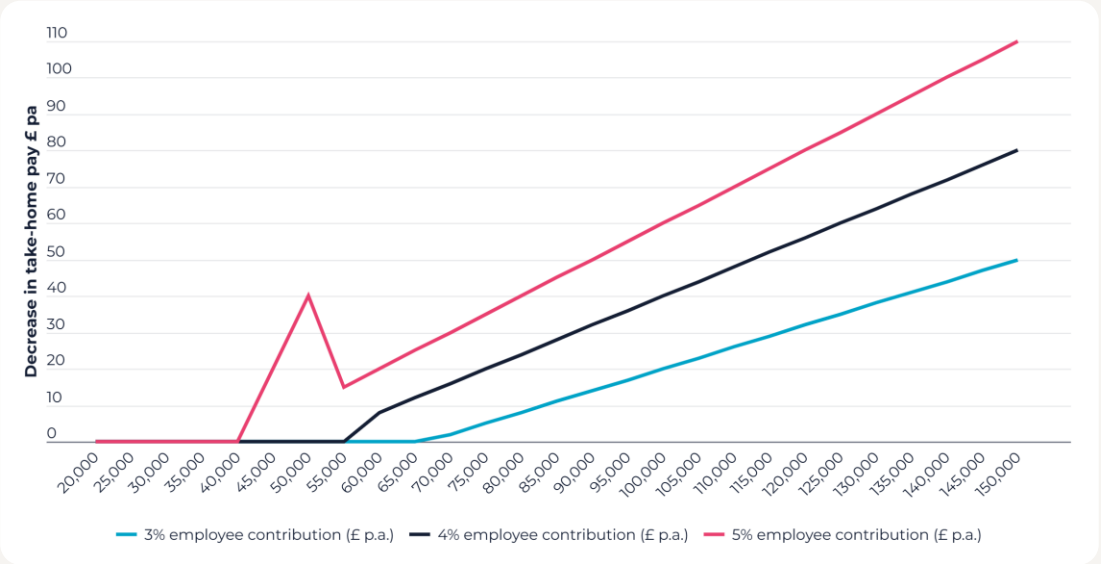
HMRC estimates that around 7.7m employees use salary sacrifice for pensions: Government analysis suggests that 3.3m sacrifice more than £2,000.

With just over two years before the legislation comes into effect, LCP Partner Rachel Crowther is urging employers to:

- Understand the impact, as NIC costs may be modest for some employers and significant for others.
- Review benefit design, particularly where NIC savings are shared with employees.
- Identify pay rises that might be quietly pushing employees over the cap.
- Communicate early, as many employees remain unaware of the NIC savings.
- Plan the timing of bonus sacrifice before April 2029.

As salary sacrifice remains a key part of many reward packages, Rachel's latest blog Salary sacrifice changes in 2029: what employers need to do now is worth reading.

Reduction to employee take-home pay after April 2029



Dreams meets reality

LCP's latest report, Employee wellbeing report: Uncovering financial resilience highlights the importance of connecting pension saving with wider financial wellbeing.

Fewer than one in four employees feel on track for retirement, while everyday financial pressures continue to make long-term saving harder.

Our findings continue to reinforce the **need for practical support** that will help members navigate both their pension and their wider financial lives.

Behind these results, sector-level analysis reveals a more varied picture. **Ask your LCP consultant for a tailored view of the results within your industry sector.**

Alongside this, our assessment of providers' financial wellbeing propositions shows how support is evolving across the market. A new report exploring provider approaches to member engagement and trust will be published later this month.



Read the 2026 Employee wellbeing report

Financial pressure is already manifesting itself at work

57%
say their work has been impacted by financial concerns

34%
are considering taking a second job to support their finances

60%
say financial concerns affect their self-confidence and self worth

41%
agree that financial stress makes them less engaged or motivated at work

43%
worry about running out of money in retirement

LCP Insights

No longer a mirage

For years, discussions about DB surpluses often felt hypothetical. Today, improved funding levels mean many schemes are asking a different question: not whether surplus exists, but how it might be used.

One increasingly attractive possibility is to use surpluses **to improve outcomes for today's DC savers.**

Whether through lower future employer contributions, enhanced pension funding or other forms of benefit support, surpluses can offer a way for current employees to share in the success of a well-funded DB scheme.

The path is not necessarily straightforward. Scheme rules, tax treatment and legal considerations can all influence what is achievable, so care is needed. But these are no longer purely theoretical questions.

We have already advised on transactions that use DB surplus to support DC benefits, providing a practical example of how value can be transferred from yesterday's pension promises to tomorrow's retirement savings.

With new solutions emerging both within existing trusts and potentially through Master Trust structures, scheme sponsors now have a growing range of options to consider. For many, the real opportunity is not simply unlocking surplus but using it to create better pension outcomes across generations of members.

If you would like to find out more, talk to LCP Partner Sam Cobley.

Identical savers, unequal treatment

Low earners have historically received different pension tax relief depending on their scheme's tax status.

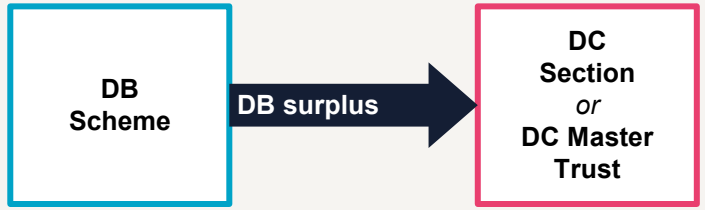
Members in ‘relief-at-source’ schemes automatically receive a government top-up, even if they pay no income tax; those in ‘net pay’ schemes receive no equivalent benefit because their earnings are below the personal allowance.

The **Low Earner's Pension Payment** is designed to address this long-standing anomaly by paying the missing tax relief directly to affected workers.

Around one million low earners in net pay schemes, most of them women, are due to receive letters over the coming months about a new government top-up. The latest estimates suggest a typical payment of around £70 for the tax year 2024/25.

A clear warning from employers could make all the difference. LCP Partner Steve Webb has cautioned that there is "a real risk of huge non-take-up", with recipients potentially dismissing the letter as a scam. HMRC’s communication will arrive by post only, with no accompanying text messages, emails or phone calls.

Ironically, while low earners risk overlooking modest top-ups, Steve also believes hundreds of millions of pounds of higher-rate pension tax relief continues to go unclaimed each year.



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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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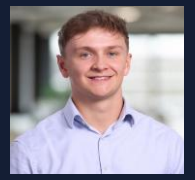
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