

What's Happening in DC?

July 2025

This issue focuses on the DC aspects of the Pension Schemes Bill that was recently introduced to Parliament. The theme running through the DC policy decisions is better outcomes for members, including through value for money assessments and default decumulation solutions. Investment choices made by consolidated 'megafunds' are also intended to benefit the UK economy.



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1 'Default pension benefit solutions' (decumulation defaults)

DC scheme trustees will be required to "design, and make available to eligible members of the scheme, one or more default pension benefit solutions" and "at such times or intervals as may be prescribed, review the design (and if appropriate the number) of the default pension benefit solutions". The new duties are expected to involve trustees offering a suite of decumulation products and services that are suitable for their members, with 'pension freedoms' remaining as an alternative option where the scheme options do not appeal to a particular member.

A "pension benefit solution" must be designed to deliver benefits to eligible members or a subset of them in the form of a regular income in their retirement. Trustees must take account of the needs and interests of members and any subsets considered appropriate, their circumstances, and the fact that a member may have already drawn some benefits beforehand. Regulations may say more about this assessment process and what is meant by "designed to provide a regular income" and "retirement".

Trustees can make arrangements with another scheme where it is not practicable for them to make their own arrangements, although trustees would still need to consider which scheme it would be appropriate to partner with and how this is communicated to members. But there is no new power to transfer any member without their consent.

Collective DC may in future be an available decumulation option but this is some way off (see below).

The Bill sets out communication requirements. More detail on almost everything will be set out in regulations.

Trustees will need to have a "pension benefits strategy" for ensuring that they identify and carry out the steps they need to take for the purpose of understanding the requirements of eligible members of the scheme with regard to default pension benefit solutions, and (unless there is an arrangement with another scheme) design default pension benefit solutions that take account of those needs.

The Government has indicated that these duties will be brought in in stages, with master trusts starting to be subject to them in 2027 and other schemes and providers from 2028.

Separately, the FCA is consulting on proposals for advisers to provide "targeted support" to consumers in relation to pensions and retail investments. Firms would be able to make suggestions designed for groups of consumers with common characteristics, to help them make financial decisions.

2 Value for money



The Bill introduces a power to make regulations "for the purpose of evaluating, and promoting best practice with regard to, the provision of value for money" (VFM) under prescribed descriptions of schemes and arrangements. It is expected that this will be applied to default arrangements, but these will need defining. The regime in the Bill is similar to that on which the FCA has consulted in relation to contract-based schemes (the outcome of which is awaited): see [WHiP Issue 111](#) for more on this.

Trustees will be required to make and publish (in whole or in part) reports on assessments of performance with regard to VFM, including prescribed categories of 'metric data' (see below) and comparisons with other suitable schemes. This will involve trustees assigning a VFM rating to their default arrangement(s): "fully delivering"; "not delivering"; or "an intermediate rating" (with different grades thereof to be specified in regulations).

A huge amount of the detail on VFM assessments and comparisons is left to regulations but the Bill spells out what those regulations may say. Regulations will also cover the consequences of a "not delivering" or intermediate rating, including improvement and action plans for schemes rated intermediate, and action plans for "not delivering" schemes. The Pensions Regulator can require a "transfer solution" for a "not delivering" scheme. In any event, it appears that schemes with a "not delivering" or intermediate rating may not be able to accept any new employers, which could have particularly significant consequences for commercial master trusts.

The categories of metric data may "for example" relate to:

- the quality of services provided to members of the scheme or arrangement (member satisfaction surveys may be required);
- classes of assets invested in;
- investment performance;
- costs incurred by the scheme or arrangement;
- charges on members or employers in relation to the scheme or arrangement.

Trustees will be required to have regard to Government guidance on these matters.

The first annual publications by schemes of their VFM data is expected to be by March 2028 and will relate to the calendar year 2027. Following this, they would make their comparisons and then publish their reports in Autumn 2028.



3 DC 'megafunds'

To bring about consolidation of the master trust and group personal pension market into 'megafunds' (a term used by the Government but not in the Bill), the quality requirements for automatic enrolment qualifying schemes are amended in respect of such schemes, to require scale.

Master trusts will need to be approved by the Pensions Regulator in relation to their "main scale default arrangement", although the meaning of this term is not set out in the Bill. The scale required is at least £25 billion managed under a "common investment strategy", which will be defined in regulations. Exemptions may be prescribed, for example for Sharia-compliant arrangements.

"Transition pathway relief" is available from the Regulator where a scheme's main scale default arrangement has assets of at least £10 billion. Regulations may require trustees of such schemes to set out prescribed steps, for example producing plans to increase scale or in connection with governance and investment capability. "New entrant pathway relief" is available where a new scheme "demonstrates strong potential for growth and an ability to innovate", which can be defined in regulations.

The Government has indicated that the £25 billion scale will have to be met by 2030, or 2035 where transition pathway relief has been granted.

4 Unilateral contractual override

There are provisions for contract-based schemes (group personal pensions), which are regulated by the FCA which include a contractual override allowing providers to make unilateral amendments to terms, change investments, or transfer members internally or externally – but only if a "best interests" test is met and an independent person certifies this. The FCA will make rules about this.

5 Investment in private markets



Included in the above provisions concerning master trust and GPP 'megafunds' is the power effectively to force such arrangements to invest a proportion of their assets in particular asset classes, including in the UK. Importantly, this power is limited to such schemes: employers' private schemes are not in scope.

Master trusts and group personal pensions would only be capable of authorisation for automatic enrolment purposes if (among other things and subject to prescribed exemptions, e.g. Sharia-compliant arrangements) they meet the new "asset allocation requirement" in relation to their default fund (which is defined in the Bill).

Qualifying assets under the asset allocation requirement would be defined in regulations, which would also prescribe the relevant percentage. The Bill says that qualifying assets "may for example be" private equity, private debt, venture capital or interests in land. They cannot otherwise be listed securities. The description may relate to "(a) whether an asset is located in the United Kingdom or elsewhere; (b) the presence or absence of other prescribed factors linking an asset to economic activity in the United Kingdom". A "savers' interest test" exemption can apply if meeting the requirement would, in the Regulator's view, cause material financial detriment.

Prior to publication of the Bill, a number of large master trusts and pension providers agreed the Mansion House Compact (July 2023) and the Mansion House Accord (May 2025). The signatories to these committed to a minimum level of investment in (respectively) unlisted equities and private markets (including, under the Accord, in the UK). For more detail, see [WHiP Issue 104](#) and [WHiP Issue 116](#).

The power to impose the statutory provisions (and to increase the prescribed percentage) expires at the end of 2035. The Government has said that it hopes not to use it, on the basis that industry activity, including the Mansion House Compact and Accord, will achieve the desired results. Of course, it would also be available to future Governments formed by other parties and is wide enough to be used to direct investment in different ways.

6 Small pot consolidation

The Bill gives power to make regulations "for the purpose of securing that small dormant pension pots held by auto-enrolment schemes are ... held by consolidator schemes ..." or by "consolidator arrangements".

Regulations must permit eligible master trusts to apply to the Pensions Regulator for authorisation to act as a small pots consolidator. The Bill also addresses authorisation by the FCA of contract-based schemes.

A small dormant pot is one of between 1p and £1,000 (inclusive) to which no contributions have been paid for a prescribed 12-month period and the individual has not (subject to prescribed exceptions) taken any step to confirm or alter the way in which it is invested. The 12-month period for existing pension pots can only begin after the new law has been brought into force. The size of a small pot for these purposes can be changed by regulations.

There is provision for an as-yet-unspecified organisation to run a "small pots data platform" for identifying and allocating pots. There is nothing in the Bill about how this will work but it was previously announced that a 'carousel' arrangement will apply where an individual does not already have a pot with an authorised consolidator.

"Auto-enrolment schemes" (a new term) will have to issue a "transfer notice" to all non-exempt individuals with small dormant pots, setting out a default proposal and an alternative proposal or proposals and inviting the individual to respond. The information must include the transferee scheme membership terms. Regulations will spell out detail here, and also about the transfer of the pots based on no reply or a reply from the member.

The Government thinks that small pot transfer duties will take effect in 2030.

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Other developments



Pensions dashboards

Legislation specifies a legal deadline of 31 October 2026 for all schemes with 100 or more non-pensioner

members to connect to the pensions dashboards 'ecosystem' and be ready to respond to 'find' and 'view' requests. But Government guidance sets out a staged timetable for connection dates ahead of that ultimate legal deadline. Schemes and providers are required by law to have regard to this guidance.

Staging dates are determined based on scheme type and number of relevant members (i.e. active members, deferred members and pension credit members) and are set out in part 3 of the guidance. The earliest date was 30 April 2025 and the latest is 30 September 2026. Many large pension schemes have now reached, or will soon be reaching, their dashboards staging dates.

The Pensions Regulator is urging schemes to prepare well in advance of their staging date and has issued a [checklist](#) which schemes can use to ensure they are on track. PASA's [Pensions Dashboards Connection Readiness Guidance](#) can also help schemes and administrators become "connection ready".

For much more on this, see our briefing '[10 actions for getting to grips with pensions dashboards](#)'.



Collective DC

The Government will be laying regulations "in the Autumn" to allow multi-employer collective money

purchase schemes to be established. This will allow commercial operators to develop offerings. Currently, only collective DC schemes for single or associated employers are permitted. Royal Mail's is the only such scheme at present. Collective DC schemes are DC schemes with targeted rates of pension, revaluation and indexation. If the scheme were actuarially assessed to be insufficiently funded to provide the targeted benefits, revaluation and pension increases would be reduced first and then (if necessary) the basic benefits.

Decumulation-only collective DC provision will not be permitted at the same time but the Pensions Minister confirmed his desire to make this an option. The Government will continue to work on this with industry stakeholders.

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