A DC Perspective on the Recently Published Pension Schemes Bill

Although published on 5 June, The Pension Schemes Bill now has to go through the usual Parliamentary process. There is no set time for it to obtain Royal Assent, although the expectation is that this will be in early 2026.

Alongside the Bill, the Department of Work and Pensions (DWP) also published a 'roadmap' for workplace pension reforms. This roadmap, linked to the proposals in the Bill, outlines the timetable for implementing the proposed changes.

Here is a summary of the main proposals that may affect Defined Contribution (DC) occupational pension schemes:

Value for Money (VfM)

Since 2021, Occupational DC pension schemes—that have been running for three years or more and have less than £100m total scheme assets—have been required to carry out a detailed assessment to demonstrate that they are providing good 'value for members'. This 'VFM Assessment' includes a comparison against at least three other schemes.

However, the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) have been committed to introducing a new DC VfM framework. This framework will set out a standardised test for all DC schemes across the pensions market for both trust-based occupational schemes and contract-based arrangements. The draft regulations cover:

VfM assessment metrics

Trustees and providers must calculate and specify how they have assessed VfM across:

- costs and charges (including transaction costs)
- investment returns (net of charges)
- investment performance
- asset classes
- quality of services (administration, member experience, engagement)
- assessments against comparator schemes and arrangements.

VfM ratings

Trustees and managers must assign an overall VfM rating to each scheme and arrangement that is assessed. In other words:

- ‘fully delivering’
- ‘intermediate’
- ‘not delivering’

They must justify the rating and will be required to produce, collate, publish and share this with members in the annual Chair’s statement, or other VfM statements, within set timeframes. They must also notify TPR of that rating and where it is published.

Action plans for underperforming schemes and arrangements

There will be consequences for a scheme or arrangement having an 'intermediate' or 'not delivering' rating. An action plan will need to be followed for all schemes with 'not delivering' ratings and for some types of 'intermediate' rating.

Regulatory powers

TPR will have strengthened powers to:

- intervene where schemes fail to deliver VfM
- require schemes to wind up or require members to be transferred to another scheme
- approve and review VfM policies and assessments
- impose penalties of up to £100,000 for non-compliance.

VFM will be implemented via FCA rules for contract-based arrangements.

Regulations detailing the precise metrics, methodology, and disclosure requirements are expected in 2026–27. New VfM assessments are anticipated to be in place from 2028.

The consolidation of small dormant DC pension pots

The Government has observed that, following the introduction of auto-enrolment in 2012, there has been a proliferation of small DC pension pots.

The Bill will facilitate the introduction of regulations for the automatic consolidation of DC pension pots with a value of under £1,000 where the member has taken no steps to confirm or alter the way in which the funds are invested and no contributions have been made in the last 12 months.

Schemes will be able to transfer small pots to a commercial consolidator such as an eligible Master Trust or a Financial Conduct Authority regulated pension scheme, provided certain conditions are met:

- Members must be fully informed of the transfer and given a notice period to respond (30 days has been proposed), as well as an opportunity to opt-out.
- Transfers must be completed before the end of a required transfer period, that is, within one year from the beginning of the latter of:
    - the date the relevant provisions in the regulations come into force, or

- the date the DC pension pot first becomes small and dormant.

A Pensions and Lifetime Savings Association (PLSA) feasibility review is expected to report to the DWP this month, but regulations are not expected to come into force until 2030.

DC default pension benefit design solutions and decumulation (the process of converting retirement savings into income during retirement)

The Bill builds on the 2015 pensions' freedoms and choice by requiring DC occupational schemes to design a 'pensions' benefit strategy' and review this periodically. They will need to publish and share this strategy with members and TPR upon request. An enforcement and compliance framework will allow TPR to monitor and enforce compliance within the requirements.

(The FCA will be required to make similar rules for FCA-regulated workplace schemes).

Schemes will have new duties to:

- develop ways for scheme members to receive their pension without having to make a choice about how they want to receive those benefits (a 'default pension benefit solution'); designed to deliver DC benefits to members that will provide a regular income in retirement (this could be in addition to other benefits). Such a solution will need to meet any conditions that may be prescribed and regulations may exempt categories of members for which a default solution may be unsuitable.

- design one or more default pension benefit solutions, with the intention that they are kept under review at intervals set out in regulations. Any solution must take account of the needs, circumstances, retirement ages, pension pot size, and any aspirations members may have for later life income. As well as consider the possibility that members may wish to take a lump sum payment before entering a default arrangement.

- transfer members to another scheme (a qualifying scheme - an occupational or personal pension scheme) to receive a 'qualifying pension benefit solution' if it is not practical for the scheme to provide a default pension benefit solution, or having concluded another scheme could provide a better outcome for members. The Government is still exploring the use of Collective Defined Contribution (CDC) schemes as an alternative option.

- communicate with members at an earlier stage about the default solution(s) that are available to them. Regulations will specify when information needs to be given to the member and what should be said; taking into account any other options that may be available.

It is anticipated that regulations regarding this will come into force in 2027/28.

Our thoughts

Although not all of these proposed changes are strictly 'new', it is clear that the Government's long term aim is to ensure workplace pensions can provide better retirement outcomes and greater value to members and is therefore welcome.

In some instances, the changes will not come into force for some time; many will be subject to further consultation and will require further regulations and guidance. As such, we will keep clients informed of any updates.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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