

# DC aspects of the Pension Schemes Act 2026

**May 2026**

## Introduction

The Pension Schemes Act 2026 introduces significant reforms for the pensions industry and is intended to influence the development of UK pensions policy over the coming years.

Many provisions are expected to require secondary legislation and further consultations before they are brought fully into force.

The Government's original roadmap was published with the Bill in August 2025 and is summarised later in this note.

### **Key provisions (high-level)**

- Value for Money – an emerging framework intended to help employers and members compare aspects of scheme quality and member outcomes.
- Building scale – policy proposals that aim to encourage consolidation and larger DC arrangements (sometimes described as “megafunds”) over time.
- Small pots solution – proposals to consolidate small deferred pots (for example, under £1,000) subject to the eventual policy design and safeguards.
- Contractual override – enabling powers that may allow certain contract-based schemes to amend terms to facilitate consolidation, subject to conditions and member protections set out in regulations.

Guided retirement – proposals for default retirement/decumulation pathways for trust-based and contract-based DC schemes, subject to consultation and detailed rules.

### **Important information**

This document is intended for professional clients, including pension scheme trustees and sponsors. It is provided for information purposes only and does not constitute investment, legal or regulatory advice.

# Summary

## Value for Money

The Pension Schemes Act 2026 establishes the legislative basis for a Value for Money (VfM) framework for defined contribution (DC) occupational pension schemes.

The concept of a VfM framework has been under development for several years, originally proposed by The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) in October 2018. Since then, it has been subject to a series of consultations, including the FCA's latest consultation in January 2026 covering contract-based schemes. The framework under the Act broadly aligns with the FCA's proposed approach, although the Act itself primarily provides enabling powers for detailed regulations.

The framework is expected to go beyond simple benchmarking and disclosure. Schemes may be assessed and assigned an outcome or rating, with potential regulatory consequences. For example, where a scheme is assessed as delivering poor outcomes, trustees or managers may be expected to take steps to improve outcomes, which could include considering consolidation where appropriate (subject to the detailed rules as implemented).

At its core, the VfM framework requires schemes to assess and disclose performance across three key areas:

- Investment performance – focusing on the net returns delivered to members over time, including risk-adjusted and forward-looking measures;
- Costs and charges – covering the level and structure of member-borne costs, with an emphasis on transparency and comparability; and
- Quality of service and administration – including metrics such as timeliness and accuracy of transactions, member communications and overall service standards.

Importantly, the proposals would involve enhanced supervisory and intervention powers for The Pensions Regulator (TPR), including the ability to scrutinise and, where permitted, challenge the assessments determined by trustees or scheme managers.

## Building Scale and Promoting Consolidation plus the “mandation” power

A central policy objective of the Government is to accelerate consolidation within the DC market and encourage the development of larger, more efficient schemes.

To support this, the Act introduces requirements aimed at creating large multi-employer DC “megafunds”, with a target minimum size of £25 billion by 2030. The underlying policy rationale is that larger schemes can deliver improved member outcomes through lower costs, stronger governance, and access to a broader range of investment opportunities, including illiquid assets.

There is transitional flexibility for existing providers: schemes with assets exceeding £10 billion and a credible plan to achieve scale will be given until 2035 to meet the new requirements.

The rules will apply primarily to the main scale default arrangements of master trusts and certain group personal pension arrangements. In parallel, there will be restrictions on the establishment of new “non-scale” default funds, reflecting a clear policy direction towards consolidation.

The Act also introduces a temporary and potentially controversial “mandation” power, enabling the Government to set minimum allocation levels to certain types of private market investments (including UK-based assets). This power is subject to significant safeguards, including:

- A cap of 10% of the value of assets in main default funds that could be subject to such requirements; and
- A further limit of 5% for investments specifically directed towards UK assets.

The Government has indicated that it does not intend to use this power in normal circumstances. It can be exercised only once, within a defined window (not before 2028 and not after 2032), and any requirements imposed would cease to apply after 2035.

## Tackling Small Pots

The growth of automatic enrolment has significantly increased pension coverage but has also led to the proliferation of small, deferred DC pension pots as individuals move between employers.

Successive governments have been considering solutions to this issue with input from industry groups including the Small Pots Delivery Group. The Act provides powers to enable the consolidation of small DC pots (valued at £1,000 or less) into a single scheme for each individual.

Under the proposed approach, pots would be consolidated into schemes that have been assessed as delivering good value for members.

## Contractual Overrides and Bulk Transfers

The Act also includes provisions designed to facilitate consolidation within contract-based DC schemes, particularly by making it easier for providers to undertake bulk transfers and apply contractual overrides where necessary.

These measures are intended to reduce fragmentation and improve member outcomes by allowing providers to move members into more efficient or better-performing arrangements, while maintaining appropriate safeguards to ensure that such transfers are in members' best interests.

## Decumulation

Concerns about the quality of retirement decision-making among DC savers have been a focus for policymakers for several years. In particular, there has been evidence that many individuals struggle to navigate the complex choices available at retirement. One area of concern is around the rise in unadvised drawdown.

The Act implements the introduction of “default pension benefit solutions” for trust-based DC schemes (also referred to as Guided Retirement). These are intended to provide members with a structured and suitable pathway for converting their pension savings into retirement income, where they have not selected an alternative option.

# Next Steps

Area	Consultation / regulations (per roadmap)	First requirements / go-live (per roadmap)
<b>Value for Money (VfM)</b>	Formal regulations and detailed framework developed during 2026–2027, including consultation on metrics, disclosures and how schemes will be assessed and compared.	First publication of VfM data and formal scheme assessments in 2028, with an ongoing requirement for annual disclosures and ratings thereafter.
<b>Building scale (“megafunds”)</b>	DC consolidation and scale requirements developed through consultations from mid-2026 onwards, including rules on minimum size, default arrangements and market structure.	Schemes expected to meet minimum scale requirements by 2030, with this acting as the point at which the DC market is intended to be largely consolidated into a smaller number of large providers.
<b>Small pots solution</b>	Detailed policy design and regulations consulted on during 2027–2028, including the framework for consolidators and the transfer process.	Authorisation and selection of consolidators by 2029, with mandatory consolidation duties coming into force from 2030, once the market has moved to a more consolidated structure.
<b>Contractual override / bulk transfer</b>	Developed as part of wider consolidation regulations during 2026–2027, focusing on enabling providers to move members without consent where appropriate safeguards are met.	Initial consolidation activity from 2028, including internal default consolidation and early use of bulk transfer powers to reduce legacy arrangements.
<b>Guided retirement (default decumulation)</b>	Regulations and detailed FCA/DWP rules consulted on in 2026–2027, setting expectations for default retirement solutions and governance.	Master trusts expected to comply from 2027, with wider trust-based and contract-based schemes following from 2028.

# Broadstone Comment

The DC reforms set out in the roadmap could represent a material change in the UK pensions landscape over the remainder of the decade. Taken together, the measures would involve sustained regulatory, structural and competitive change across the market.

At the heart of these reforms is a clear policy objective: to move the UK pensions system from a fragmented savings model to one that can deploy capital more effectively into “productive finance”, including private markets and UK growth assets. The Government’s view is that the current system—characterised by many sub-scale schemes and a strong historic focus on cost—has not delivered the level of long-term investment seen in jurisdictions such as Australia and Canada. Those systems, with fewer, larger funds and more sophisticated in-house investment capability, have been able to take a longer-term approach to investing and play a more active role in their domestic economies.

This explains the strong and consistent direction of travel across all five policy areas.

In combination, these measures are intended to reshape the DC market into a smaller number of large, well-governed “megafunds” by 2030, capable of investing at scale and supporting economic growth.

There are clear potential benefits to this direction of travel. Larger schemes should benefit from economies of scale, wider range of assets, higher governance via VfM and improved member outcomes.

However, the reforms are also predicated on a key underlying assumption: that “bigger is better”. While there is evidence to support the benefits of scale, this remains a policy judgement and not an absolute rule. Some well-run smaller schemes may currently deliver strong outcomes and could be challenged under a framework that places increasing weight on scale. In addition:

- As scale requirements and consolidation reshape the market, there is a risk that the number of active providers reduces significantly. Larger providers may be less incentivised to innovate, particularly if market positions become entrenched.
- The introduction of standardised VfM metrics and benchmarking could drive schemes towards similar asset allocations and approaches, as trustees seek to avoid falling below comparative thresholds. This could reduce differentiation and, potentially, lead to “herding” behaviour.

- The emphasis on scale and regulatory expectations may make it more difficult for new entrants to compete, particularly where significant upfront investment is required to meet governance and reporting standards.
- The scale of change required—particularly around consolidation, data, transfers and new regulatory processes—should not be underestimated. There will be operational, governance and member communication challenges as schemes adapt.

Overall, this is best viewed as a system-wide transformation rather than a series of discrete reforms. The intention is to move the UK pension system closer to international comparators that are seen as delivering stronger long-term outcomes and supporting economic growth more effectively.

Current policy signals suggest a continued focus on consolidation, increased governance expectations and outcome-focused regulation. However, the detail and timing will depend on further consultation, secondary legislation and regulatory implementation. This may require proactive strategic decision-making, including, in some cases, whether ongoing independence remains the right long-term option for a scheme.

In short, this will change the shape of the DC market. It has the potential to improve outcomes, but it will also fundamentally alter how schemes operate, compete and are regulated.

## Find out more

**For more information on how Broadstone can help you, please contact your Broadstone consultant or use the details below.**



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