

Implementing post-retirement DC solutions

6 MINUTE READ

Paul Armitage

The Pension Schemes Bill 2025 is expected to place new duties on trustees to provide “default pension benefit solutions” for DC members (and the FCA will need to put in place similar rules for personal pension schemes). Under the new legislation, trustees of defined contribution (DC) schemes - including DC sections of hybrid schemes - will be required to design and offer one or more “default retirement solutions.” These are meant to provide a regular retirement income to members who don’t make an active choice themselves.

Quick summary

The Pension Schemes Bill recognises the challenges that members face in making decisions as they start to access benefits in a post “Freedom and Choice” world. The Bill proposes to mandate that Trustees of DC make available specific default options for pension scheme members to access their benefits on retirement. The “default pension benefit solutions” envisaged by the Bill are largely expected to be Master Trusts - from 2027, authorised master trusts must begin offering and reviewing these default retirement solutions, extending to all other DC trust-based schemes and group personal pensions (GPPs) in 2028.

Appropriate solution design should encompass capital preservation, diversification and drawdown strategy, alongside a strong focus on areas such as clear member communication and support, flexibility, value for money and suitability for the workforce demographic.

Background

Few trustees have sought to offer the range of retirement options from within the Trust – for various reasons. Instead, those who have addressed this need have identified a bolt-on retirement solution that is governed by the provider, and “signposted” members to that solution. This has been voluntary action by the Trustees until now, and the Bill makes this or something similar a future requirement.

The Bill refers to default pension benefit solutions, and its worth clarifying what that means. Default in the pensions world ordinarily refers to what happens when the member does not make an active choice – but that is not the case here. Whilst the Trustees will be signposting the member towards a preferred solution, the member must consent to their fund transfer (and indeed make active decisions over the level of income/ cash being withdrawn).

Key messages

Why this legislation was necessary:

- Freedom and Choice legislation was introduced in 2015, giving members access to their pension pot in any combination of lump sum, annuity and/ or income drawdown. The legislation was positively received. However, it creates a reliance on members to make good choices. In a recent survey it was noted that many people retire without either taking guidance or seeking advice - only 1 in 5 accessed Government guidance such as 'Pension Wise'; retirement worries continue – almost 1 in 4 people worry that they will make the wrong decision and run out of money in retirement; there are diversity and inclusion concerns with evidence that those from lower social groups and women are less likely to access advice; and financial education is a concern - many people have only a limited understanding of the factors that impinge on retirement savings decisions (IFoA 2025). Few would argue that improved member support at this critical point for DC members is required.
- Most trust-based DC schemes support access to lump sums, but require a transfer out for the member to access an annuity (via a specialist provider) or drawdown (typically via a Self Invested Personal Pension or SIPP). Members transferring out to access drawdown have needed to source their own SIPP – requiring decisions members are poorly placed to make without expensive advice.
- The “default pension benefit solutions” envisaged by the Bill are largely expected to be Master Trusts – highly regulated schemes that have been developing tools, modelers and access to member support, with a commercial driver pushing development forwards. These can be sourced for the members by trustees having employed a thorough selection process, and with institutional levels of ongoing charge that in most cases will be far lower than a SIPP – benefitting the members for many years.

The proposed implementation timetable is phased across different types of schemes:

- **From 2027:** Authorised DC master trusts must begin offering and reviewing these default retirement solutions.
- **By 2028: The duty extends to all other DC trust-based schemes** and group personal pensions (GPPs)

Trustees should not wait – doing this now benefits members

- Outcomes for members accessing their benefits are highly likely to be improved by sourcing a default retirement solution – through access to governed investment solutions, lower ongoing costs and improved support. Whilst single employer trusts are not compelled to act now, we believe that **every year of delay means more retiring members losing out.**

Key considerations for trustees and how we can help

The solutions must be **designed with the needs and interests of the membership in mind**. This leads to a number of key criteria Trustees should consider:

Appropriate investment design to include:

- **Capital preservation:** critical to managing sequencing risk (the risk of damaging the pot in taking withdrawals in years of poor returns – particularly relevant in the early years).
- **Diversification:** The solution should spread investments across asset classes to manage volatility.
- **Drawdown strategy:** A well-designed income drawdown strategy that manages longevity, inflation and investment risk.

This aspect should include an assessment of any implications the default solution has for the accumulation scheme – assets need to transition from one to the other for the member, and the retirement solution design may have implications for the glidepath, and assets offered pre-retirement.

Clear Member Communication

- **Transparency:** Easy for members to understand how their money is being invested and drawn down.
- **Member communications:** Accessible language and ongoing support for members to understand their choices.

Governance and Oversight

- **Ongoing monitoring:** The solution should be regularly reviewed for suitability as markets, regulation, and member demographics change.
- **Provider quality:** Chosen providers should have a strong track record, access to long term funding, clear commitment to market and a robust infrastructure.

Flexibility and Optionality

- **Access to all options:** Offers a combination of drawdown, annuity, and cash options - ideally allowing members to transition between them.
- **Flexibility:** Members should be able to switch out of the default if their needs change.

Member support through guidance and advice

- Guidance offered, before and importantly post-retirement. Typically, through a digital solution, at no cost to members.
- Advice available on request; ideally independent, and at discounted rates versus retail.


Cost and Value for Money

- **Low, transparent fees:** Costs should be competitive and reflect the economies of scale in supporting a workforce.
- **Fair charges for complexity:** More sophisticated options (e.g. dynamic drawdown) must justify their fees with better outcomes.

Suitability for the Membership Base

- **Demographic alignment:** Designed with the employer's actual workforce in mind (age, pot size, likely retirement behaviour).
- **Default appropriateness:** Recognises many members may not seek advice or take active decisions.

Muse Advisory are well placed to support trustees with these assessments; we continually monitor provider propositions in this space and have tried and tested processes for helping trustees run procurement projects that add value and reduce ultimate costs for the sponsor.

Our services include supporting the provider assessment, project management for the implementation including member communications, and help with designing a suitable approach to ongoing provider governance. 

Summary

This legislation recognises the challenges that members face in making decisions as they start to access benefits in a post "Freedom and Choice" world. We know that deciding what to do, and then finding products to do it through is difficult, and this legislation is a welcome step in the right direction.



For more information please contact Paul Armitage at paul.armitage@museadvisory.com