Roundtable:
The Evolving DC Landscape

The purpose behind our Pensions Leaders dinners is to share knowledge, ideas and wisdom with each other. We brought together Heads of Pensions, Trustees, and specialists from legal, communications and beyond to discuss the evolving DC landscape focusing on three key topics: consolidation, default retirement and targeted support.

Consolidation

- Too much consolidation narrows down choice and reduces the incentive to innovate, which is not beneficial to members. Australia was cited as an example of this
- Market forces should drive where the market lands
- Limited appetite for biggest single-trust schemes to transition to a Master Trust. They are waiting to see how the market evolves

The discussion began with a look at consolidation across the DC market and moved directly onto what the marketplace will look like in five-years' time.

'I think there will be a dozen or so Master Trust providers. If you end up with five or so, it's not good for members because it reduces choice.'

It was agreed that too few Master Trust providers could lead to homogenisation, which narrows down choice.

It was viewed that this will not be positive for members. 'Surely, seeing some different innovation in the market is good for members, however, the value for money framework does not encourage this.' It raised the risk that providers start looking and behaving more alike.

It was highlighted that Australia is often held up as the model we should learn from, and there is a great deal we can take from their experience. However, one of the consequences of their system is that there is relatively little differentiation between many of the large super funds. 'The cost of failure is extremely high. If performance falls short, providers must correct course quickly or risk being forced out of the market altogether. That inevitably encourages caution and results in little differentiation.'

'The current size of the UK market means there is already plenty of scale and scope to support the wide range of Master Trusts. I'm rooting for less consolidation and more variety.'

If the market were to consolidate down to only five or six major providers, that challenge could become even greater. Providers would know that switching options are limited and that they would be unlikely to lose significant volumes of business. The incentive to innovate diminishes, while the incentive to protect margins increases. You may still see improvements, but they are likely to be incremental rather than transformational. The result could be a slower, less dynamic market.

'That is why I would prefer to see a healthy number of providers competing for business. Competition drives innovation.'

Innovation was described as an important factor, especially for members. However, it was commented that one of the unintended consequences of the scale tests is that the providers most at risk are those that are doing something different.

'In many cases, these are firms that have sought to differentiate themselves through their investment approach, technology proposition or operating model.'

Some voiced a fear that investment propositions were less differentiated than they appear. Most providers start with broadly similar actuarial assumptions, access to the same investment markets and many of the same investment managers. The real distinction lies in how those strategies are implemented and communicated. Administration is largely a hygiene factor.

However, another participant commented,

'I am beginning to see a future in which provider solutions remain more diverse than many people expected. If you look at the range of investment approaches emerging today, particularly the different ways providers are incorporating private markets into default funds, there is diversity. If providers are building propositions around their genuine strengths, that can create meaningful choice in the market.'

Ultimately, *'market forces should determine where the market eventually lands and market forces were already driving the industry towards a smaller number of providers.'*

An interesting question was raised about whether it's just a matter of time before the remaining single-trust schemes will migrate into Master Trusts. There appear to be compelling reasons why some sponsors of large schemes in particular will continue to run their own schemes for the foreseeable future.

It was commented that TPR's own data suggests the movement towards Master Trusts has been concentrated among small and medium-sized schemes. If you look at the largest schemes, the picture is very different. The number of large single-trust arrangements has remained relatively stable, which suggests there is still limited appetite among the biggest schemes to make the transition.

Many of these schemes are substantial in size and appear content to wait and see how the market develops, especially if they are well-governed and well-resourced. It means they can take advantage of innovation without necessarily having to move into a Master Trust.

'Our bundled provider gives us access to the Master Trust developments in member-tech, so we don't feel we're missing out.'

Default Retirement

- **Guided retirement seeks to preserve choice while ensuring members are not left unsupported**
- **Retirement design is critical - over a 30-year retirement period, every additional 10 basis points of charges could reduce a member's sustainable retirement income by the equivalent of around a year**
- **Many people assume auto-enrolment will provide them with a big-enough pension. Contribution rates are far too low**

- **Decumulation remains complex because of the different needs and aspirations of people**
- **It's important to pre-condition people years ahead of their retirement, so they can be more confident making decisions when they eventually do retire**
- **Effective communication becomes even more critical – this is an area that needs strengthening in the industry**

Default retirement, or guided retirement solutions feels like one of the most important developments currently facing the pensions industry. For years, much of the focus has been on the accumulation components - contributions, investment design and default strategies. However, retirement decisions arguably have an even greater impact on member outcomes.

It was commented that only in the last two years have we seen meaningful innovation emerge at scale, such as sustainable income solutions, guaranteed income products, flex-and-fix arrangements and, in time, retirement CDC. Alongside this, we have new legislation on the horizon, with the Pension Schemes Bill introducing guided retirement requirements for Master Trusts and single-trust schemes on slightly different timetables.

The government's intervention is clearly part of a wider consolidation agenda. At the same time, it is trying to address a genuine challenge. In the FCA-regulated world, the emphasis has traditionally been on consumer choice and individual responsibility. Occupational pension schemes, by contrast, have tended to take a more paternalistic approach, helping members make decisions and providing greater structure and support.

Guided retirement is, in many ways, an attempt to bridge those two worlds. It seeks to preserve choice while ensuring members are not left unsupported if they do not actively engage with complex retirement decisions.

'Under the current proposals, Master Trusts are expected to comply with guided retirement duties from 2027, with other occupational schemes following in 2028. Whether those dates remain unchanged remains to be seen.'

What is clear is that the legislation places significant new responsibilities on trustees. and creates opportunities for improved member outcomes. For example, Muse cited that over a 30-year retirement period, every additional 10 basis points of charges could reduce a member's sustainable retirement income by the equivalent of around a year. That illustrates just how significant retirement design and charging structures can be in shaping outcomes.

The new legislation effectively creates an entirely new area of governance and oversight that schemes will need to consider in much greater depth than before.

It was further commented that at the heart of the debate is a deceptively simple question: what does a default retirement outcome mean? If a member reaches retirement and does nothing, are they automatically placed into a retirement solution? Or does the framework stop short of that? It means additional clarity is required.

'What worries me is that, over time, we've started to focus on building capital pots rather than providing retirement income.'

The group believed that accumulation is relatively straightforward. Most people are trying to achieve the same objective: building a retirement pot. Decumulation is different because individual circumstances diverge significantly. The original purpose of a pension scheme was to provide an income throughout retirement; somewhere along the way, the conversation shifted towards creating a pot of money that individuals can access and use however they choose. Increasingly, people are drawing money before retirement, which often means they remain in the workforce for longer. There was a view that the industry needs to come back to the fundamental purpose of pensions. Providing an income on retirement - and that objective should sit at the heart of how guided retirement solutions are designed.

The conversation moved on to the complexities of planning for retirement. It was commented that, 'for many people, pension pots simply are not large enough.' It was recognised that as an industry, we can spend a lot of time discussing administration, retirement pathways and product innovation, but the fundamental issue remains that too many people are not saving enough.

'Increasingly, we're seeing headlines about the size of pension pot required to achieve what is described as a "comfortable retirement". The truth is that a significant proportion of savers are nowhere near those levels.'

It was highlighted that part of the problem is perception. Many people assume that auto-enrolment contributions are sufficient to deliver a comfortable retirement income. In reality, for most individuals, contribution rates remain far below the level required.

While investment returns matter, charges and product design also matter. For most people, particularly those with smaller pension pots, the most important variables remain - how much money is contributed and for how long.

'Those of us who benefited from DB provision often underestimate the scale of the challenge. The contribution levels that supported DB pensions for decades bear little resemblance to the contribution rates many DC savers are making today. For the next generation, the gap is significant.'

The discussion then briefly transitioned to communication and member understanding. Since the introduction of Pension Freedoms in 2015, members have been presented with an increasingly complex set of retirement choices. As an industry, 'we've been poor at helping people understand their choices.' Human behaviour is also a factor - most people simply don't want to engage with complex financial decisions. They either default into the option that's presented to them or look to see what everyone else is doing.

The comment was made that retirement timing is often dictated by circumstance rather than choice and is more complex than the policy framework assumes. The assumption seems to be that members arrive at retirement, press a button and move seamlessly into a retirement solution that provides an income for the rest of their lives. Retirement rarely follows such a structured path. A significant proportion of members retire either earlier or later than expected.

We also need to remember that members increasingly have multiple pension pots. Many people receive wake-up packs and retirement communications from several providers at the same time. If each provider is offering a different retirement pathway or "default" solution, members can quickly become overwhelmed.

'An individual could be segmented into different cohorts by different providers and receive entirely different targeted support messages from each of them. That feels like a recipe for confusion.'

It was commented that rather than presenting members with a complex decision at retirement, the industry should help people understand what options are available to them years before they reach retirement age. Pre-conditioning people from their early 40's about their options is key so they are better prepared as they near retirement.

This is made more complex when we look at decumulation. The market has not yet settled on a single model. We have flexible drawdown solutions, CDC developments, guaranteed income options and a range of other approaches emerging. We are still some way off from consensus.

Finally, it was agreed that members need options. They need the ability to speak to someone, access guidance digitally, use AI tools where appropriate, or seek regulated financial advice.

Targeted Support

- **Targeted support is timely as DC grows**
- **FCA permissions are landing now**
- **Access to the right data is crucial for cohort mapping. It needs to cover a broad range of factors, such as attitude to risk. It's an area that's more complex than everyone realises**
- **Education is key as it builds confidence**

The roundtable concluded with a discussion on targeted support.

The comment was made that it feels like targeted support is coming at the right time - DC pots are getting larger, we have member inertia and the alternatives that members are faced with are increasingly complex.

It was clarified that targeted support allows providers to speak to savers in a particular way offering ready-made investment and pensions suggestions. Part of targeted support is creating cohorts of members with similar characteristics from the data providers have and allowing providers to segment directed messages in a way they have not been able to do previously.

'The first FCA permissions within the targeted support framework are landing now.' – however, it was commented that these are for very specific use cases.

Participants talked about the importance of data in all of this. There is a real challenge that assumptions will be made on the data that is required for the cohort mapping. Easily accessible provider data such as age, pot size misses other important factors which include attitude to risk or how members want to plan for their future. It's an area that requires careful consideration and there is no one size fits-all. 'To do this on an industrialised scale is very complex.' It was commented that retirement decisions are influenced by health, family circumstances, tax, benefits, housing, wider assets and personal objectives, and that a framework built largely around pensions data can only ever see part of that picture. Unless support becomes genuinely holistic, there will always be limits to how effective any guided retirement framework will be.

The complexities of addressing human behaviour became a point of discussion. Usually, people gravitate towards the path of least resistance. They're unlikely to spend time navigating a complicated website or process if there's an easier alternative available, using whatever is simplest, most accessible and already embedded in their daily lives. This often leaves people being influenced by recommendations and tips they see on social media. They are also more open to scams. Dashboards were briefly discussed.

'The reality now is that they are there to show people where their pots are and they are not targeted support.' However, commercial dashboards, when available, may also deliver appropriate solutions for members such as *'this is a solution that similar people to you have selected.'*

'Education is also a key factor in all this as it builds a mindset and confidence and as a nation, we don't educate people on the basic financial matters.'

This further amplifies challenges when people approach retirement.

Finally, as the roundtable closed, it was commented that Master Trusts are, in many respects, still in their adolescence. The market began by offering relatively standardised solutions at broadly similar prices.

We're now entering a new phase where providers are beginning to compete through proposition design, retirement support, financial wellbeing, technology and member engagement.

'There is a huge amount of change still to come.'