

Guided Retirement

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12 Minute Read

INSIGHT

DC Trustees are obliged to put a Guided Retirement solution in place before new statutory requirements take effect, but in the meantime, every month of delay risks members transferring to higher-cost retail arrangements, potentially eroding retirement income. This article shows that even modest differences in charges can materially reduce outcomes and undermine the value created during the accumulation phase. **Acting now can significantly boost your members' outcomes.**

Introduction

As Bec Wilson so eloquently sets out in her recent book "How to have an Epic Retirement" (recommended reading), retirement is about choices. Whilst many of these are not financial, the question of how to use assets - and pension funds in particular - to fund retirement income is prominent: for many members it is their largest asset outside of property.

Since 2015, members have been able to take their benefits at retirement through any combination of: a guaranteed income (annuity); flexible income (drawdown) and lump sums. Members widely welcomed being given the freedom to choose – but the reality has been that they find these decisions hard to make; products and language are confusing, tax implications and the impact of lifespan are hard to model – and for many managing a investment fund in drawdown through market ups and downs is really challenging.

The Pension Schemes Act 2026 requires that the DC Trustee offers a default retirement solution (also referred to as "Guided Retirement") to members that takes into account the type of membership in the scheme.

Prior to the Act, the selection of a Guided Retirement solution had been voluntary for Trustees. In schemes where one has not been selected, members wishing to access income via flexible drawdown have typically done so by transferring out to a Self-Invested Personal Pension (or "SIPP"). We see two key advantages for members in having access to a Guided Retirement solution over a SIPP:

- Schemes can access institutional pricing that frequently offers charges in drawdown that mirror those of the accumulation phase
- Guided Retirement solutions will in many cases be sections of a Master Trust, which must be authorised in the UK. This creates a minimum standard for governance and ensures a long-term scheme focus on member outcomes.

The impact of the Pension Schemes Act 2026

An important aspect of the recent Pension Schemes Act is a new statutory duty for trustees of defined contribution trust-based pension schemes to design and offer one or more 'default pension benefit solutions' ("default solutions") for members at the point of retirement. The new requirements cover trust-based DC schemes including master trusts, although the FCA will be putting in place similar rules for group personal pension plans ("GPPs") and other contract-based arrangements.

Under the new requirements in the Act, members will retain the full suite of retirement options provided under the 2015 Pension Freedoms, but there will now need to be default solution(s) made available to those who do not (or cannot) make their own choice.

What the Act is trying to achieve

Addressing poor financial decisions in retirement

Many pension scheme members are passive or disengaged and may be unlikely to make active choices about their pension at retirement. This lack of engagement can inevitably lead to poor financial decisions at retirement, such as choosing inappropriate income options or failing to plan adequately for longevity.

To address this, a key requirement in the Act is the requirement for trustees and managers to design and offer one or more "default pension benefit solutions" for members whereby members will be automatically placed into a default decumulation option unless they actively choose an alternative (although see 'Transfers to Third Parties' below where active member consent is needed).

Improving the suitability of options offered

A further issue is that pension schemes may lack the scale or resources to offer a broad range of decumulation products or indeed the options provided to members may not be appropriate at the relevant life stages when members choose to access their pension.

The Act aims to tackle this by requiring trustees to offer default pension benefit solutions tailored to the specific needs of the scheme membership as a whole, and where appropriate any subset of that membership (such as cohorts with a longer life expectancy or the expected value of their pension pot). The Act includes broad powers for the government to pass regulations which detail how trustees should assess the needs and interests of the scheme membership for the purposes of the default solution.

Where schemes cannot offer their own default solution (and many trustees will not want to do this, for perfectly good reasons), the legislation provides that schemes will need to identify a third-party scheme that can provide a suitable solution.

Improving retirement outcomes

Without proper guidance, retirees face the risk of either depleting their pension pots too quickly or being overly cautious and drawing too little income, both of which can lead to financial insecurity in later life.

To mitigate those risks, the Act mandates the provision of tailored default decumulation solutions that are designed to provide a regular income in retirement.

There is also the opportunity for members of workplace schemes to benefit from continued institutional pricing. Most providers of default solutions offer member charges based on the size of employer, and these can be materially lower than charges the member can access in the retail market were they to transfer to a SIPP to access benefits; those lower charges also apply for the remaining investment lifetime of the member. This can make a significant difference to the future value of a fund in drawdown.

In summary - a key driver behind the legislation therefore seems to be that trustees will be expected to take a more active role in ensuring that default options are suitable for their members and that individuals are not left to navigate complex financial decisions on their own.

Transfers to Third-Party Schemes

Where it is not practicable to offer a default solution in-scheme, or where trustees believe a better retirement outcome can be achieved with another provider, schemes may offer a qualifying default solution in another scheme (such as a Master Trust). Where that's the case, schemes would need to identify an appropriate scheme that is willing to receive the transfer-in and make a qualifying pension benefit solution available to the transferred member. Importantly, transfers to a default pension benefit solution provided by another scheme would still need the member's written consent before making the transfer. So it is not truly a default solution.

What selecting a Guided Retirement solution requires of Trustees

In many ways the considerations here are similar to those when selecting any DC bundled services provider – the focus should be on member outcomes. There are a few specific issues to consider:

- Suitability for the membership: the Act requires that the Guided Retirement solution is appropriate, and that may be best achieved by documenting an analysis of the scheme membership demographic (such as the ranges of retirement ages, pot size and engagement levels based on the accumulation experience)
- Provider selection: a large number of potential providers will offer products and services to meet this market need, and before selecting one the Trustee should consider investment design and performance, provider longevity and market commitment, administration and service levels, member technology and Value for Money. It is worth calling out:
 - Investment design: consideration should be given to the likely end point of a lifestyle phase for members, and the default design of the receiving scheme – a significant mismatch should be avoided
 - Member communication: members will need to be made aware of the selected Guided Retirement provider and given time to plan well ahead of retirement, able to access the provider tools and modellers that allow comparisons of different approaches to

taking retirement income and the impact in areas such as tax and inheritance – and the guidance and advice available to them

- The administration process: member data and assets will need to transfer from the accumulation scheme to the selected Guided Retirement provider (unless this is one and the same provider) – this requires processes that reduce risks and maximise the outcome for members by reducing delays
- Member access to guidance and advice: many providers have telephone-based guidance services available at no cost to members, with access to advice where the costs are subsidised. This will be supplemented by the “Targeted Support” rules coming in shortly allowing strong direction to be given to member cohorts
- Ongoing governance: once the Guided Retirement provider is in place the Trustee will need to ensure that the product and services are meeting member needs using a suitable governance process.

The cost of delay

Many schemes now have a flow of members who are planning for retirement and will need to decide how to access their DC benefits.

Where a Guided Retirement solution has not been put in place members will need to source their own retirement solution – frequently a SIPP.

SIPPs frequently offer members access to a very wide range of investment asset classes, including individual listed stocks, commodities, currency and property. This investment flexibility results in many SIPPs carrying a range of charges that in combination can be a multiple of the cost of investments available in an institutionally priced Master Trust. For a small percentage of members this investment access is valuable whilst for the majority it is unnecessary, with members electing to invest in pooled funds similar to those found in a Master Trust.



The impact of additional charges on both the level of income received and growth of a pension pot can be profound. As an example, a £250k pot at retirement carrying a 1% charge would deliver c.£86k less in income and growth over 30 years (assuming 4% annual withdrawals and 5% growth) compared with a pot carrying a 0.3% charge.

Another way to look at this is that every 0.1% of extra charges is equivalent to more than a year's additional income over a 30-year retirement. Or in this example, the member could have extracted the extra 0.7% each year, and received c.£50k in additional income over those 30 years.

For every month that passes before a scheme introduces a guided retirement solution, there is more potential for members to move to a SIPP, incur needless charges and take a massive hit to the amount of their retirement income over time – unravelling the good work done by scheme trustees on behalf of their members providing access to good low-cost defaults in the accumulation phase.

Guided retirement remains a key theme in DC, although the Government's updated pensions roadmap has now pushed formal implementation back: duties are expected to apply to master trusts and GPPs in the second half of 2029, with other DC schemes following in the second half of 2030. That does not make the issue any less urgent. Members are retiring now, and where no guided retirement pathway is available they may still need to navigate complex choices themselves, often by transferring to retail drawdown arrangements. Trustees should therefore use the additional time productively: understand their membership, assess the emerging provider market, consider whether in-scheme, partnered or master trust solutions are appropriate, and plan communications well ahead of retirement. The deadline may have moved, but the member-outcomes case for early action remains strong.

How Muse Advisory can help

Muse Advisory has significant experience in the DC provider assessment market; we can support Trustees in running an effective process to satisfy their needs and that takes both sponsor objectives and the needs of the scheme membership into account.

We also take great care in identifying an implementation process that uses the skills and resources of the provider to their fullest extent – reducing the cost of a project.



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Paul is backed by a team with extensive consulting experience – several members have worked inside master trusts, running or supporting them. They bring strong practical experience in the area of DC.

