DC Agenda

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Welcome to the Spring issue of DC Agenda

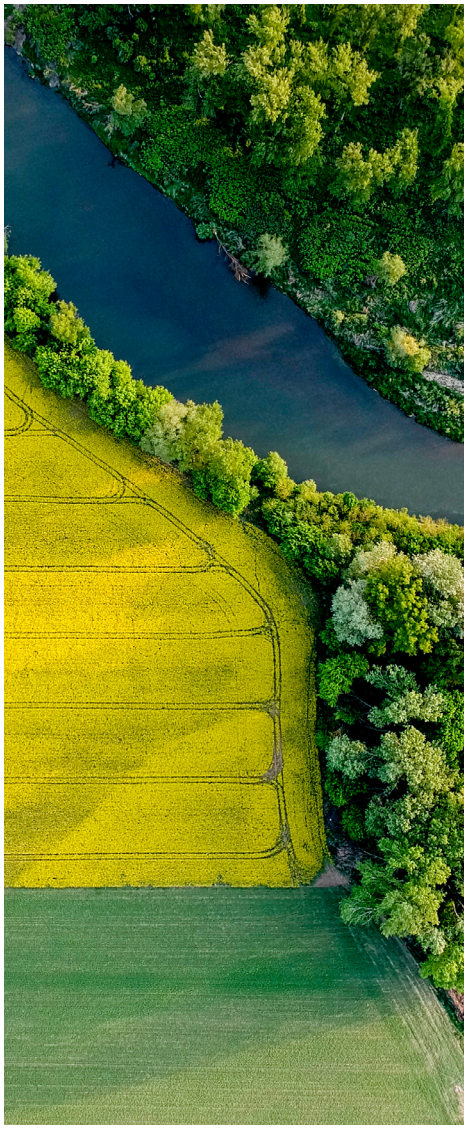
There will be so much for DC schemes to focus on soon, I suspect updates will be coming thick and fast once the Pension Schemes Bill is enacted and consultation on the detail in draft regulations begins. Meanwhile there are prospects of further change – retirement CDC for a start, and then the Pensions Commission is still working away in the background and was initially expected to produce an interim report in spring 2026.

For the time being, however, we have an update on the FCA's approach to VFM – which is expected to influence that for occupational DC schemes – and on the regulations implementing multi-employer CDC legislation and the subtle changes in those since they were consulted on. We also summarise the draft new CDC Code, but at high level: like most compliance documents it operates mainly as a checklist and reference document.

We hope you enjoy. As always, please do contact me or your usual Linklaters contact if there is anything you would like to discuss or you have thoughts on topics for inclusion in future editions.



Rosalind Knowles
Partner



An update on Value for Money

In our Autumn 2025 DC Agenda, we provided an update on the new value for money framework (VFM) for default arrangements in workplace DC schemes. In the Pension Schemes Bill, the Government has set out the building blocks for the new VFM framework, with much of the detail still to come.

The new VFM framework intends to allow industry stakeholders to assess and consistently compare the holistic value of DC workplace pension arrangements, rather than focussing only on cost. By way of recap, the framework will introduce four elements:

- Consistent measurement and disclosure: trustees and firms will be required to measure and publicly disclose investment performance, costs and service quality, using metrics designed to assess VFM effectively.
- Objective comparison: those responsible for oversight (trustees for trust-based schemes, and independent governance committees and governance advisory arrangements for contract-based schemes) will be able to assess performance against the market on a consistent, objective basis.
- Transparency of outcomes: assessment results will have to be publicly disclosed.
- Action on poor value: trustees and firms will be required to take specified actions where an arrangement is assessed as not delivering VFM (including closing them to new business and moving members to better-performing schemes).

The FCA has now issued a further consultation and response to their previous consultations. This publication sets out the FCA's proposed detailed rules and guidance for contract-based schemes (to be implemented through the FCA Handbook). The VFM framework for trust-based DC schemes is set out in the Pension Schemes Bill, with consultations on draft regulations and Pensions Regulator guidance to follow.

However, the FCA has made clear that it is working closely with the Pensions Regulator and the DWP to ensure alignment between trust-based and contract-based schemes. It is expected that this consultation will shape the regulations which will apply to trust-based DC schemes.

The main changes proposed since the FCA's earlier consultations are:

Forward-looking metrics

The FCA is now proposing to introduce two forward-looking metrics to be considered alongside the backward-looking metrics as part of the VFM assessment. The FCA

is of the view that forward-looking metrics will be helpful in enabling comparisons of strategy and expected outcomes for savers across different arrangements, consistent with an overall goal of pensions providing good long-term outcomes for members.

The two forward-looking metrics proposed by the FCA are:

> expected annualised net returns over the next 10 years; and

> expected annualised standard deviation of returns over the next 10 years.

For each arrangement, firms and trustees will be expected to decide their own methodology and assumptions when calculating these metrics, the FCA having concluded that standardised assumptions would be costly and prone to flawed results. Firms and trustees will, however, be expected to obtain external third-party advice when setting these assumptions.

Fewer costs and backward-looking investment performance metrics

In response to feedback, the FCA has proposed to cut back some of the disclosure requirements for backward-looking investment performance and costs.

Disclosure of costs and backward-looking investment performance data will be required based on periods of 1 year, 3 years and 5 years where available, and 10 years where reasonably practicable to obtain, with a 15-year data period no longer required.

The FCA also confirmed that it will no longer require schemes to provide an additional metric of performance – maximum drawdown – which it had proposed in a previous consultation.

In earlier consultations, the FCA had proposed that costs and charges disclosure would be split between service costs and investment charges. The FCA still proposes that this level of detail will be provided for the 1-year reporting period. However, in response to feedback, the 3, 5 and 10 year reporting periods will only require reporting of the total costs and charges.

Streamlined service quality metrics

The FCA has proposed some minor changes to a couple of the metrics for assessing quality of service, with a view to streamlining the requirements. These metrics will focus on two areas:

> how savers can be confident that transactions are secure, prompt and accurate; and

> whether savers are satisfied with the service they receive.

However, the FCA has observed that there will be extensive changes to the way savers engage with their pensions in the medium term, for example in light of the new guided retirement and targeted support regime. In light of these broader industry changes, the FCA has said that it does not propose to launch a full suite of quality of service metrics at launch of the VFM regime; instead it will develop them over time in consultation with industry.

Comparators

Originally, it was proposed that trustees and firms would compare their arrangements against three other arrangements. Now, the FCA has proposed that a much wider commercial comparator group will be used instead. This would be enabled by an online central data repository, which would provide comparative data for all investment performance, costs and charges, and relevant quality of service metrics. The FCA has said that the use of a wider comparator group should allow for a more objective and consistent approach to the VFM assessment.

Ratings

Previously, it was proposed that the VFM assessment would result in the assignment of one of three ratings (red, amber or green). In response to industry feedback and to allow the identification of top performers, the FCA has now proposed a new four-point rating system:

- Dark green (value for money): the arrangement is clearly outperforming most in the comparator group and there are minimal areas where improvements could be made.
- Light green (value for money): the arrangement is delivering value, but there are areas that could or should be improved. The FCA expects that there will be more light green arrangements than dark green arrangements.
- Amber (not value for money): the arrangement can be improved to reach value for money. The trustee must believe that improvements are possible within 3 years to make the arrangement value for money.
- Red (not value for money): the arrangement cannot be improved to achieve value for money and a bulk transfer to another arrangement must follow if this is in the best interests of members.

Next steps

The FCA's consultation closes on 8 March 2026.

It is clear from the consultation that much of the detail of the new regime is still to be fully developed, and the FCA is welcoming comments from industry with respect to its proposed changes. We are also awaiting draft regulations from the DWP in respect of how the new VFM regime will apply to trust-based schemes, which are due to be published during the course of this year or 2027.

It is currently expected that the first VFM assessments will be required in 2028.



Chris Biddle



Multi-employer CDC – more progress towards "go-live"

Since the publication of our last DC Agenda, the Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025 have been laid and will come into force on 31 July 2026. The Government's response to consultation on 23 October 2025 on the draft version of those Regulations indicates a few key changes or clarifications:

- **Sectionalisation and pooling:** Trustees will have the power to set flexible triggers for sectionalisation in order to avoid undermining risk-pooling benefits, and can decide when it is appropriate to change these parameters; routine investment changes are not intended to force sectionalisation. It is expected TPR's Code will set standards around this.
- **CIO:** Whilst it is still not mandatory to have a Chief Investment Officer, if there is one they will be required to meet the fit and proper person requirements.
- **Time to operational:** Schemes will have 24 months (rather than 18) from TPR receiving the authorisation application to commence operations. TPR can approve an extension of up to 6 further weeks.
- **Actuarial equivalence:** Scheme rules must ensure expected accrual matches expected contributions over a period agreed between trustees and the scheme actuary, with trustees determining on advice from the actuary (guided by Financial Reporting Council standards) the method and assumptions to be used in this assessment, to guard against excessive cross-subsidisation. This introduces considerably greater flexibility as to the period to be examined and the method and assumptions to be used. Moreover, the requirement never to switch between demonstrating actuarial equivalence at member and employer level has been dropped (although it is thought this is unlikely to occur frequently) as unnecessary, as long as a CDC scheme can still satisfy TPR it is meeting authorisation requirements.
- **Viability report:** The scheme proprietor's approval is required only for the viability report issued in connection with the original application for authorisation, not for subsequent reports, although it must be provided with copies.

- **Viability certificate:** This will no longer have to state whether the actuarial equivalence test is met at the time of applying for authorisation; instead all schemes will need to meet both the first (ability to match CPI increases) and second (accrual to match or exceed value of contributions) gateway test at outset. (Previously the second gateway test was relevant only if actuarial equivalence was being certified at employer level.)
- **Marketing restrictions:** Trustees are prohibited from marketing CDC schemes; it has been clarified that DWP anticipates TPR will identify boundaries in the Code to mitigate mis-selling risks.
- **Financial sustainability:** DWP indicates that access arrangements (not just direct holdings) to financial resources are permitted; an earlier proposal to restrict proprietors' activities to being a scheme proprietor only was withdrawn as overly prescriptive and unnecessary.
- **Continuity planning:** The ability to "run-on closed" must not be unduly fettered. DWP anticipates that financial resource requirements will be calibrated to make this workable (as inadequate resources could, of course, create a practical, if not a legal, fetter on the ability to run on).

Overall, the changes are quite minor but suggest greater flexibility being created by relying on trustees to self-regulate in light of their fiduciary duties and the Code, rather than imposing prescriptive detail in the Regulations.

On 19 December TPR issued its draft Code in connection with the new Regulations for consultation.

TPR proposes replacing the existing CDC Code with a code that covers both single-employer and multi-employer schemes, which seems sensible given the extensive overlap in the relevant legislation, and more user-friendly. Otherwise the consultation largely focuses on asking if sufficient detail and clarity is provided in the draft Code.

The draft Code sets out:

- How to make an application for authorisation.
- Matters TPR will take into account when considering applications.
- Guidance around sectionalisation.
- TPR's expectations for the conduct and practice of those who must comply with the obligations set out in pensions legislation.

The draft Code itself covers:

- What must be included in the application for authorisation, the fees and process.
- Considerable detail of how TPR will assess certain of the authorisation criteria, with sections on:
  - Systems and processes.
  - Scheme proprietor.
  - Fitness and propriety.
  - Financial sustainability.

- Continuity strategy.
- Promotion and marketing (with indications how promoters should establish processes to ensure marketing materials are clear and not misleading, including giving trustees the opportunity to review and challenge, and how they can evidence that materials are clear and not misleading).
- Sound scheme design.

- A section on ongoing supervision including examples of significant events.

The consultation closed 13 February 2026 and it is anticipated the Code will come into force at the same time as the CDC Regulations on 31 July 2026.



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