PASA DC Working Group

Default Retirement: The Operational Challenge Facing Pension Scheme Administrators

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David Fairs (Board Sponsor)	**PASA Chair**
Jessica Rigby (Chair)	**Vidett**
Helen Ball	**Sackers**
Lesley Carline	**KGC Associates**
Stephen Coates	**Mercer**
David Porter	**Mobius Life**

1. Introduction

New duties

The UK pension landscape is about to change. New duties on default pension benefit solutions[1] will reshape how schemes support savers at retirement.

We're moving away from pension freedoms, where individuals made their own decisions, often with limited support. In future, schemes will need to take a more active role. This reflects Government's clear direction to shift the focus of pensions back towards delivering a reliable income in later life. If a saver doesn't make a choice, the scheme must step in.

Put simply, savers should leave work with a pension income, not just a savings pot.

Administrative implications

We support the policy objective behind these changes. But most discussion so far has focused on policy and product design. Very little has focused on how this will work in practice.

This is where the challenge lies.

To deliver these solutions, administrators will need to make major changes. Many current processes will no longer be fit for purpose. Both frontline services and back-office processes will need to evolve alongside system design.

This isn't a small change, it's structural shift.

The timeline is also tight. Current expectations suggest:

- master trusts from 2027
- single employer schemes and group personal pensions from 2028

In practice, this gives administrators less than two years to design, build, test and implement new default retirement processes, often across multiple schemes.

Without early action, this creates a real risk of system strain across the market.

Questions facing administrators

Several critical questions which go to the heart of delivery remain unanswered:

- How will trustee decisions on guided retirement translate into clear instructions for administrators?

[1] See Chapter 6, Part 2 of the Pension Schemes Bill 2025 which sets out the new guided retirement duties

- Who has the final say if systems can't support the chosen route?
- How and when will administrators identify and default savers, including different cohorts, into income solutions?
- How will administrators gather the information needed to support those decisions?
- What systems, data and processes will support more complex retirement journeys, including 'mix and match' solutions?
- How do administrators design solutions flexible enough to cope with future changes, particularly in a consolidating DC market?
- How do administrators and trustees communicate effectively with savers well before retirement?
- How do these processes align with vulnerable customer requirements as the population ages?
- How will cooling-off periods work in practice?
- How do administrators deliver all of this without disrupting business-as-usual (BAU) administration?
- What will charging structures look like across different cohorts and schemes?

Administrators will need clarity before they can build workable solutions. They need answers soon.

Purpose

This Guidance focuses on the operational reality of the changes needed. It's aimed at administrators and pension professionals responsible for delivery. It sets out the key challenges, risks and dependencies we need to address. We also highlight practical steps which can be taken now to prepare. This is a once-in-a-generation change and the delivery will determine success.

In the following sections, we focus on the regulatory direction, the operational impact and the practical steps needed to deliver default retirement solutions. We look at delivery models, key risks and the role administration will play in making these reforms work in practice.

2. Regulatory Context – What We Know So Far

2.1 Pension Schemes Bill 2025 – Guided Retirement

The Pension Schemes Bill 2025[2] introduces a requirement for trustees and managers of a relevant scheme to make available to each eligible member one or more default pension benefit solutions which are designed to provide a regular income in retirement[3].

There's no sign pensions freedoms are being rolled back. But the direction is clear. The focus is moving from 'pots' to 'pensions'.

This means retirement conversations will move away from lump sums and towards income.

Key elements include:

- Defaults must be in place for savers who don't make an active choice
- Trustees and managers must consider the needs of their membership, including different cohorts based on factors such as age and pot size, and the possibility savers may have already received some benefits
- Defaults must be reviewed regularly
- Schemes may partner with third-party providers where in-scheme solutions aren't practical or don't deliver the best outcome
- If a solution sits outside the scheme, any transfer will require consent
- Savers must be informed and retain the right to opt-out

The policy intent is clear. Savers should benefit from income and longevity protection, while keeping flexibility where needed.

Much of the detail will sit in secondary legislation, but Schemes will be judged on saver outcomes, not just the options available to them. This will be a challenge when Schemes are dealing with disengaged members.

With master trusts expected to implement from 2027, more detail is due later in 2026. Even if timelines shift, the runway is short. In practice, this means:

- trustees must make decisions quickly
- administrators must build and deliver solutions at pace

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[2] See clause 49

[3] In effect 'relevant scheme' means an occupational scheme providing DC benefits, unless that scheme is exempt and 'eligible member' means any member who is accruing or entitled to DC benefits who isn't exempt

This includes system changes, new processes, third-party arrangements and new communications. All of this must happen alongside BAU activity.

2.2 Related Developments

These reforms don't sit in isolation. They form part of a wider shift across the market.

Key developments include:

- **Retirement-Only Collective Defined Contribution (RO CDC):** These collective solutions will offer longevity pooling at retirement. They also introduce new administration models. Regulatory guidelines are due in 2027, with implementation from 2028
- **Targeted Support**: FCA proposals will allow more tailored guidance for contract-based schemes. Similar expectations are likely to follow for trust-based schemes
- **Value for Money (VfM):** From 2028, schemes will be assessed on outcomes and service, not just cost. Decumulation is expected to be included over time
- **Small pots, dashboards, and transfers:** These will all support consolidation. They also increase movement of assets and operational complexity

Taken together, these changes mean retirement is no longer an end point. It becomes an ongoing phase requiring long-term operational support.

2.3 Decision making

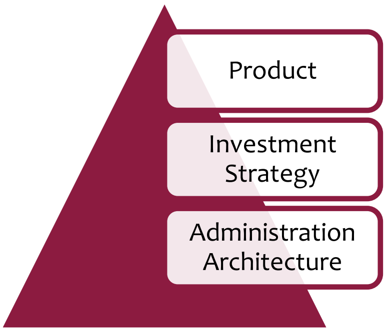
Schemes will need to rethink how decisions are made. Two approaches are emerging:

A. **Cohorting:** Segmenting savers into groups with different needs. Each group is linked to a suitable default
B. **Flex and Fix:** Allowing flexibility early in retirement, moving towards a more secure income later. This approach keeps investment exposure early on, introducing protection later to manage longevity risk

With RO CDC regulation still developing, this is unlikely to be ready when guided retirement duties first apply.

3. Why Administration Could Become the Critical Constraint

Any default solution rests on three pillars:



Product and investment design are already well developed in some areas. Administration isn't. **This is the gap.**

Default retirement shifts responsibility from the saver to the scheme. Decisions which individuals used to make must now be delivered by systems. **This increases risk.**

Errors will have direct financial and reputational consequences. Trustees will carry accountability, but providers and administrators will be central to delivery. **This needs collaboration.**

Current DC processes were designed to:

- issue options packs
- process member elections
- close records

This model won't work in future where administrators will need to:

- maintain ongoing pensioner records
- run payroll and manage tax
- review outcomes over time
- support savers through retirement
- manage vulnerability
- evidence compliance on an on-going basis

This is a fundamental change to BAU DC administration.

4. Operational Complexity – What Administrators Will Need to Deliver

Default retirement introduces new operational requirements across the life cycle. Many schemes are moving towards cohort-based models with a flex then fix approach. This keeps flexibility early on and introduces protection later. This isn't a simple extension of current processes, it's a redesign.

4.1 Member Triage and Segmentation

With trustees accountable, administrators will need to support them in:

- identifying savers approaching retirement
- allocating them to suitable default solutions
- reviewing decisions over time

Retirement can last thirty years or more. This creates an ongoing administrative burden. To support this, administrators will need:

- new data points
- clear decision logic
- governance frameworks to ensure consistency

Segmentation may start simple, such as pot size bands. Even this introduces new system dependencies and risk.

4.2 Fact-Finding and Data Management

Schemes will need more data to support decisions. This may include:

- responses to retirement questions
- information on other pensions
- vulnerability markers
- consent and opt-out status

This introduces challenges around:

- missing data
- data accuracy
- version control
- recalculating decisions when changes

Processes must work even when data is incomplete.

4.3 Default Triggering and Consent

Defaulting isn't automatic payment. Administrators must:

- notify savers clearly and in good time
- allow sufficient time to opt-out
- ensure all conditions are met before defaulting
- avoid unintended tax consequences
- consider other pension pots

This creates new process steps and new failure points. Strong tracking and audit controls will be essential.

4.4 Payments, Payroll and Tax

Delivering income requires:

- pension payroll capability
- PAYE processing
- regular payment recordings
- year-end tax reporting

It also requires links to:

- finance systems for reconciliation
- actuarial processes where needed

For many DC administrators, this is a significant expansion of scope and moves closer to DB style administration.

5. Operational Risk and Mitigation

Default retirement introduces risks that didn't exist before. These need to be identified and managed early. So far there's been no focus on the consequences of failure for any stakeholder involved in delivering default retirement to savers. It introduces new operational and compliance risks which will need to be identified, mitigated and managed early on. Examples of these are explored below:

5.1 Accuracy and Automation Risk

To achieve scale, automation will be essential, but increases the impact of errors. Risks include:

- Incorrect defaulting
- calculation errors
- incorrect disinvestment

Mitigation requires:

- Rigorous investment design and delivery
- strong testing
- exception reporting
- reconciliation controls
- clear ownership of automated decision rules

5.2 Vulnerability and Safeguards

The systems and associated processes must be designed with vulnerability at their core. Administrators are likely to be needed to support trustees and their members through:

- Targeted identification and monitoring of cohorts where vulnerability or disengagement may give rise to increased retirement risk
- Tailored and timely communications aligned to saver characteristics, decision points and potential vulnerability indicators
- Clear escalation and intervention routes where disengagement masks material risk, particularly where savers may default into high-impact retirement outcomes

Default retirement processes should act to mitigate member risk, not introduce it, and therefore require careful design, robust oversight and disciplined execution.

5.3 Governance, Evidence and Audit

Administrators will play a key role in governance.

Trustees will need to review whether defaults remain suitable. This relies on good management information which will be provided by administrators which should be able to report on:

- number of savers using the default
- opt out rates
- income levels and sustainability
- complaints and issues

These controls must be underpinned by robust management information (MI), enabling trustees to monitor how default retirement pathways are operating in practice and to identify emerging risks. This includes understanding the extent of saver reliance on the default, observed behaviours and resulting outcomes. MI should support a clear governance feedback loop, allowing trustees to refine communications, challenge underlying assumptions and, where necessary, adjust the solution itself. Without this, there is a risk systemic issues or unintended consequences, such as unsustainable withdrawal patterns, go undetected.

This supports better decision making and early identification of problems.

Administrators will be central for trustees in evidencing:

- why a default applied
- how communications were delivered
- how opt-out rights were preserved

This increases the importance on accurate record-keeping, MI, and process documentation.

6. Delivery Models – What's Realistic in Practice

There's no single solution. Delivery models will vary by scheme size and capability.

6.1 In-Scheme Build

In-house solutions are more likely for:

- large master trusts
- large single trust schemes with the ability to invest in systems

Challenges include cost, resource and demonstrating value for money, particularly where retirement volumes are low.

6.2 Partnering Models

Many schemes are likely to partner with a third party to comply with the regulations. This will allow them to transfer savers, with consent[4], into external solutions at retirement. Common models include:

A. **Master trust or multi-employer scheme partnerships:** Schemes, particularly smaller single-employer trusts, may meet requirements by partnering with a master trust or similar provider offering a decumulation solution. This would typically involve directing their members at retirement to transfer into the partner arrangement, effectively outsourcing the provision of retirement income once suitability has been assessed. This approach leverages existing market solutions and can reduce ongoing administrative burden for the originating scheme, but requires careful due diligence and oversight of the partner arrangement.

B. **Insurer or platform partnerships:** Some Schemes may partner with an insurer or platform provider, with savers directed at retirement into an insured drawdown product or platform-based solution. This can

[4] Member consent is required before a transfer can be made - see clause 50(10) of the Pension Schemes Bill 2025

provide access to established decumulation capabilities, potentially including integrated annuity broking, but introduces reliance on the provider's product design and saver experience, requiring appropriate due diligence and oversight.

C. **Specialist decumulation schemes, including CDC:** Schemes may utilise a dedicated decumulation vehicle, such as a RO CDC, where savers transfer their pot into a collective or specialist structure at retirement. This offers an alternative income model to individual drawdown but involves different risk-sharing dynamics and requires careful consideration of suitability, communications and governance.

Partnerships reduce internal build requirements. They also shift ongoing administration to the receiving provider. Even large schemes are exploring this route, such as NEST and its partnership with Rothesay for deferred bulk annuities.

6.3 RO CDC – Build vs Partner

RO CDC may offer strong outcomes, but introduces new operational challenges.

It's unlikely most schemes will build this capability themselves. Partnering will be more realistic and cost effective once authorised providers emerge.

For now, this is an option to monitor, rather than rely on.

7. Communications and Engagement – An Operational Issue

Communication is central to delivery. We're moving away from a savings mindset to an income mindset. Savers need to understand this shift of focus onto retirement income. Communication can't begin at retirement, it must start much earlier. Administrators will see the impact directly, with poor communication leading to:

- higher contact volumes
- complaints
- disruption
- transfers out

Clear and consistent communications will be an operational control, not just a service.

Savers often have multiple pots. Dashboards and other tools will increase visibility. Decisions will be made in a wider context. This must be reflected in communication strategies. Done well, communication improves understanding and reduces pressure on administration teams.

8. Cost, VFM and the Admin Trade-Off

Default solutions come with cost. This includes:

- build and implementation
- ongoing administration
- communication expenses
- third-party fees

More complex solutions increase governance, cost and operational burden. Under the VFM Framework, schemes will need to justify this. The sophistication of a default solution directly affects:

- product and benefit design
- administrative complexity
- ongoing cost
- VFM outcomes

Administrators should expect:

- scrutiny of charges
- pressure to simplify
- consolidation where delivery is inefficient
- increased movement of assets across schemes

Overly complex and costly models don't inherently deliver better outcomes. In practice, pragmatic and scalable solutions are often better placed to deliver value over time and meet future VFM requirements, although cost alone isn't a reliable indicator of value. Cost management will be a key consideration, both to minimise saver impact and to support VFM assessments. While cost alone isn't a measure of value, poor cost control will be challenged, and investment decisions should be assessed in the context of net saver outcomes.

9. What Should Administrators Be Doing Now?

Key priorities for administrators include:

1. Assessing system readiness for payroll and default processing
2. Engaging early with trustees and sponsors to understand timing and other constraints
3. Challenging designs which can't be delivered in practice
4. Exploring partnering options
5. Investing in communications capability
6. Planning for long-term operational impact

7. Building resilience, flexibility and adaptability for future changes

Guided retirement is a near-term requirement, and schemes should begin preparing now, given the scale of operational change involved. Start with a gap analysis:

- what would it take to pay savers a monthly income in 2027, including payroll, tax and member servicing
- where are the gaps in systems, data and skills and how long will they take to address

Focus on outcomes:

- map saver journeys from age 50 onwards, reflecting different cohorts and behaviours
- build safeguards into defaulting, particularly for vulnerable or disengaged savers
- improve communication so savers aren't surprised by outcomes or decisions
- measure success through income outcomes, sustainability of withdrawals and saver experience

Strengthen administration capability:

- review systems and vendor plans, including drawdown and payroll functionality
- improve data quality to support segmentation, timing of prompts and decision making
- consider consolidation where it improves efficiency, while ensuring suitability for different cohorts
- train teams for new types of queries within guidance boundaries

Be pragmatic about delivery:

- build where there's capability or clear strategic advantage
- partner where others can deliver more effectively

Manage costs and demonstrate value:

- understand cost drivers and how they impact saver outcomes
- document decisions with references to VFM considerations
- set clear KPIs to evidence effectiveness and support future assessments

Develop a communication strategy:

- define key touchpoints from age 50 onwards and ensure consistency of messaging
- segment communications to reflect different saver characteristics and needs
- prepare support channels for likely queries and decision points

- signpost to external guidance and support services where appropriate

10. Conclusion

Default retirement will reshape DC pensions, but success will be determined by delivery. While product and investment design will continue to evolve, administration will ultimately determine whether these reforms deliver better outcomes for pension savers.

The scale of operational change required shouldn't be underestimated. Systems, processes and governance frameworks will need to be redesigned, often within tight timeframes and alongside BAU activity. Without early planning and realistic delivery assumptions, there's a risk operational constraints limit what can be achieved in practice.

Administrators therefore have a critical role to play, not just in implementation, but in shaping deliverable solutions which are scalable and aligned to member needs. The decisions made now will influence how effectively schemes support savers through retirement for decades to come.

Ultimately, the success of default retirement won't be judged by design, but by how effectively it's delivered in practice.

Get in touch:

info@pasa-uk.com

www.pasa-uk.com