

DC Pension Scheme Prospect Identification Guide

As a UK DC pension expert, identifying schemes ripe for switching advisors, service providers, or investment partners requires a deep understanding of both common and nuanced triggers that prompt such changes. This updated guide expands on the initial framework by incorporating emerging issues in the DC space as of mid-2025, including the regulatory push towards "Megafunds," increased private market investments, scalability challenges leading to consolidation, retirement flexibility needs, ESG integration, cybersecurity risks, and enhanced member engagement requirements. It applies these to a scheme like BAE Systems' DC arrangement, managed under the Mercer Master Trust since August 2022. The guide leverages industry insights, regulatory requirements, and publicly available data—including recent government consultations, provider commitments under the Mansion House Accord, and Value for Money (VfM) framework developments—to provide a comprehensive, future-proofed approach for prospecting in the trust-based DC pension market.

A. Drivers for Switching DC Pension Providers

Several factors can prompt a company to seek new DC pension providers: poor investment performance, high charges, service issues, outdated technology, poor fund managers, better alternatives, and company-specific events, among others. Emerging regulatory and market pressures, such as the drive for productive finance and scheme consolidation, add new layers of opportunity. These drivers are often quantifiable and can be identified through specific data sources, enabling consultants to pinpoint schemes that are ready for change.

1. Poor Investment Performance

Schemes may switch providers if their default fund underperforms relative to benchmarks or peers, reducing member retirement outcomes.

Quantifiable triggers include:

- Annualised returns below the scheme's stated benchmark (e.g., FTSE GBP 1 Month Euro Deposit Index + 4% p.a.) by more than 1% over three years.
- Performance in the bottom quartile of peer funds over five years, as reported in industry analyses like Hymans Robertson's Master Trust Default Fund Performance Review.

Sources:

- **Chair's Statement:** Details performance against benchmarks, required for UK DC schemes (BAE Systems Pensions).
- **Industry Reports:** Compare performance across master trusts (Hymans Robertson).
- **Professional Pensions:** Reports like the 2018 analysis showed default fund returns varying from 8.1% to 15.4% over three years (Professional Pensions).

2. High Charges

Excessive fees erode member savings, making cost-effective providers attractive.

Quantifiable triggers include:

- AMCs exceeding 0.75% for default arrangements, the regulatory cap for auto-enrolment schemes (The Pensions Regulator).
- Total fees (including transaction costs) 0.5% above the industry average (0.48% for trust-based schemes, per the Pensions Policy Institute, 2019).
- Additional charges from private market allocations, such as an estimated one bps increase per 1% allocation (tapering to 11 bps for 15% allocation), which could push fees higher in schemes enforcing illiquid investments.

Sources:

- **Chair's Statement:** Discloses fees and value-for-money assessments.
- **Fee Disclosure Documents:** Available on scheme websites or provider portals (Mercer).
- **Industry Benchmarks:** Go Pensions DC Master Trust League Table provides fee comparisons (Go Pensions). Recent data highlights fee pressures from private market integrations, with providers like Fidelity noting gradual increases tied to LTAF structures. (ipe.com, professionalpensions.com)

3. Service Issues

Administrative errors, delays, or poor communication can drive dissatisfaction.

Quantifiable triggers include:

- More than 5 complaints per 1,000 members annually to the Pensions Ombudsman, indicating systemic issues.
- Member satisfaction scores below 70% in annual surveys, as per Aon's 2022 DC Pension Survey (Aon).

Sources:

- **Pensions Ombudsman Reports:** The 2023-2024 report noted 6,634 case closures, down from 7,784, suggesting a backlog of complex complaints (Norton Rose Fulbright).
- **Member Surveys:** Aon's surveys indicate only 22% of schemes measure satisfaction, but low scores can trigger reviews.
- **Social Media and News:** Platforms like X may reveal member dissatisfaction, though no specific BAE Systems complaints were found.

4. Outdated Technology

Schemes with limited digital tools may seek providers with modern platforms.

Quantifiable triggers include:

- Absence of an online member portal or mobile app, unlike competitors offering real-time access.
- System downtime exceeding 5% of operational hours annually, impacting member experience.

Sources:

- **Scheme Website:** BAE Systems' Employee Service Centre Portal is restricted to company devices, potentially limiting accessibility (BAE Systems Pensions).
- **Industry Reports:** Mercer emphasises market-leading digital tools (Mercer).
- **Member Feedback:** Complaints about manual processes or outdated interfaces in forums or surveys.

5. Poor Fund Managers

Underperforming or unstable fund managers can undermine confidence.

Quantifiable triggers include:

- Fund manager returns below benchmark by more than 1% annually over three years.
- Manager turnover rate exceeding 20% within a year, indicating instability.

Sources:

- **Annual Reports:** Detail manager performance and changes.
- **News Articles:** Coverage of manager issues or resignations.
- **Industry Comparisons:** Reports comparing manager performance across master trusts.

6. Better Alternatives

The availability of superior providers can drive switches.

Quantifiable triggers include:

- Competitors offering AMCs at least 0.2% lower than the current provider.
- Default funds with returns 2% higher than the current provider's over five years.

Sources:

- **Industry News:** Articles on innovative providers, like Smart Pension's partnership with Barclays (Smart Pension).
- **Provider Marketing:** Highlight lower fees or advanced features (Mercer).
- **Case Studies:** The RSPCA's switch to a master trust for better engagement tools and ESG options (Barnett Waddingham).

7. Company-Specific Triggers

Corporate events can prompt pension reviews.

Quantifiable triggers include:

- A merger or acquisition within the past 12 months, requiring scheme alignment.
- A decline in company profit margins by more than 10% year-over-year, triggering cost reviews.
- Retirement or departure of key pension decision-makers within a 12-month period.

Sources:

- **News Articles:** BAE Systems' 2019 pension consolidation and 2023 DB outsourcing to Goldman Sachs indicate openness to reviews (Pensions Age).
- **Financial Reports:** Annual reports may mention pension strategy changes.
- **Social Media:** Discussions on corporate changes impacting pensions.

8. Regulatory Changes

New regulations, including the Mansion House Accord and Pension Schemes Bill 2024-25, require DC providers to allocate at least 10% of default funds to private markets by 2030 (with 5% in UK assets), aiming to create "Megafunds" of £25bn+ for better scale and productive finance. (GOV.UK, researchbriefings.files.parliament.uk)

This involves converting back books to illiquid strategies, creating advice opportunities but also risks—private markets are riskier (higher volatility, liquidity issues) and may increase charges by 1-11 bps depending on allocation. ([ipe.com](https://www.ipe.com))

Providers like Fidelity and Aon are enforcing long-term allocations via LTAFs and default strategies, potentially prompting reviews if unsuitable for conservative members.

In contrast, Scottish Widows and L&G offer optional access without mandatory enforcement, providing flexibility. (corporate-adviser.com, scottishwidows.co.uk am.landg.com)

New or impending regulations can necessitate provider changes. Quantifiable triggers include:

- Failure to meet Value for Money (VFM) framework standards, expected by 2028, requiring specific performance and cost metrics (FCA).
- Default funds with less than 5% private market allocation by 2027, risking non-compliance with 2030 targets.
- Charge increases exceeding 5 bps from illiquid integrations without corresponding return uplift. Compliance costs exceeding 5% of scheme assets due to new regulations, like the Pension Schemes Bill, by 2030 (Linklaters).

Sources:

- **Government Consultations:** The VFM framework consultation outlines metrics for investment, costs, and service quality (GOV.UK). Mansion House Accord and productive finance next steps (GOV.UK).
- **Regulatory Updates:** The Pensions Regulator's guidance on compliance (The Pensions Regulator).
- **Provider Reports:** Fidelity's integration plans; L&G's PMAF (Professional Pensions).
- **Industry Analyses:** Pensions Policy Institute on asset allocation changes.

9. Scalability and Consolidation Pressures (New)

Small or underperforming providers may fail VfM scalability tests, leading to forced consolidation into larger Megafunds for sustainability. (eversheds-sutherland.com, assets.publishing.service.gov.uk)

The VfM framework assesses schemes on metrics like net returns, costs, and service quality; those rated "red" must improve or wind up, accelerating mergers. (GOV.UK, fca.org.uk)

Pragmatically, schemes with under £1bn AUM struggle with economies of scale, and government targets aim to double £25bn+ Megafunds by 2030. (GOV.UK, assets.publishing.service.gov.uk)

Quantifiable triggers include:

- AUM below £5bn, indicating potential failure in scalability assessments under VfM.
- Consecutive "amber" or "red" VfM ratings, triggering regulatory intervention.

Sources:

- **Regulatory Updates:** FCA CP24/16 on VfM framework; TPR guidance on master trust supervision (The Pensions Regulator). (fca.org.uk, GOV.UK)
- **Industry Reports:** Eversheds Sutherland on consolidation themes. (eversheds-sutherland.com)

10. At-Retirement Options and Flexibility (New)

Many in-house "own trust" schemes lack drawdown facilities, requiring partnerships with Master Trusts for decumulation options like flexi-access drawdown. (pensionsuk.org.uk, GOV.UK)

The Pension Schemes Bill mandates default retirement options, pushing schemes without in-scheme drawdown to bolt-on services for member flexibility. (mayerbrown.com, pensionsuk.org.uk)

Quantifiable triggers include:

- Absence of in-scheme drawdown, affecting >50% of members nearing retirement.
- Partnership announcements or tenders for at-retirement providers within 12 months.

Sources:

- **Guidance Documents:** PLSA on retirement arrangements and partnerships. (pensionsuk.org.uk, plsa.co.uk)
- **Government Consultations:** Helping savers understand choices (GOV.UK).
- **Provider Insights:** Master trusts like Aviva and Mercer are offering full-service decumulation. (aviva.co.uk, mercer.com)

11. ESG Integration and Member Engagement (New)

Schemes may review providers if ESG risks (e.g., human capital issues) are poorly managed in defaults, or if member engagement scores are low amid regulatory focus on outcomes. (pensionsuk.org.uk, europeanpensions.net)

UK DC schemes are increasingly incorporating ESG, but global backlash could prompt switches to aligned providers. europeanpensions.net Low engagement (e.g., <30% portal usage) highlights the need for better tools.

Quantifiable triggers include:

- ESG exposure below 20% in defaults, per industry benchmarks.
- Engagement rates <50%, as measured in annual surveys.

Sources:

- **Research Reports:** PLSA on ESG risks in defaults; Barnett Waddingham on net-zero recalibration. (pensionsuk.org.uk, ipe.com)
- **Industry Trends:** LCP and Mercer on emerging DC issues. (lcp.com, mercer.com)

12. Cyber Security Risks (New)

Rising cyber threats to pension data could trigger switches to providers with robust defences, especially post-2024 incidents affecting the sector. (mercer.com, aon.com)

Quantifiable triggers include:

- Reported breaches or downtime >1% annually due to cyber incidents.
- Lack of ISO 27001 certification or equivalent.

Sources:

- **Regulatory Guidance:** TPR on investment governance, including cyber risks. (thepensionsregulator.gov.uk)
- **Industry Analyses:** Aon on global pension risks. (aon.com)

13. Key Personnel Changes

The departure of key decision-makers can lead to a reassessment of providers.

Quantifiable triggers include:

- Retirement or resignation of the pension scheme manager or trustee chair within 12 months.
- New leadership is initiating a pension review within their first year.

Sources:

- **Company Announcements:** Press releases or LinkedIn updates on leadership changes.
- **Scheme Documents:** Trustee reports may note changes in governance.
- **News Articles:** Coverage of executive turnover impacting pension strategy.

14. Contract Anniversaries

The anniversary of a provider contract often prompts a review.

Quantifiable triggers include:

- Reaching the 3- or 5-year anniversary of the current provider's appointment.
- A tender process initiated within 6 months of the anniversary.

Sources:

- **Scheme Records:** Contract details in annual reports or trustee minutes.
- **Industry News:** Announcements of tender processes or provider reviews.
- **Consultant Networks:** Insights from firms like Barnett Waddingham on review cycles (Barnett Waddingham).

15. Market Signals of Provider Instability

Issues with the current provider's stability can trigger a switch.

Quantifiable triggers include:

- Staff turnover rate at the provider exceeding 20% annually, as indicated by LinkedIn job postings or news.
- A 10% month-over-month increase in provider job postings, suggesting operational challenges.
- A credit rating downgrade below investment grade (e.g., BBB- by S&P).

Sources:

- **LinkedIn and Job Boards:** Monitor provider job postings for turnover signals.
- **Financial Reports:** Provider annual reports or credit rating updates from agencies like S&P or Moody's.
- **News Articles:** Reports on provider financial difficulties or staff exodus.

B. Quantifiable Triggers for Buying Mode

Triggers that push budget-holders into action are often tied to measurable thresholds or events that demand immediate attention. These include:

Trigger	Quantifiable Metric	Source
Investment Underperformance	Default fund underperforms the benchmark by >1% p.a. over 3 years or bottom quartile over 5 years	Chair's Statement, Hymans Robertson reports
High Fees	AMC >0.75% for default arrangements or total fees >0.5% above industry average; >5 bps increase from private markets	Fee disclosures, Go Pensions League Table, Fidelity reports
Service Issues	>5 complaints per 1,000 members annually or satisfaction <70%	Pensions Ombudsman, Aon surveys
Operational Delays	Contribution processing >5 business days or statement errors >1%	Scheme audits, member feedback
Provider Instability	Credit rating below investment grade or consecutive years of losses	Financial reports, credit rating agencies
Regulatory Non-Compliance	Failure to meet VfM standards or compliance costs >5% of assets; <5% private markets by 2027	FCA consultations, TPR reports, Mansion House Accord
Private Markets Mismatch	Enforced allocation >10% if unsuitable for member risk profile; charge hike >10 bps	Provider strategies, Professional Pensions professionalphpensions.com
Scalability Failure	AUM <£5bn or "red" rating	VfM framework, GOV.UK responses
At-Retirement Gaps	No in-scheme drawdown; >50% members without flexibility options	PLSA guidance, scheme returns
ESG/Engagement Shortfalls	ESG allocation <20%; engagement rates <50%	PLSA research, Barnett Waddingham
Cyber Risks	Breaches >1 annually; no ISO 27001	TPR guidance, Aon insights
Personnel Changes	Key decision-maker departure within 12 months	Company announcements, LinkedIn
Contract Anniversary	3- or 5-year contract anniversary	Scheme records, news
Staff Turnover at Provider	Provider turnover >20% annually or 10% increase in job postings	LinkedIn, job boards
Corporate Events	Merger/acquisition or profit margin decline >10%	Financial reports

C. Applying the Framework to BAE Systems

For BAE Systems' DC scheme, part of the Mercer Master Trust, the following steps can identify switching potential:

- **Access Chair's Statement:** Evaluate the Mercer Growth Fund's performance against its benchmark (FTSE GBP 1 Month Euro Deposit Index + 4% p.a.) and check fees against the 0.75% cap (BAE Systems Pensions).
- **Monitor Service Issues:** A 2024 Pensions Ombudsman complaint about service and benefit calculations suggests potential issues, but broader data is needed (Pensions Ombudsman).
- **Benchmark Performance:** Compare Mercer's default fund against peers using industry reports (Hymans Robertson).
- **Check Technology:** The Employee Service Centre Portal's restricted access may indicate technological limitations (BAE Systems Pensions).
- **Track Corporate Triggers:** BAE Systems' history of pension consolidation (2019) and DB outsourcing (2023) suggests openness to reviews (Pensions Age).
- **Assess Private Markets Readiness:** Evaluate Mercer's progress towards 10% private market allocation; if charges rise without member buy-in, it could flag a review. (professionalpensions.com)
- **Scalability Check:** As a large scheme in a master trust, monitor VfM ratings; any "amber" could prompt consolidation discussions. (fca.org.uk)
- **At-Retirement Options:** Verify if Mercer offers seamless drawdown; partnerships may be needed if gaps exist. (mercer.com)
- **ESG and Cyber:** Review Mercer's ESG integration and cyber protocols against emerging standards.
- **Monitor Regulatory Changes:** The VFM framework and Pension Schemes Bill by 2030 may necessitate provider changes if Mercer underperforms (Linklaters, researchbriefings.files.parliament.uk).

D. Systematic Approach to Prospecting

To identify and engage DC schemes like BAE Systems, follow these steps:

1. **Identify Schemes:** Use TPR's list of authorised master trusts or industry directories to target large employers (The Pensions Regulator).
2. **Gather Data:** Access Chair's Statements, annual reports, and industry benchmarks to evaluate performance, fees, and service quality. Include VfM disclosures and private market allocations. (GOV.UK)
3. **Analyse Triggers:** Compare metrics against thresholds (e.g., performance, fees, complaints) and monitor for events like mergers or personnel changes or Megafund compliance gaps.
4. **Engage Prospects:** Tailor proposals to address specific issues, using case studies like the RSPCA's switch to highlight benefits (Barnett Waddingham). Emphasise solutions for private markets, consolidation, and drawdown. (pensionsuk.org.uk)
5. **Monitor Market Signals:** Track provider stability through financial reports, job postings, and news to identify vulnerable schemes.

E. Conclusion

Identifying DC pension schemes suitable for switching providers involves analysing quantifiable triggers like investment underperformance, high fees, service issues, and provider instability, alongside emerging drivers such as regulatory mandates for private market investments, scalability-driven consolidation, at-retirement flexibility needs, ESG integration, and cybersecurity.

For BAE Systems, accessing their Chair's Statement, monitoring corporate activities, and evaluating Mercer's alignment with Megafund and VfM requirements are key to assessing switching potential.

This expanded, future-proofed framework—supported by 2025 regulatory developments, provider commitments, and industry data—equips consultants to target and engage prospects effectively, ensuring better member outcomes and scheme efficiency.