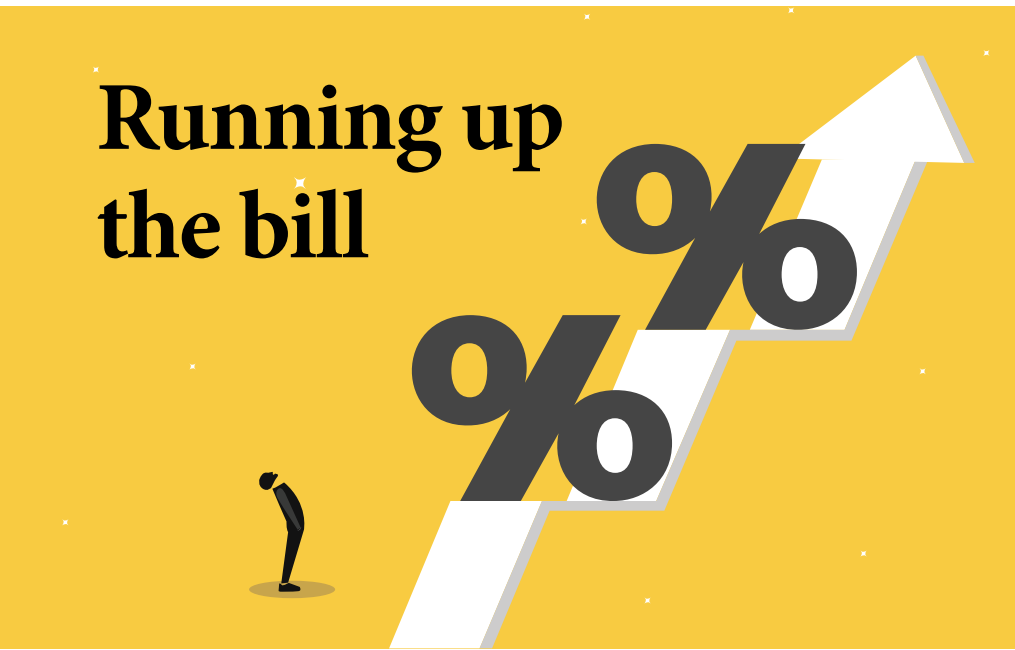
Running up the bill



Summary

- The running costs of DB and DC schemes are rising, with DB scheme trustees reporting an average 34 per cent increase over the past 12 months.
- Regulatory change, data projects, and technology developments are contributing to rising costs across DB and DC schemes.
- However, pressures differ between the scheme types, with DB schemes facing costs associated with funding, actuarial work and endgame decisions, while DC schemes are navigating value for money requirements, guided retirement and technology developments.
- Trustees are considering delegation, alternative governance models and consolidation, but the priority remains delivering better outcomes for members.

The costs of running a pension scheme, whether DB or DC, are rising amid regulatory change, technology developments and growing governance requirements. Paige Perrin explores what is driving the increases and how schemes can manage the pressure

The cost of running both defined benefit (DB) and defined contribution (DC) pension schemes has become an increasingly pressing issue for trustees, as regulatory demands, complex projects and growing governance responsibilities place additional pressure on scheme budgets.

Research from TPT Retirement Solutions found that trustees of DB pension schemes reported an average 34 per cent increase in running costs over the past 12 months.

The figures also revealed a substantial divide by scheme size, as 44 per cent of trustees overseeing schemes with £1 billion or more in assets reported cost increases of more than 50 per cent in the past year, compared with just 7 per cent of trustees overseeing schemes with less than £1 billion.

While these figures highlight the scale of the challenge for DB schemes, running costs are also rising across DC, where trustees face different challenges around value for money (VFM), guided retirement and technology developments.

So, what is driving costs up, and how can schemes manage the pressure without compromising outcomes for members?

Where are costs rising?

"The cost of running a pension scheme has undoubtedly become more significant, driven largely by growing complexity," Van Lanschot Kempen Investment Management UK chief executive officer, Michelle Darracott, says.

And the rise in costs is being felt across several areas, rather than being confined to one area.

TPT Retirement Solutions' research found that legal services were most frequently identified as seeing the largest increase in costs, cited by 37 per cent of DB trustees, followed by technology and data services at 34 per cent.

"Trustees are being asked to manage more regulation, sophisticated investment and risk considerations, greater data and cyber-security requirements, alongside increasingly complex strategic choices," Darracott says.

Dalriada senior trustee director, Vassos Vassou, adds that regulatory and legislative changes are also driving up costs across both DB and DC schemes.

In particular, he highlights the additional time and money DB trustees need to spend meeting requirements relating to areas such as the Effective Systems of Governance and the Pensions Dashboards Programme.

For DC schemes, he points to spending on guided retirement and default decumulation funds.

Vidett professional trustee, Curtis Mitchell, says the most notable rises in 2026 have been in administration and

data management costs for both DB and DC schemes.

He attributes the increases to DB schemes "putting their affairs in order" as they consider endgame solutions, while DC schemes face additional pressure from VFM requirements, which he says have been "adding friction".

What's driving the increase?

Hymans Robertson head of scheme actuary services, Laura McLaren, says: "No single factor is responsible, but the growing number of major projects is a key driver.

"The biggest drivers are projects such as guaranteed minimum pension equalisation, dashboards, data cleansing and insurer readiness, alongside heavier regulatory and governance demands and greater investment in technology, cyber security and data."

For DB schemes in particular, these projects can come alongside work in preparing for their long-term future, including getting data and records ready for potential endgame decisions.

The impact of rising costs is not felt equally, however, with smaller schemes often having less scope to absorb additional spending.

Vassou notes that many overheads are fixed rather than proportional to scheme size.

McLaren says that although cost increases are "widespread", "large schemes typically incur the bigger sterling amounts, reflecting their scale and complexity, but smaller schemes feel the impact most".

Older administration systems can add to the challenge, Vassou says, alongside lower sponsor and scheme budgets.

The pressures also vary between DB and DC schemes, reflecting differences in the structure and maturity of the two markets.

TPT Retirement Solutions head of policy and external affairs, Ruari Grant, points out that thousands of individual DB schemes remain in operation, while DC has seen far more consolidation.

He suggests that greater consolidation in the DC market has allowed DC master trusts to benefit from economies of scale, reducing running costs per member.

Grant says ordinary running costs for DB schemes tend to be higher, given the complexity of certain functions, such as actuarial and covenant, while innovation and tech development costs tend to drive more cost in DC, given the commercial nature of the DC market.

Despite these differences, regulatory change continues to drive spending across both markets. Grant describes compliance with pensions dashboards as a "significant data exercise for almost all schemes in the last two years".

Several newer government reforms have focused more heavily on DC, meaning most DC schemes are now spending considerably on developing their approaches to VFM and guided retirement, Grant says.

Meanwhile, he says that ongoing disclosures and publications, such as the chair's statement, have yet to be rationalised.

Levies are another source of pressure. The Department for Work and Pensions has proposed increasing general levy rates over three years from 2027/28, with annual increases varying by scheme type. These range from 5 per cent for DB and hybrid schemes to 9 per cent for master trusts and personal pension schemes.

Grant suggests the levy has a disproportionate impact on schemes with a high number of members with smaller pensions, given that it is charged on a per-member basis.

"Conversely, the Pension Protection Fund levy has now been disapplied for DB schemes – apart from the Alternative Covenant Scheme levy, which superfunds pay," he adds.

For DB schemes, the costs and governance agenda is becoming increasingly connected to decisions about endgame strategy, says Darracott.

"Many schemes are much better funded, so trustees and sponsors are considering what the scheme is ultimately trying to achieve, whether through insurance, consolidation or purposeful run-on," she says.

For DC schemes, the focus is more on how members manage the risks and decisions they face at retirement.

Darracott says: "For DC, members generally bear investment and longevity risks individually and, particularly at retirement, can face extraordinarily difficult decisions. This is one area where collective approaches such as collective DC could potentially help."

The pressures also raise a broader question for trustees. How much of the additional spending is unavoidable, and where could a different approach improve efficiency without compromising member outcomes?

Impact on schemes

"Rising costs tend to lead to a greater appetite to seriously consider whether regulatory and other costs make running the scheme in its current format viable," Mitchell says.

"Although, in fairness, some of the rising costs we're seeing in DB are related to schemes considering their endgame solutions."

For some DB schemes, this additional expenditure is part of preparing for their next stage, whether that means buyout, consolidation or continuing to run on.

Vassou notes that rising costs are driving the push to buyout for smaller schemes, with sponsors taking the view that moving to an insurer will remove the disproportionate costs of running a pension scheme.

However, Darracott warns that cost alone should not drive an endgame decision.

"Buyout, run-on or consolidation should fundamentally be decisions

about the best long-term outcome for members, not simply ways of removing an annual governance bill," she stresses.

"As schemes become better funded, there is more choice rather than less. Trustees need to be clear about the outcome they are trying to achieve before deciding what operating model best supports it."

Funding levels are also influencing the options available to DB schemes.

Grant says strong funding positions are the biggest driver, with schemes "being pushed by the regulator to consider endgame options".

"While 60 per cent of schemes are in surplus on a buyout basis, many schemes are looking at various consolidation options, including insurance, superfunds and DB master trusts, which allow them to benefit from economies of scale," he adds.

Alongside these longer-term decisions, schemes are also reviewing their day-to-day operating models.

McLaren says running costs and the reserves needed to meet DB scheme deficits are receiving greater attention in long-term funding plans.

As a result, she says that some trustees and sponsors are reviewing their operating models, including bundled services, professional trustee arrangements and master trusts.

The pressure to find efficiencies is also driving consolidation in DC.

Grant says: "Increasing costs, especially from a regulatory compliance perspective, have driven consistent rates of consolidation, with the market shrinking in number by around 15 per cent each year".

However, Darracott warns that "consolidation should never become an objective in itself".

Instead, she argues the test should be whether scale produces better outcomes for members, rather than simply lowering the cost per member.

She notes that this distinction is particularly relevant in DC, where government policy explicitly seeks greater scale and consolidation.

For schemes that remain in their existing structures, changing how governance is delivered may offer another way to manage costs.

Darracott suggests the answer is not to "simply negotiate every individual fee harder but rather, to step back and ask whether the overall governance model remains appropriate".

She highlights delegation as one possible response.

"The conversation should not be about minimising costs at any price. The real objective is ensuring that scheme expenditure delivers better governance, stronger risk management and ultimately better outcomes for members"

"Fiduciary management, consolidation, master trusts and other outsourced models can create scale and simplify governance where appropriate," she says.

"That does not remove trustee responsibility, but it can allow trustees to spend more time on the decisions that genuinely require their judgement.

"From my experience as a trustee, the scarcest resource around the trustee table is often not money but time and attention. A good governance model should use both intelligently."

Beyond cost-cutting

While consolidation and endgame solutions can offer opportunities to manage costs, neither guarantees better value for members. The right approach will depend on the scheme, its circumstances and what it is ultimately trying to achieve.

XPS head of DC investment, Mark Searle, says: "Consolidation into a master trust can spread some costs across a wider base, leading to efficiencies."

However, he cautions that the test is whether those efficiencies translate into better value for members, rather than assuming that a larger arrangement is necessarily a better one.

Searle suggests that embracing off-the-shelf solutions, with some tailoring where needed, could help deliver the government's intention for economies of scale and improve expected member outcomes without materially increasing running costs, while leaving some control with trustees and employers.

For DB schemes, stronger funding levels have brought endgame decisions into sharper focus, with trustees considering de-risking, superfunds or continuing to run on.

The challenge is to identify which approach best meets the scheme's long-term objectives, rather than simply opting for the cheapest available solution.

Mitchell argues: "The conversation should not be about minimising costs at any price.

"The real objective is ensuring that scheme expenditure delivers better governance, stronger risk management and ultimately better outcomes for members."

Ultimately, trustees and sponsors will need to distinguish between costs that reflect necessary investment in governance, data and member protection; and areas where efficiencies can be made without compromising outcomes. The goal is not simply for schemes to spend less on running costs, but to ensure expenditure is justified.



Written by Paige Perrin