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PENSIONS ESSENTIALS

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THE CHANGING FACE OF TRUSTEESHIP

The Pensions Regulator has announced that it is formally extending its oversight of professional trustee firms in an effort to influence better outcomes for members. It intends to establish ongoing supervisory relationships with the key firms from summer 2025 and extend this approach to cover the remaining firms by the end of the year.

TPR has said that it intends to increase its engagement with and oversight of professional trustee firms. As part of this process, it has issued a market oversight report which gathers together research on the professional trustee market from a number of sources. The report says that around half of UK pension schemes have a professional or sole trustee, with appointments of sole trustees growing. Professional trustee firms have assets under management of over £1 trillion, with around £75 billion managed by sole trustees.

The report identifies areas where TPR considers that the growth in professional trustees might pose a risk to members and which it intends to consider further. These include:

- **Relationship with employer:** How professional trustee firms manage relationships with employers and the need to ensure that trustees remain independent.
- **Profit and remuneration model:** Whether commercial factors could affect trustee decision-making, and whether there is any risk that services could be compromised to reduce costs (for example, if some schemes are prioritised over others).
- **Sole trusteeship:** Why schemes appoint sole trustees (for example, whether it may be driven by cost), and what internal controls sole trustees operate once appointed.
- **In-house advisers:** If the presence of in-house advisers could lead to compromised decision-making or advice (for example, whether there is a reluctance to properly scrutinise advice from, or to pursue errors by, in-house advisers), and whether there could be issues with indemnity insurance and conflicts of interest.
- **Decision making:** Who makes daily decisions on behalf of schemes, what level of knowledge and understanding they have of pension scheme governance, and whether delegations are always appropriate.

TPR intends to engage with professional trustee firms over the course of 2025 and assess these risks in greater detail. It will then make its expectations clear, and work with the industry to identify appropriate mitigations. Where material risks are identified and action is not taken, TPR might then consider how to make use of its powers (for example, its powers of appointment and removal).

TPR also intends to highlight good practice which it hopes will help to inform employers and trustees when choosing professional trustees.

Practical points:

- *Professional trustee firms should expect engagement with TPR during 2025.*
- *Sponsors and trustees should be aware of the risks identified and watch out for more information from TPR.*

CLIMATE CHANGE

Climate change remains high on TPR's agenda. It has recently published its 2025 climate adaptation report, which looks at the resilience of the UK to climate change, the problems faced by schemes, TPR's expectations, and how it intends to support schemes to address climate change risks and challenges in the future given the rapidly changing pensions landscape.

Occupational pension scheme trustees manage funds amounting to over £1.4 trillion, for millions of members. TPR expects that trustees managing these assets should have the "*highest standards of investment governance*" and be able to "*make the best long-term decisions*" for members.

Broadly speaking, legislation requires trustees of master trusts and schemes with assets of £1 billion or more to consider various climate change metrics when investing scheme assets, and to publish a report setting out their approach to climate change and these metrics. In doing this, they must take into account statutory guidance issued by DWP. In addition, trustees should also consider TPR's expectations in this area, as it is TPR who has the power to impose penalties for non-compliance.

Schemes with assets below the threshold for compliance with the climate change requirements cannot ignore climate change. The vast majority of schemes need to have a statement of investment principles (**SIP**) in place which sets out the trustees' general approach to investing scheme assets. Amongst other things, the SIP must set out how "*financially material considerations*" are taken into account in the selection, retention and realisation of investments. "*Financially material considerations*" for these purposes include "*environmental, social and governance considerations (including but not limited to climate change)*".

This means that all schemes, whatever their size, should be giving some consideration to the impact of climate change on scheme investments.

As part of the information that TPR issues to help schemes address their climate change obligations, it has recently published its 2025 climate adaptation report, which looks at the resilience of the UK to climate change and how TPR will support schemes to meet the risks and challenges of climate change.

The report says that climate change remains a major systemic financial risk and a threat to the long-term sustainability of occupational pension schemes, and explores what the key risks are and how they are likely to develop.

TPR observes that concerns around greenwashing (false or misleading statements about environmental and climate change issues) have impacted the implementation and adoption of ESG-based investment strategies, but says that anti-greenwashing measures and sustainability labelling initiatives should help. In addition, factors such as the cost-of-living crisis and market volatility have led to other factors being prioritised over climate change, and the lack of data and costs have also proved a barrier to climate change actions being taken.

On top of this, many DB schemes are contemplating their endgame and buy-out and may therefore have limited assets over which they can have a significant climate impact (for example, if the scheme has bought in), or may be primarily focussed on managing assets in a way that will allow transfer to an insurer. The issues are different in DC schemes, but there are a relatively large number of small DC schemes where trustees' knowledge of the scale of financial risks posed by climate change is limited.

It is clear that both the pensions industry and the risks posed by climate change are in a state of flux, and it is difficult to predict how both will develop. Nevertheless, climate change, transition planning and the adoption of credible transition plans remains a focus for TPR, and therefore is something which schemes will need to continue to address.

Practical points:

- *Consider if the trustees have sufficient knowledge in relation to climate change obligations.*
- *Consider if current investment strategies adequately address climate risk.*

DC SCHEMES

TPR has issued a survey of DC schemes which looks at awareness of key issues and general levels of compliance. This was generally good in larger schemes and poorer in smaller ones. This, together with the continued failure of some schemes to comply with the detailed value for members requirements, has resulted in further calls for smaller schemes to consider whether consolidation is appropriate.

Survey of DC schemes: The survey contacted 215 DC schemes of a variety of different sizes and types, from master trusts to micro schemes with fewer than 12 members. The key findings included:

- Cybersecurity: 70% of schemes had a cyber-security incident response plan. However, 54% relied on the plan of a third-party such as the employer, and 33% of these had not sought assurances that this was appropriate. A significant number of schemes had not reviewed cyber risks and controls in the last year, and less than half of trustees had received regular training. This is particularly concerning given recent press reports about a number of concerted attacks on large Australian pension funds.
- Investment in UK productive finance: 22% of schemes held UK investments such as infrastructure and private equity but only 10% planned to increase this in the next year. 28% of schemes reported barriers to investing more in UK assets, which typically related to scheme size or circumstances (e.g. planning to wind up) or the trustees not making investments (e.g. because an insurer did). Over half of master trusts highlighted fiduciary duties as a barrier. It will be interesting to see if the upcoming Pension Schemes Bill addresses any of these perceived issues.
- General code of practice: Awareness of the Code was at 47%. However, only 28% described themselves as 'very' or 'fairly' familiar with it. Both awareness and familiarity increased among larger schemes and among professional trustees. The length and complexity of the Code means that these figures are not a surprise, but they may be of concern to TPR and further drive its consolidation agenda.
- Climate risks: Less than a fifth of schemes had dedicated time or resources to assessing climate-related risks and opportunities, although the vast majority of larger schemes had done so. This has led to TPR issuing a press release saying trustees in smaller DC schemes should "*upskill or consider consolidating in savers' interests*".
- Dashboards: 87% of medium-sized schemes had discussed pensions dashboards at trustee meetings. This means that 13% had not, and given the longstop connection deadline of 31 October 2026 and the potentially earlier dates set out in DWP's connection guidance, it would seem that some schemes could miss their connection deadline.
- Auto-enrolment: 52% of respondents were aware that the government intends to expand auto-enrolment by abolishing the lower earnings limit for contributions and reducing the qualifying age from 22 to 18 years old, both of which will potentially have costs for employers. However, it should be noted that there is currently no clear timescale for doing this, despite the fact that the relevant enabling legislation was enacted in 2023.

Value for members assessment: In 2021, new rules came into force requiring smaller DC schemes with assets of less than £100 million to complete a detailed assessment of value for members (**VfM**). The assessment must include a comparison of costs and charges and net investment returns against 3 other schemes, together with an assessment of various governance and administration criteria. The outcome of this detailed VfM assessment must be reported in the annual chair's statement, published on a publicly accessible website, and reported to TPR via the scheme return.

Following concerns that some schemes were not complying with these requirements, TPR ran a campaign focussing on them in 2023 and 2024. Its recent compliance and enforcement bulletin shows that TPR has increased the use of its enforcement powers in this area, and has issued penalties to 19 schemes totalling £97,750. TPR says that: "*Where trustees cannot compete with the best in the market, either in terms of value or governance, they should consider whether a transfer to a better-value scheme and winding up is what is best for their savers.*"

Practical points:

- *Trustees should ensure that they review their cyber-response plans at regular intervals.*
- *Trustees of smaller DC schemes should be aware of the detailed value for member requirements.*

VIRGIN MEDIA UPDATE

The Verity Trustees case, which considered potential evidential issues in relation to Virgin Media, concluded at the end of March, and judgment is expected in the Autumn. In addition, a discussion paper has been issued in relation to possible approaches that schemes might take when dealing with potential Virgin Media issues in their accounts.

Eventually we may have an issue of Pensions Essentials which does not mention Virgin Media. However, this is not that issue. There are two developments worth noting from the past month.

Verity Trustees case: Judgment in *Verity Trustees v Wood* is expected in the Autumn, the hearing having concluded on 28 March, and Paul Newman KC has provided more information on the case and the questions the court was asked to consider.

It is anticipated that judgment will cover things such as whether actuarial confirmation was needed to cover scheme closures or in relation to benefits which were not part of the contracted-out regime. The court was also asked to consider whether subsequent certification that a scheme met the contracting-out test could be relied upon, and whether, where any confirmation cannot be found, it can be assumed that it exists. The decision may also deal with whether recitals in a later deed can prospectively rescue an earlier invalid deed.

Dealing with Virgin Media in scheme accounts: A recent Pensions Research Accountants Group (**PRAG**) discussion paper looked at how Virgin Media is being dealt with in scheme accounts. This is separate from the guidance from the ICAEW considered in the February edition of Pensions Essentials, which focussed on the impact on sponsor accounts.

The discussion paper concludes that many schemes are adopting a wait and see approach in relation to Virgin Media, rather than carrying out either a detailed analysis or high-level information gathering.

The paper goes on to consider how Virgin Media should be dealt with in scheme accounts. There are three options:

- Do nothing: This would be appropriate where (for example) trustees are confident Virgin Media is not relevant (e.g. the scheme was not contracted out on a reference scheme test basis), or any contingent liability is remote or immaterial.
- Disclosure: A contingent liability could be disclosed where (for example) the case may impact the scheme but the amount cannot be reliably estimated, or where trustees have undertaken an investigation and cannot find all of the relevant documentation and there may potentially be a liability. Where a disclosure is being included, trustees should consider what would need to happen for it to be amended or removed in the future. It should be specific to the circumstances of the scheme, but could include a brief description of the case, its potential implications and an indication of the continuing uncertainties. Consideration could be given to aligning disclosures with the sponsor.
- Provision in financial statements: Trustees would need to have concluded that a liability to make additional payments in respect of past liabilities exists. A reliable estimate of the cost of such liabilities would also be required, and consideration would need to be given as to how they would be funded. PRAG says it is unaware of any scheme which is in this position.

Sponsors have an interest in the case for their own financial statements. However, PRAG notes that they are subject to different accounting requirements, and both past and future liabilities impacts would be included in their considerations, whereas pension scheme accounts are only concerned with liabilities up to the year-end date. In addition, sponsors may have significantly different materiality tests. Therefore, it may be appropriate for sponsors and trustees to adopt different approaches to the case and to disclosing any contingent liability.

Practical points:

- *Consider the PRAG guidance if thinking about how to deal with Virgin Media in scheme accounts.*
- *Watch out for judgment in Verity Trustees in the Autumn.*

PPF STRATEGIC PLAN

The PPF has issued its strategic plan for the next three years and it looks like there will be a period of significant change. Consideration will be given to indexing pre-1997 benefits, allowing a zero levy to be collected, providing information to the dashboards and the future of the Fraud Compensation Fund.

In the week in which it celebrated its 20th birthday, the PPF launched its strategic plan for the next three years.

The backdrop for the strategic plan is that the PPF is currently in a position of strength, with £32 billion in assets under management and nearly 400,000 members. The current levy year has seen it significantly reduce the levy, to the point where legislation is now required to reduce it further. However, there are 5,000 remaining DB schemes, with nearly 9 million members and around £1 trillion in liabilities, and the PPF remains the ultimate backstop for these schemes.

The PPF has identified four key strategic goals for the next three years:

- **Reducing costs for schemes:** It proposes to work with government to reduce costs for schemes and employers by revising the legislation governing external funding, reflecting its current financial strength.

  This will include working on a framework that allows for a zero levy, but supports financial security by enabling the levy to be reintroduced if necessary. As we reported in Pensions Essentials in January, the PPF included a provision in its 2025/26 levy rules to allow it to calculate a zero levy if appropriate statutory changes were made during 2025/26. Changes are needed because existing legislation restricts the annual increases in the levy to 25% of the previous year's levy. This was intended to protect levy payers from sharp increases, but it clearly restricts the way that the PPF can react to future developments if it reduces the levy significantly or to zero. Changes are likely to be made to this provision in the upcoming Pension Schemes Bill.

  The PPF also benefits from a separate administration levy, which is determined by a applying a statutory multiple to the number of members a scheme has. The PPF is considering changes to this levy in recognition of the fact that it is in a position to be self-funding.

- **Dashboards:** PPF and Financial Assistance Scheme compensation will not be within the initial scope of the dashboards. This clearly means that some members will not be provided with a full picture of their benefits, and the PPF says that it will work with government to enable compensation data to be available on the dashboards as soon as possible.

- **Compensation:** In March 2024, the Work and Pensions Select Committee recommended that the government should legislate to improve PPF compensation levels, and that the first improvement which should be considered was indexation of pre-April 1997 benefits. The Committee said that the failure to provide indexation on these benefits has "*a disproportionate impact on women and older scheme members*". The PPF will work with the government to progress a review of indexation. It will be interesting to see where this ends up, as many members will not have been entitled to pre-1997 indexation in their original transferring schemes, and the PPF may not be able to identify in all instances whether this was the case or not.

- **Fraud Compensation Fund (FCF):** The FCF was set up under the Pensions Act 2004 and is operated by the PPF. In broad terms, it provides compensation where the assets of a scheme are reduced as a result of dishonesty and the employer is insolvent. Historically there were very few claims on the FCF but, as a result of a High Court case in 2020, some members of pension liberation schemes became entitled to compensation, and the PPF estimated that this could cost around £400 million. Now the PPF says that it plans to finalise all known applications to the FCF and work with DWP and TPR to determine whether any future claims are likely.

Practical points:

- *Watch out for more developments.*
- *Be aware that PPF levies may well reduce further in the future.*

DATA AND DASHBOARDS

We are now only 18 months away from all schemes needing to have connected to the dashboards. TPR continues to emphasise the need for schemes to be working towards connection and the importance of ensuring that scheme data is accurate and appropriate governance is in place around it.

The first pensions provider has now connected to the dashboards, which makes them seem more of a reality. Given that all schemes will need to be connected by 31 October 2026, it is clear that dashboard compliance needs to be towards the top of trustee agendas and a standing agenda item at meetings. It is clearly on TPR's mind.

TPR has issued four short films highlighting what members currently know about their pensions, how confident they are in their knowledge, and their lack of awareness about how many pensions they have and where they are. The films show that having pensions information in one place could make a significant difference to members' understanding and retirement planning.

An accompanying press release says that there are five actions TPR wants trustees to be taking to prepare for dashboard connection. These are:

- Start preparing data now – make sure it is accurate, accessible and digital.
- Download TPR's checklist to keep on track of dashboards preparations.
- Nominate a dashboards contact through TPR's Exchange portal to receive communications and guidance.
- Work with the administrator, AVC providers, and others supporting the scheme.
- Keep a record of decisions and preparations and maintain oversight at trustee meeting.

In addition, in a recent speech, the TPR's CEO said that dashboards will only work if people can trust the information that is put into them. Therefore, TPR continues to urge schemes to improve data and undertake regular reviews. One in four schemes still hold some form of dashboard data in a non-digital form and TPR says it intends to reach out to hundreds of schemes who may be failing its expectations on data, requiring them to explain why they have not taken action.

Finally, TPR has published what it describes as its first dashboard readiness tracker survey. Highlights include:

- 76% of schemes reported they intend to connect to dashboards by their 'connect by' date and are confident that they will do so (which does raise questions about the other 24%).
- 94% were confident that the data they will use to match members to pensions is accurate or had a plan in place to improve it before connection.
- 85% had all their match data in digital format and a further 9% had a plan in place to fully digitise ahead of connection.

These figures show that many schemes are on top of compliance, but a significant minority still have a way to go.

Practical points:

- *Ensure that dashboard compliance is on the agenda for trustee meetings.*
- *Consider what actions remain outstanding.*

WATCH LIST

For upcoming developments see our Pensions: What's Coming webpage.

No	Topic	Effective date or expected effective date	Further information/action
1	Changes to DC scheme governance and disclosure	2025/26 Pension Schemes Bill to be laid before Parliamentary summer recess (currently 22 July 2025).	Anticipated that wording for new value for money framework in occupational pension schemes will be included in the Pension Schemes Bill. The FCA has consulted on the requirements for personal pension schemes. Draft legislation on consolidating small DC deferred pots also expected in the Bill, along with new obligations in relation to decumulation options.
2	DB consolidation	2025/26 Pension Schemes Bill to be laid before Parliamentary summer recess (currently 22 July 2025). Public consolidator to be established by 2026, consultation on features closed on 19 April 2024, a response to which is expected in spring 2025.	TPR further updated interim superfund guidance - issued July 2024. Draft legislation on superfunds expected in Pension Schemes Bill.
3	Pensions tax	Changes are anticipated from 6 April 2027 in relation to inheritance tax (IHT) on lump sum death benefits and inherited benefits. Changes to be made from 6 April 2026 in relation to need for UK scheme administrators.	Draft legislation awaited in relation to IHT changes.
4	Repayment of surplus	Further changes to legislation in relation to refunding surpluses in ongoing schemes have no clear date but may be included in the Pension Schemes Bill to be laid before Parliamentary summer recess (currently 22 July 2025).	The Government has announced that changes will be made to surplus legislation but has yet to publish details. Response to Options for Defined Benefit schemes consultation expected in first half of 2025.
5	Funding and investment strategy requirements for DB schemes	Funding and investment strategy in place 15 months from date of the first valuation obtained on or after 22 September 2024. Revised Code of Practice from TPR came into force on 12 November 2024.	Strategy statements will need to be submitted electronically, the format for which is due to be published in spring 2025.
6	Notifiable events for DB schemes on corporate and financing activity	Significant uncertainty about publication of government response to consultation on draft Notifiable Events (Amendment) Regulations. No dates are known as to when any progress will be made.	TPR will consult on an update to Code of Practice 2 (Notifiable Events) and accompanying guidance once DWP have published their finalised regulations and consultation response.

No	Topic	Effective date or expected effective date	Further information/action
7	Pensions dashboards	Compulsory connection deadline of 31 October 2026 for schemes with 100 or more active and/or deferred members at year end between 1 April 2023 and 31 March 2024. Staging timetable set out in DWP guidance.	All registrable UK-based schemes with active and/or deferred members.
8	Collective defined contribution schemes	Legislation allowing unconnected multi-employer schemes may be issued in 2025.	The Government has consulted on the possibility of extending the legislation allowed collective defined contribution schemes to schemes for unconnected-employers, paving the way for commercial providers to offer such schemes.
9	DC consolidation	Proposals on default funds may come into force in 2030.	The Government has consulted on requiring multi-employer DC schemes to have a maximum number of default funds of a minimum size.

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