

Pensions Essentials

Newsletter

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Determination on contribution notices

The Pensions Regulator has issued a [determination notice](#) and [regulatory intervention report](#) on contribution notices in relation to the Danapak Scheme

TPR has published a 2024 determination notice in relation to the Danapak Flexibles Retirement Benefits Scheme. Parts of the determination were appealed to the Upper Tribunal, who published [their decision](#) in August 2025.

The case is worth noting because it involved contribution notices being issued where a company was still trading and took into account the weak employer covenant and long recovery plan. It also adopted a wide meaning of when an individual might be a "party" to an act which caused material detriment to members.

Background: Several family businesses were owned by CW, PW, AP and their parents, including DFL, the principal employer in relation to the Scheme. DFL was bought by DFH for £1 in 2008 and sold for the same amount in 2019.

As of 2015, DFH was owned by CW, PW, AP and another family member and CW proposed that the other family

members should sell their shares to himself and EW, his wife. This was agreed and the £800,000 purchase price was funded by DFL's drawdown facility with RBS. This amount remained outstanding in 2019.

In 2020, the Scheme had assets of £22.8m and a buy-out deficit of £24.8m. Concerns were reported to TPR.

The Regulator issued warning notices in relation to the issue of contribution notices to CW, EW, PW and AP. CW and EW settled before a determination was made.

Determination: TPR had to consider whether PW and AP were "party to" an act that caused material detriment. It concluded that they were on the basis that they were told that the funds used to purchase their shares were derived from a drawdown facility by DFL and they had the opportunity to refuse to proceed with the transaction.

In relation to whether the act materially affected the likelihood of accrued benefits being received, TPR said that £800,000 was significant in relation to the net asset position of the employer. In addition, as the Scheme had a long deficit repair plan and an employer with a weak covenant, it was reasonable to conclude that using significant financial resources was a matter of materiality so far as the security of the Scheme was concerned.

TPR also concluded that it was reasonable to issue contribution notices on the basis that AP and PW should have responded to the proposal to purchase their shares by raising questions as to how the purchase price was to be funded and what impact it might have on the Scheme.

Upper Tribunal: AP appealed and the [Upper Tribunal](#) upheld the imposition of the contribution notice. It was not reasonable for her to have acted in the way that she did. She was a director of DFL and should not have allowed it to weaken its resources without making sure that the interests of all stakeholders were protected. She did not ask any questions or take any advice with a view to discharging that responsibility.

Practical points:

- [Be aware of the factors TPR will consider when issuing contribution notices.](#)
- [Employers do not need to be insolvent.](#)

Pensions Regulator annual funding statement

The Pensions Regulator has published its latest [annual funding statement](#) which sets out its expectations in relation to funding for trustees and sponsors of DB schemes. The statement suggests that the valuation process should be viewed more as a strategic tool to inform endgame planning.

TPR's latest [annual funding statement](#) is aimed at trustees and sponsors of DB schemes with valuation dates between 22 September 2025 and 21 September 2026. It also has wider relevance as it contains information relating to the new funding regime, which requires trustees to have a funding and investment strategy in place and long-term objectives for their scheme.

As of 31 December 2025, TPR's estimates indicate that around 90% of schemes are in surplus on a technical provisions basis and 60% on a buy-out basis.

As funding positions improve, valuations are becoming a strategic tool, informing the development of endgame plans and providing an opportunity to assess progress against long-term objectives.

Statements of strategy should evolve as endgame plans are refined and change between valuations as necessary. They should drive the valuation process, rather than be a valuation by-product.

TPR's experience to date reflects its estimate that around 80% of schemes should be able to meet Fast Track, reducing regulatory burden, as these schemes can provide less information as part of the statement of strategy.

Valuation: TPR expects trustees to begin the valuation process by considering the scheme's long-term objective and journey plan before choosing a Fast Track or Bespoke approach.

The Fast Track assumptions are not being revisited for the next tranche of valuations but may be after that.

Broad considerations: TPR identifies a number of general issues that trustees and sponsors should consider, including:

- The potential impacts from cyber incidents. These can materially impact the employer covenant, and trustees should monitor these risks in a way proportionate to the circumstances of the employer and the scheme.
- Climate change and wider sustainability issues. Trustees should work with the employer to understand the potential implications.
- The potential impact of ongoing macroeconomic uncertainty on scheme investments and employer covenant. Trustees should ensure that liquidity and cash flow requirements can be met, while maintaining a resilient investment strategy.

Where these factors could have a material impact on employer cash flows and prospects, trustees must consider whether the current level of risk the scheme is running remains appropriate.

Trustees should have appropriate governance and controls along with a clear understanding of the risks being run within the investment strategy. They should also make sure that they have robust and effective operational processes to improve scheme resilience to market shocks and reduce risk.

Contingent assets: TPR says that currently, it only asks trustees to include in the statement of strategy those contingent assets that the scheme is relying on to support funding and investment risk. However, it now believes that it would be beneficial to have visibility of all contingent assets a scheme has access to.

In addition, where a guarantee does not meet the 'look-through' criteria set out in the funding code, value can still be ascribed to it in the statement of strategy.

Supportable risk: When assessing how much risk is supportable over the covenant reliability period where a scheme is in surplus, trustees should recognise that surplus at the valuation date is a point-in-time assessment.

The value of surplus can materially change over time, especially where the investment strategy includes a high proportion of growth assets to support a higher discount rate.

Liquidity: Trustees should ensure their investment and funding strategies allow the scheme to meet short-term liquidity and cash flow needs, even during periods of economic or market uncertainty.

Trustees should operate robust liquidity and governance processes to ensure schemes remain resilient. The proportion of highly liquid investments (accessible within 5 working days) available to meet unexpected liquidity needs must be recorded in the statement of strategy.

Surplus: Draft regulations on the new surplus provisions in the Pension Schemes Act 2026 are expected later this year. TPR says that around the same time, it will publish a statement providing early views on the issues trustees should consider around surplus release. In addition, it will also consult on more detailed surplus guidance to sit alongside the regulations, which are expected to come into force in 2027.

Practical points:

- [Trustees with valuation dates in the current tranche should consider the statement in detail and whether it will impact their statement of strategy.](#)
- [All schemes should be aware of the focus on endgame planning as part of the valuation process.](#)

Pension Regulator's guidance on AI usage

The Pensions Regulator has issued [preliminary guidance](#) on its expectations on how trustees should govern the use of AI and the steps it will take in relation to AI use. More detailed guidance is expected later this year.

Guidance for trustees: TPR's [preliminary guidance](#) says that trustees must ensure their scheme is well run regardless of who is making day-to-day decisions, and this includes understanding where and how AI is being used.

To achieve this, TPR has a number of expectations of trustees.

Trustees should establish clear governance practices which identify and evaluate risks and put appropriate controls in place. They also need to carry out testing and ongoing monitoring in relation to AI usage and ensure that administrators, advisers and providers also have appropriate AI governance systems in place. In addition, trustees must make sure that they are aware of potential AI scams and frauds, and work to protect members.

Trustees and administrators should both invest appropriate time and resources to understand AI technologies and relevant UK guidance and emerging standards. They should also be transparent with members and stakeholders about AI use, where appropriate.

Accurate data is also important in relation to AI usage. Trustees need to ensure that scheme and member data is of high quality where it forms a critical input into AI-supported processes. Trustees should also understand how AI models use and process data and ensure there are robust controls in place.

If trustees or administrators are considering implementing an innovative use of AI, they should seek appropriate and proportionate professional advice.

What TPR will do: TPR says that it intends to "*publish guidance in 2026 on the responsible adoption of AI for pension schemes, following engagement with the pensions industry on AI use in schemes and their supply chains*".

Understanding how evolving AI technologies are being used will be critical to ensuring TPR's regulatory approach remains fit-for-purpose, so it intends to engage with industry to determine trends and report on progress.

The guidance is a useful reminder that trustees should engage with how AI is being used in their schemes and the risks that it could potentially pose to members.

Practical points:

- Identify areas of AI usage in relation to the scheme.
- Consider what governance is needed around it.

Virgin Media actuarial guidance

The Financial Reporting Council has *finalised its guidance for actuaries on the provisions in the Pension Schemes Act 2026 which allow for actuarial confirmations to be given now in relation to historic amendments in order to address potential Virgin Media issues.*

The Act: Provisions in the [Pension Schemes Act 2026](#) allow trustees to request the scheme actuary to consider whether in their opinion, it is reasonable to conclude that a past amendment would not have prevented the scheme from continuing to satisfy the reference scheme test. If the actuary can confirm this, the amendment will be valid. If they cannot, it may be void.

Guidance: The Financial Reporting Council (FRC) has issued [final guidance for actuaries](#) to help them provide confirmations under these provisions where requested.

Like the earlier draft, the final guidance adopts a pragmatic approach and says that the scheme actuary is expected to exercise judgement about whether the reference scheme test would have continued to be met post-amendment.

The actuary is not required "*to have certainty*" about whether an amendment would have prevented a scheme from continuing to meet the relevant test. They need "*to reach a reasoned and justifiable conclusion taking into account all the relevant facts and circumstances identified after taking a proportionate approach to the gathering of data*".

The actuary will not need to have all of the data that would have been available at the date of the amendment. They are expected to exercise judgement over what information is sufficient and are encouraged to use readily available information that can be obtained without incurring a disproportionate amount of time and effort. Guidance is given about the information that might be used to determine earnings.

The actuary should ensure that they have a full understanding of the rule amendment, and where multiple amendments made at the same time need to be considered, it is likely that they will consider whether the combined effect would be that the scheme continued to meet the reference scheme test.

Schemes considering Virgin Media issues should note that we are still awaiting the decision in Verity Trustees, which should give some guidance about the amendments that might be in scope of the relevant statutory requirements.

Practical points:

- Consider whether any amendments are in scope of the remediation provisions.
- Think about the timing of any request to the scheme actuary.

Pension Commission's interim report

The Pensions Commission set up by the Government last year to consider the adequacy of retirement provision, and steps that might be taken to improve it, has delivered its interim report. The final report and recommendations are due in 2027.

Background: In July 2025 the Government set up a new Pensions Commission, which was tasked with looking at why tomorrow's retirees risk being worse off than today's and making recommendations to address this.

Interim report: The Commission has published its interim report setting out its findings, which include:

- Low and middle earners are most at risk of having insufficient retirement income, with around half saving only at automatic enrolment minimum levels.
- 45% of working-age adults - around 18 million people - are not saving into a pension at all.
- Where employers are contributing above the statutory minimum this largely benefits higher earners.
- Only 4% of the wholly self-employed are saving for retirement.
- Around 3 in 10 pension pots are accessed as early as possible, with half of all pots taken out in full in cash. There is significant expenditure on large expenses like cars, holidays or renovations.

Next steps: No recommendations have been published yet: these are due in early 2027. However, the issues that need to be considered include:

- Higher rates of pension saving and higher coverage;
- Automatic enrolment eligibility, earnings thresholds and minimum contributions;
- The existing non-means-tested State Pension is critical to the retirement incomes of most pensioners but a means-tested safety net will remain necessary;
- Adequate incomes in retirement are affected by the way savings are taken, and there must be stronger guardrails around this and a lower burden of risk passed to individuals;
- Adequacy requires people to lead longer working lives. Higher employment rates are required, particularly for those in their 50s and early 60s.

Practical points:

- Watch out for recommendations next year.
- Be aware that any changes may lead to increased costs for sponsors.

Benefits of scale in DC market

The Pensions Regulator has issued a report examining the benefits of scale in relation to DC benefits. The report concludes that evidence that scale is beneficial is emerging but is not unequivocal.

TPR has issued a report looking at emerging evidence in relation to DC consolidation and the possible benefits of economies of scale. The report also explores the links between scale, governance capability and access to private market investment.

The number of DC schemes continues to fall and 83% of DC assets, amounting to £208 billion, is held in master trusts. Consolidation is likely to increase as the provisions of the Pension Schemes Act 2026 are implemented, which amongst other things will require DC schemes to undertake detailed value for money (VFM) assessments.

While the UK evidence base is still developing, domestic evidence is supplemented with insights from Australia, where large-scale DC funds have been established for longer and operate at significant scale.

TPR's research shows that total costs per member tend to reduce as scheme size increases. However, annual management charges seem to be higher in multi-employer commercial schemes than single employer trusts.

The current UK evidence linking scheme size with gross investment returns is weak, although in Australia, some evidence suggests there is a modest positive relationship between size and investment performance.

In addition, in Australia, evidence shows a strong link between scheme size and allocation to private markets. However, there are differences in the tax treatment of pensions investment in Australia that may have an impact on the attractiveness of private market investment.

Australian studies also found that larger funds tend to govern better and good governance leads to better returns.

TPR will continue to track developments and the new VFM framework should provide considerably more evidence as to whether scale does provide advantages when it comes online in 2028. In the meantime, trustees and sponsors should note that the benefits of scale have yet to be as clearly established as the Government and regulators may sometimes suggest.

Practical points:

- To note if considering consolidation.
- Ask potential consolidators what they consider the benefits of consolidation and scale to be.

Inheritance tax update

In advance of unused DC pots and some death benefits becoming subject to inheritance tax from 6 April 2027, HMRC has issued a [technical note](#) setting out more details about how the new regime will work and is [consulting on information regulations](#).

Background: Legislation setting out a new regime for imposing inheritance tax (IHT) on unused DC pots and some death benefits is set out in the [Finance Act 2026](#) and is due to come into force in April 2027.

In the meantime, HMRC has issued a [technical note](#) which expands on the legislation and gives more supporting information on how unused DC funds and in-scope death benefits will be treated. It has also launched a consultation on the [information regulations](#) that set out how information will be shared between scheme administrators and personal representatives (PRs).

PRs will need to identify any pension schemes from which death benefits may be payable and contact them to inform them of the death and request the value of "notional pension property" (the term used for in-scope benefits).

PRs will be responsible for reporting and paying any IHT but scheme administrators (who are typically the trustees) also have significant obligations in relation to providing information, withholding benefits and (potentially) paying tax that they need to be aware of and which their administration systems will need to accommodate.

Valuation: The technical note sets out how schemes should value notional pension property and which types of benefits are excluded. Although payments to certain beneficiaries (such as spouses and civil partners) are exempt from IHT, in-scope benefits payable to them will still need to be included in value calculations.

Information sharing: Information on the value of notional pension property should be provided to PRs within 28 days of a request, and if the scheme administrator cannot do so, they must provide an estimated value and the basis for that estimate. They must also tell PRs the final value within 14 days of obtaining it.

The scheme will also need to identify how notional pension property is to be split as between IHT exempt and non-exempt beneficiaries. This should be done within 28 days of a request or, if later, 14 days after the beneficiaries have been determined.

If PRs need to submit an IHT account to HMRC, they can ask the scheme to provide further information for that purpose. The information the scheme must provide includes each beneficiary's name, address, NI number and the value and percentage of the notional pension property being used to pay benefits to them. Again, the 28-day / 14-day time limit described above applies.

Withholding: A withholding notice allows PRs to instruct a scheme administrator to withhold up to 50% of an individual's benefit entitlement under the scheme. This helps to protect PRs and other estate beneficiaries from having to use non-pension assets to meet the IHT liability.

A withholding notice can be given at any time up to 15 months after the end of the month in which the member died, and only has effect within this period. However, once beneficiaries are determined, scheme administrators should not delay distributing benefits where they have not received a withholding notice, even if it is within the 15-month period.

A notice ceases to have effect when it is withdrawn by the PRs, the IHT (and interest) is paid, or the 15 month period has expired - whichever occurs first.

There will be an HMRC template which sets out the information that a withholding notice must include. Administrators must acknowledge receipt of the request within 14 days and notify beneficiaries about a withholding notice within 14 days.

Direct payments: PRs and beneficiaries can issue a notice requiring scheme administrators to pay the IHT due (and interest, where relevant) in respect of a scheme benefit directly to HMRC. Where a valid payment notice is received, the scheme administrator must pay the amount specified within 35 days.

There are no restrictions on when a payment notice can be given; however, if there are insufficient funds left to cover the amount specified in it, it will not be valid. HMRC will issue a template notice.

To determine whether a notice is valid, the scheme administrator will need to consider a number of things including whether the IHT (and interest) required to be paid is an exact amount of at least £1,000 and whether the notice includes other required information specified by HMRC (eg, the capacity (beneficiary or PR) in which the individual is issuing the notice).

The scheme administrator can deduct the amount paid from benefits on a "just and reasonable" basis. This means that there must be available funds in the scheme and if a withholding notice is in place, the tax and interest can be deducted from withheld amounts.

Income tax: If a benefit would be subject to income tax, the proportion of the benefit corresponding to any IHT liability will not count as taxable income.

Practical points:

- [Administrators need to be working out what changes there will need to be to admin systems.](#)
- [Trustees should ensure that their administrators are on track to deal with these new requirements.](#)

Pensions Regulator dashboard readiness initiative

The Pensions Regulator has issued a [dashboard readiness initiative](#) aimed at DB and hybrid schemes to assess how they are preparing their data to ensure their members get accurate, up-to-date information on the dashboards.

Around 2,600 schemes are required to connect to pensions dashboards by 31 October – with 75% of member records already connected. Schemes will need to match dashboards users to their pensions and return recent and accurate information to members about their pensions – all within set legislative timescales.

TPR's [new regulatory initiative](#) will target 240 DB and hybrid schemes, assessing how they are preparing to meet their dashboard duties, with a particular focus on the readiness and accuracy of value data. This will help inform discussions on the timing of the launch of the dashboards to individuals.

This reason for the initiative is that supplying members with the required information about the value of their benefits is particularly an issue for DB and hybrid schemes. This is because, unlike DC schemes, DB and hybrid schemes do not have existing obligations to issue annual

benefit statements, meaning that their value data is more likely to be out of date.

TPR wants to assess the risk that dashboard users will see incomplete or inaccurate information.

TPR highlights the need for schemes to ensure that:

- The data on the value of members' pensions is recent – within the last 12-13 months.
- Values are accurate. Inaccurate information could lead members to make poor retirement decisions.
- Values are returned within required timescales. If the value has been calculated recently, it must be returned within a few seconds. If it is out of date, schemes must calculate the value and return it within three days for DC or 10 days in all other cases.

Practical points:

- [Discuss with administrators whether the scheme is able to return value data in required time scales.](#)
- [Ensure scheme is on track to connect to the dashboards no later than 31 October 2026.](#)

Watch List

Topic	Details	Relevant dates
Collective defined contribution schemes	<p>The Government has issued regulations permitting CDC schemes for unconnected employers, paving the way for commercial providers to offer such schemes.</p> <p>It has also consulted on the possibility of allowing trustees to select retirement-only CDC arrangements as a default retirement option for members.</p>	<p>Regulations come into force on 31 July 2026 on unconnected employer CDC.</p> <p>Consultation on retirement CDC arrangements closed on 4 December 2025.</p>
Dashboards	<p>Trustees of the majority of UK schemes with active and/or deferred members will need to ensure that their scheme is connected to the dashboard eco-system by 31 October 2026. A detailed timetable is set out in DWP guidance.</p>	<p>Compulsory connection deadline of 31 October 2026 for most schemes. No go live date for members yet.</p>
Decumulation options - DC	<p>The Pension Schemes Act 2026 will require trustees to provide access to a default retirement solution for DC members either through their scheme or, where this is not possible or is not in members' interests, through a transfer to another arrangement. See above for use of CDC schemes as a solution for these purposes.</p>	<p>Regulations anticipated in 2026.</p> <p>Phased implementation from 2027.</p>
Default funds – DC	<p>The Pension Schemes Act 2026 will require multi-employer master trusts and GPPs used for auto-enrolment to have a main default fund with assets of £25 billion. It also sets out a regime for the approval and supervision of such funds.</p>	<p>Regulations needed.</p> <p>Requirements in force in 2030 with transitional provisions to 2035.</p>
Inheritance tax	<p>Legislation is in the Finance Act 2026 in relation to inheritance tax on inherited benefits and some death benefits. There are numerous statutory requirements imposed on Scheme administrators in relation to providing information, paying tax directly on request and withholding benefits.</p>	<p>The changes will come into force from 6 April 2027.</p>
Investment mandate - DC	<p>The Pension Schemes Act 2026 provides for regulations which can require multi-employer master trusts and GPPs used for auto-enrolment to invest a stated percentage of assets in prescribed investments.</p>	<p>The Government has said the power is a reserve one. It must be exercised between 2028 and 2032 and regime will fall away in 2035.</p>
Minimum pension age	<p>The minimum age at which a pension can normally be paid and be an authorised payment is due to rise from 55 to 57. HMRC has issued guidance on transitional issues for members aged between 55 and 57 on implementation and when benefits can be paid to them before age 57.</p>	<p>The change will be effective from 6 April 2028.</p>
Pensions Commission	<p>The Commission is considering long-term questions in relation to pensions adequacy and retirement outcomes. It has reported people are under saving for retirement and will make recommendations next year.</p>	<p>Interim report issued May 2026.</p> <p>Final report out early 2027.</p>
Salary sacrifice	<p>The 2025 budget announced a cap on salary sacrifice arrangements for pension contributions of £2000. Enabling legislation is set out in new Act but regulations are required to bring the change into force.</p>	<p>Proposals due to be implemented on 6 April 2029.</p>
Small pots consolidation – DC	<p>The Pension Schemes Act 2026 provides for the consolidation of dormant DC pots of £1000 or less. Consolidators are likely to be DC master trusts.</p>	<p>Consolidators due to be selected in 2029 and consolidation to start in 2030.</p>

Topic	Details	Relevant dates
Superfunds - DB	The Pension Schemes Act 2026 sets out a framework for the authorisation and supervision of superfunds and gateway conditions for transfers to them.	Regulations anticipated in 2027 and regime coming into force in 2028 alongside a new code of practice.
Surplus - DB	Provisions in the Pension Schemes Act 2026 will facilitate refunds of ongoing surplus for schemes with no or limited powers in scheme rules. The statutory conditions for doing so have also been changed. Regulations are anticipated which will change the funding test.	Draft regulations and guidance anticipated in 2026. Due in force in 2027.
Value for money - DC	The Pension Schemes Act 2026 allows for regulations to set out a new value for money framework for occupational pension schemes providing DC benefits. A joint FCA/TPR consultation has set out the detail of the metrics that are likely to be required.	Regulations anticipated in 2026. First new assessments and published data in 2028.
Virgin Media remediation - DB	The Pension Schemes Act 2026 repeals the requirement to have passed a resolution before April 2016 to retain a power to distribute ongoing surplus and includes a new statutory power to amend scheme rules to allow a refund.	Provisions now in force and guidance has been issued by the FRC for actuaries.

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