SLAUGHTER AND MAY

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Pensions Essentials

Newsletter

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Updated pensions roadmap

The Government has updated its roadmap setting out the intended timescales for pensions reform.

The roadmap sets out an updated timeline for when the Government intends to bring into force the changes set out in the Pension Schemes Act 2026 along with other reforms. Trustees and sponsors should be aware of the proposed timescales as some of the work needed for compliance is significant and will need time to prepare for.

Key points to note from the revised roadmap include:

- Confirmation that the requirements for commercial master trusts and GPPs to have a main scale default fund of at least £25bn are intended to apply from 2030. Applications for transitional relief are expected to open in 2029 with draft regulations published in late 2027 and TPR consultation on a code of practice and FCA consultation on rules in 2028.
- The first new value for money assessments (see below for more detail) will be published in 2028, based on information from 2027. However, only larger schemes such as master trusts, schemes with 50,000+ deferred and active members and GPPs open to new employers will need to complete assessments in 2028. Smaller schemes will still be required to collect and submit the relevant data, but it will not be published and they will not need to assess if they provide value.

  The Government also says that it wants to extend the VfM provisions to decumulation options in due course.
- Guided retirement is now targeted to come on-line for master trusts and GPPs in 2029 and other DC schemes in 2030. The Government is also exploring "*the development of standardised approaches to pension illustrations, including for common forms of decumulation and for individuals in decumulation*" which looks like it might mean further changes to the information that needs to be included in the statutory money purchase illustration.

  In addition, guidance from MaPS will be updated to reflect guided retirement and DWP and the FCA are working together on how targeted support (advice tailored to a group sharing the same characteristics rather than for an individual) can support guided retirement. The intention is that it will provide members with "*actionable suggestions so they feel confident to make their own choices".*
- The provisions facilitating refunds of surplus in ongoing DB schemes should come into force on 6 April 2027 along with the tax legislation allowing payment of surplus lump sums to members over normal minimum pension age. Detailed guidance from TPR should also be available by the same date.
- Draft guidance on fiduciary duties and investment decisions will be published for consultation in the Autumn with a view to being finalised in early 2027.
- The final report of the Pensions Commission setting out recommendations for improving pensions adequacy is due to be published in early 2027.

Practical points:

- Watch out for developments.
- Work out a plan of action.

Consultation on value for money

The Government has issued a consultation paper along with draft regulations and FCA rules on the new value for money regime that will apply to DC schemes and default and quasi default arrangements.

The Pension Schemes Act 2026 sets out a value for money (VfM) framework which will require DC schemes to collect and publish data on prescribed metrics and assess their performance against the data from other schemes. Those not providing value can be required to transfer members out. A recent consultation paper and draft regulations set out more details on how all of this will work. Consultation closes on 1 September.

The VfM requirements will apply at both a scheme and arrangement level, so thought will need to be given as to whether both a scheme and a particular arrangement is in-scope. An arrangement is defined as "an allocation of contributions to one or more investments according to a strategy adopted by" the trustees.

Looking in more detail at what is being proposed:

VfM periods: The metrics that must be assessed and which schemes and arrangements are in-scope are assessed by reference to a VfM period. The first VFM period will start on 1 July 2027 and run to 31 December 2027. Subsequent VFM periods will be calendar years.

In-scope schemes: Schemes providing money purchase benefits on the 31 December of a VfM period are in-scope, subject to some exemptions including unregistered schemes, SSASs, CDC schemes, certain executive schemes and schemes in wind-up. This will include hybrid schemes, but the VfM requirements are only intended to apply to the DC element.

In-scope arrangements: AVC arrangements "set up by the employer" are exempt, but it is not clear if this is wide enough to catch arrangements set up by trustees. Arrangements are in-scope if, on 31st December of any VfM period they fell into one of four categories:

- Default arrangement - an open arrangement with at least 1000 members (or the largest or only arrangement within the scheme) where members are allocated to without making a choice.
- Legacy arrangement – can be open or closed to new members and must be (according to the consultation paper) used by at least 80% of active and deferreds relating to at least one employer, which in a multi-employer scheme must have at least 50 members. It must also have at least 1000 members or be the largest or only arrangement.
- Transferred-member arrangement - where benefits have been transferred without consent and the arrangement has 1000+ members or is the only or largest arrangement in the scheme. The transfer of a single member could bring an out-of-scope arrangement into the VfM requirements.
- Bespoke arrangements - an arrangement that has an investment strategy set by an employer and is used only by that employer.

Metric data: It appears that some metrics are intended to be assessed at scheme level and some at arrangement level. In particular, quality of service metrics are intended to be considered at scheme level. These include information about the accuracy of record keeping, promptness of core financial transactions, information about member complaints and the percentage of members that have nominated a beneficiary.

There are also metrics in relation to asset allocation, forward and backward-looking investment performance and costs and charges. The consultation paper says that these are designed to apply at the arrangement level.

Sharing metric data: Data must be uploaded to a database operated by TPR by 31 March following the end of a VfM period – so the first deadline will be 31 March 2028. Metric data will need to be published by 7 November each year but in 2028 as discussed in the road map item above, smaller non-commercial schemes will be exempt.

VfM assessment: A VfM assessment will need to be carried out for an in-scope scheme or arrangement each year in a format required by TPR and completed, published and uploaded to TPR's database by 31 October.

Trustees will need to compare their metric data with benchmarked data from TPR's database. Where there is a material difference between comparator data and scheme data, that is indicative of not providing value. However, where trustees consider that the metric data does not reasonably reflect the actual value for money, it is open to them to consider other information and criteria.

VfM rating: Trustees will also need to assign one of four ratings to a scheme or arrangement: green, light green, amber and red. An amber or a red rating indicates that a scheme or arrangement is not providing value and action needs to be taken (including closure and transferring members out). However, it is proposed that no formal consequences will apply in 2028.

All of this represents a lot of work so schemes will need to consider sooner rather than later which arrangements might be in scope and what information will be needed.

Practical points:

- Identify schemes or arrangements possibly in scope.
- Consider what information might be required and how readily available it is.

Default retirement options

The Pension Schemes Act 2026 will require schemes to offer default retirement options for members. The Government has issued a policy paper setting out more details about the principles behind this.

Provisions in the Pension Schemes Act 2026 on "guided retirement" will require trustees to provide a default retirement option for DC members which provides a regular income in retirement. The default option will need to be designed with the needs of members in mind.

As with many areas in the Act, much of the detail about how the guided retirement regime will work is to be set out in regulations. However, on 13 July, the Government issued a policy paper setting out its "guiding principles".

The intention is to ensure that members can achieve good retirement outcomes "without needing to navigate complex financial decisions or develop specialist expertise". The guided retirement requirements will "place responsibility on schemes to design and manage appropriate default pensions in members' interests. For most [members], the only decision required will be when to access their pension and whether to remain in the default pension or choose an alternative. Those who wish to take a more active role will continue to be free to shop around and select a different retirement solution that suits their preferences."

When schemes are designing their default option, the Government says that "protection against longevity risk [is] a crucial element" and they must provide a retirement income that lasts throughout that retirement. Trustees, however, will have flexibility about how to deliver this which means that default pensions could incorporate different phases, such as a flex then fix approach (using part of a fund to purchase an annuity and part to provide income drawdown).

The Government also says that as there are a significant number of members who value the ability to make their own retirement choices, members will need to "agree to start receiving payment via the default pension". Where the default has different phases, members should be given information about this, but their consent will not be required more than once.

Whilst it is easy to understand why the Government thinks that seeking consent is appropriate, it is not clear what will happen where a member does not engage sufficiently to consent and therefore the default solution cannot be brought into payment.

Practical points:

- Watch out for further developments.
- Begin to consider what a default retirement option might look like.

Discussion paper on scale requirements

From 2030 all authorised Master Trusts and GPPs used for auto-enrolment will need to have assets of at least £25 billion in a main scale default arrangement. DWP has issued a discussion paper setting out some detail about how these requirements are intended to work.

From April 2030, the Pension Schemes Act 2026 will require authorised master trusts and GPPs to be approved in relation to a main scale default arrangement (MSDA) or they will not be able to continue accepting auto-enrolment contributions.

An MSDA is an arrangement in which a member has made no investment choice and which has assets of at least £25 billion. The £25 billion test is at the fund level rather than the scheme level, so an MSDA can be used by more than one GPP or master trust if the schemes are "connected" and if the assets are managed under a common investment strategy (CIS).

A scheme with a default arrangement of £10 billion or more may be approved for the transition pathway if it is on track to meet the £25 billion requirement by 2035.

The meaning of "connected" and "CIS" is to be set out in regulations and the Government has issued a discussion paper seeking views on possible definitions.

Common investment strategy: The assets held within an MSDA must be managed under a CIS. The CIS will therefore be key in determining how or whether connected schemes will be able to meet the scale threshold. The intention is to ensure that the assets will be invested in a sufficiently 'common' way to drive the benefits of scale but it is intended to allow for variance by age. The Government asks if any other variance factors should be considered.

Connected schemes: Unconnected schemes cannot participate in the same MSDA as other schemes and benefit from the shared scale. Regulations will define the level of connection required and views are invited around this topic.

Default funds: The expectation is that auto-enrolment contributions will be invested in the MSDA unless there is a reason to use an alternative. The paper asks schemes how many default arrangements they have and whether there are any plans to consolidate them.

The Act gives the Government a power to restrict the creation of new non-scale default arrangements and provides for regulations to be made requiring their consolidation. The Government intends to carry out a review of non-scale default arrangements in 2029.

Practical points:

- Sponsors should keep an eye on whether auto-enrolment arrangements are on track to meet the scale requirements.
- Watch out for draft regulations.

Tax update

HMRC has issued revised guidance on reclaiming VAT on pension fund expenditure, draft legislation in relation to surplus lump sums and new regulations on IHT information sharing.

Surplus lump sum: HMRC has issued a consultation on the draft legislation to allow for surplus to be refunded to members via a lump sum.

For a payment to be authorised, various conditions must be met. These include that it is payable at the discretion of the trustees, it would be an authorised employer payment if it was made to the employer and it is paid to a member over minimum pension age (or who satisfies the ill health condition or to a dependant).

Surplus lump sums will not be counted towards the annual allowance and will not affect an individual's entitlement to lump sum allowances.

Updated VAT notice: HMRC have issued an updated VAT notice which provides more guidance on when employers can claim VAT input tax on scheme expenditure (see June's Pensions Essentials for more detail and earlier publications on the same topic).

The VAT notice confirms that employers can reclaim VAT on both management and investment services but to do so, they "should hold tax invoices made out in [their] name. If the trustees pay for the supplies on [their] behalf, [they] should arrange for the suppliers to make out the invoices in [their] name."

IHT update: Regulations have been issued on the information requirements in relation to the new IHT regime which will come into force in April next year. They are aimed at ensuring that personal representatives get the information they need from a scheme to submit an IHT account to HMRC and HMRC can check the correct benefits have been included.

We provided details on what information will need to be provided and when in our May Pensions Essentials. The final regulations contain some changes, in particular, the requirement for scheme administrators to report all death in service payments to HMRC has been removed. Instead, personal representatives will need to report this information where an IHT account is due.

HMRC is due to issue draft guidance on the information requirements later this year, but final guidance is not due until Spring 2027. Trustees and administrators cannot wait until then and need to be thinking now about the processes they will need to put in place.

Practical points:

- Be aware of the information requirements in relation to the IHT changes and ensure that administrative processes can accommodate them from 6 April 2027.
- Sponsors may want to consider the position in relation to reclaiming VAT.

Pensions Regulator update

The Pensions Regulator has issued a number of publications focussing on how it is evolving as a regulator and what its plans for the future are. The Government has also published goals for it.

Government goals for TPR: The Government has set TPR four goals to encourage growth. These are to:

- Reform the workplace pensions sector;
- Unlock surplus/capital;
- Support productive investment; and
- Promote the responsible and safe use of AI.

The Government has also set out how TPR will need to measure success against these objectives which includes monitoring DC consolidation and the number of schemes that release surplus.

Corporate plan: TPR's most recent corporate plan sets out its priorities over the next year. These include raising the quality of scheme governance and administration, enhancing value for money and ensuring members are confident entering retirement.

TPR intends to publish guidance on surplus extraction, the responsible adoption of AI and dashboard duties as well as reviewing the guidance on cyber security. It also proposes to develop guidance and a strategy for guided retirement.

Corporate strategy: TPR's new corporate strategy sets out its plans and objectives for the next 5 years. It intends to take a more system wide approach to regulation and actively shape change within the market.

Annual report and accounts: TPR has issued its annual report and accounts for 2025/26. During the year, it "refreshed its approach to scheme oversight and supervision to be more focused, effective and efficient" and achieve compliance with less regulatory burden.

Information gathering: A recent intervention report concerns the plumbing industry pension scheme and is particularly notable for TPR's use of its information gathering powers.

An employer had left an underfunded industry-wide DB scheme and failed to pay its section 75 debt whilst paying significant dividends. TPR used its powers to require individuals to attend interviews and issued a penalty against the company's accountants for failing to provide requested information. A settlement payment was agreed with the scheme before contribution notices were issued.

Practical points:

- Be aware of TPR's information gathering powers and the need for compliance.
- Look out for the guidance that TPR is set to publish over the coming year.

Consultation on the general levy

The general levy funds the costs of the Ombudsman, the Pensions Regulator and, partly, the Money and Pensions Service. However, it does not cover all of the funding needed so proposals are being made to increase it.

The general levy is intended to recover the funding provided by the DWP for the Pensions Ombudsman, the core activities of TPR and the pensions-related functions (excluding Pension Wise) of MaPS.

The levy is paid by registrable pension schemes and the amount is determined by the type of scheme and the number of members (the greater the number of members, the smaller the per member cost). Currently there are 4 rate categories – DB and hybrid scheme, DC scheme (excluding master trusts), master trusts and personal pension schemes and the rates are uplifted periodically (last done in 2024).

The levy has not kept pace with the costs of the relevant organisations and by March 2026, the levy shortfall was £154 million, and it is expected to continue to increase. As a result, DWP has issued a consultation on proposed increases to the general levy which closes on 8 September.

Currently DB/hybrid schemes pay the highest levy, reflecting the fact that traditionally they have required more regulatory input. The lowest costs are for personal pension schemes, followed by master trusts reflecting the fact that they are more heavily regulated. However, in the future, there are likely to be fewer DB schemes and DC pension provision is likely to be consolidated in a small number of schemes. This means that the levy rates need to change.

It is proposed that the levy will be increased for DB/hybrid schemes by 5% per year for a 3-year period from 2027/28. DC schemes (excluding master trusts) would see an increase of 6.2% per year, reflecting a gradual move towards parity with DB schemes; and master trusts and personal pension schemes would see increases of 9% per year, reflecting a faster transition towards alignment with DB rates.

Consultation closes on 8 September 2026.

Practical points:

- Note the proposed increase.
- Be aware of the likely cost, depending on type and size of scheme.

Increases on pre 1997 pensions

The PPF will pay increases on pre 1997 pensions from January 2027 where there was an entitlement under the transferring scheme rules.

The Pension Schemes Act 2026 provides for the PPF to provide indexation on compensation relating to pre-6 April 1997 pensions. In line with indexation on other PPF benefits, it will be CPI capped at 2.5% and will only be payable where the member's original scheme provided for indexation of pre-1997 benefits. Where the scheme only provided for GMP increases, members will receive increases on a proportion of their pre-1997 benefits.

The PPF has now published a list of schemes that are eligible for pre-1997 increases and says it will contact members directly.

DB schemes outside of the PPF will also be impacted by this change as the introduction of pre-97 indexation will affect the calculation of their liabilities for things such as winding-up priorities and PPF levies. The Government's updated roadmap acknowledges this and says that it is working with the PPF to deliver regulations on pre-97 indexation. It is not clear what these regulations will cover.

In addition, in response to a recent parliamentary query on whether the Government would look again at the compulsory indexation of pre-1997 benefits, Baroness Sherlock said on behalf of the Government that: "it is up to individual schemes what their rules are for indexing their pensions", whilst also suggesting that the relaxation of the rules around the use of surplus could be used, for paying for indexation "if affordable and appropriate".

Practical points:

- Note the impact of changes to PPF indexation on DB schemes.
- Watch out for draft regulations.

Watch List

Topic	Details	Relevant dates
Collective defined contribution schemes	The Government has issued regulations permitting CDC schemes for unconnected employers, paving the way for commercial providers to offer such schemes. Regulations will also allow transfers to them without consent. It has also consulted on the possibility of allowing trustees to select retirement-only CDC arrangements as a default retirement option for members.	Regulations on unconnected employer CDC come into force on 31 July 2026. Consultation on retirement CDC regulations expected later this year and likely to come into force in 2028.
Dashboards	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 ecosystem by 31 October 2026. A detailed timetable is set out in DWP guidance.	Compulsory connection deadline of 31 October 2026 for most schemes. No go live date for members yet.
Default retirement options - DC	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.	Consultation on draft regulations expected in 2027, to be finalised in 2028. Phased implementation from 2029.
Default funds – DC	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.	Regulations needed. Requirements in force in 2030 with transitional provisions to 2035.
Inheritance tax	Changes in the Finance Act 2026 will impose inheritance tax on inherited DC benefits and some death benefits. There will be numerous associated requirements on scheme administrators in relation to providing information, paying tax directly on request and withholding benefits.	The changes will come into force from 6 April 2027. There are tight time limits for providing required information.
Investment mandation - DC	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.	The Government has said the power is a reserve one. It must be exercised between 2028 and 2032, and the regime will fall away in 2035.
Minimum pension age	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.	The change will be effective from 6 April 2028.
Pensions Commission	The Commission is considering long-term questions in relation to pensions adequacy and retirement outcomes. It has reported that people are under-saving for retirement and will make recommendations next year.	Interim report issued May 2026. Final report out early 2027.
Salary sacrifice	The 2025 budget announced a cap on salary sacrifice arrangements for pension contributions of £2,000. Enabling legislation is set out in a new Act but regulations are required to bring the change into force.	Proposals due to be implemented on 6 April 2029.
Small pots consolidation – DC	The Pension Schemes Act 2026 provides for the consolidation of dormant DC pots of £1,000 or less. Consolidators are likely to be DC master trusts.	Consolidators due to be selected in 2029 and consolidation to start in 2030.

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. Draft regulations have been issued on the process and funding test as well as preliminary guidance from TPR. Detailed guidance is expected later this year.	Detailed guidance later in 2026. Due in force in April 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 and draft regulations and FCA rules have been issued.	Regulations anticipated in 2026. All schemes to collect data and submit in March 2028. First assessments and published data in 2028 for commercial and large schemes.
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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