

Pensions Essentials

Newsletter

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The Government is consulting on amending the transfer conditions introduced in 2021 to prevent pension scams.

Prior to 2021, if limited statutory requirements were satisfied, trustees had no choice but to make a transfer, even if they thought that the receiving vehicle might be a scam and that the member risked losing some or all of their savings. To combat this, regulations were introduced imposing additional conditions on transfers.

Under these regulations, transfers to schemes approved by TPR (eg master trusts) or public sector schemes do not need to satisfy additional conditions. However, transfers to most other schemes must do so. There are two types of transfer conditions that trustees need to consider:

- **Amber flags:** These include receiving scheme investments which are high-risk, unregulated, overseas or unorthodox and, in the case of an occupational pension scheme, the member failing to establish an employment link with a participating employer. Where an amber flag is present, a member must take guidance from MoneyHelper before the

transfer can proceed and provide evidence they have done so.

- **Red flags:** Red flags include the member providing inadequate information or failing to take guidance if required, incentives being offered, pressure to transfer or unsolicited marketing. If a red flag is present, the member loses their statutory right to transfer, although the trustees may still decide to make a non-statutory transfer.

A review of the conditions concluded that whilst they were effective in reducing scam activity they also created “operational challenges that... may have at times created unnecessary friction for legitimate transfers”. The overseas investment amber flag has been particularly problematic as most legitimate schemes hold overseas investments.

As a result, the Government is consulting on several changes to the transfer conditions:

- Allowing transfers where “trustees are satisfied, on the balance of probabilities, that the transfer is to a ‘reputable’ pension scheme”. This will be for trustees to determine, but there is likely to be a non-exhaustive list of factors to consider, including whether there is an existing relationship with the receiving scheme, the risk profile of its investments, any prior warning flags and transparency on fees and charges.
- The overseas investment amber flag will be removed as the high risk and unorthodox investment flags provide sufficient protection. However, the incentives red flag will stay, because the harm it is addressing is not covered by any other flag.
- Failure to prove an employment link on a transfer to a small self-administered scheme (SSAS) will be a red flag (as opposed to an amber flag currently). This is because evidence suggests up to 10% of transfers to SSASs have been found to have elements of scams.

Consultation closes on 21 July 2026.

Practical points:

- [Watch out for final regulations.](#)
- [Be prepared to update transfer due diligence.](#)

Consultation on surplus regulations

The Government has [issued draft regulations](#) for consultation on the process for distributing surplus from an ongoing scheme. It is proposed the new regime will come into force on 6 April 2027. The Pensions Regulator has also [issued its "early views"](#) on how trustees should approach a decision to use surplus.

Provisions in the [Pension Schemes Act 2026](#) will facilitate the refund of ongoing scheme surplus where there are no, or restrictive, provisions in scheme rules. It is anticipated that these provisions will come into force on 6 April 2027.

Consultation on regulations: The Government has issued [draft regulations and a consultation paper](#) which set out a new process for how surplus release will work:

- **Actuarial assessment:** The trustees will need to ask the scheme actuary to carry out an "actuarial assessment" of whether there is a surplus on a low dependency basis. The [FRC has said](#) that it will publish guidance to support actuaries.
- **Agree proposal:** If the assessment shows a surplus, trustees must take advice from the actuary and consult the employer about the amount of any release and the proposed date of any payment.
- **Consider any benefit for members:** The Government said in the budget that it intends to allow one-off surplus payments to members over normal minimum pension age. The [draft regulations](#) suggest that these lump sums can be awarded to younger members and deferred until they reach minimum pension age but will need to receive statutory revaluation to ensure that they maintain their real value.
- **Employer consent:** Employers must consent to the proposal to make a payment to them.
- **Notice to members:** At least 3 months before the proposed date of any release, the trustees must give written notice to members telling them about the release, the target date and, if relevant that they have decided to award improvements to member benefits.
- **Actuarial certification:** The scheme actuary will need to provide an actuarial certificate confirming that:
 - the scheme assets are greater than the liabilities on a low dependency basis; and
 - during the three years following the certificate, this is "at least as likely" as not to continue to be the case.
- **Payment to employers:** Any payment must be made to the employer within 5 working days of the actuarial certificate. This timescale is tight, and if trustees are planning a phased surplus release, they will need to get a new certificate for each payment.

- **Notification to the Regulator:** The trustees have one week after making a payment to notify the Regulator.

Consultation closes on 2 September 2026.

Pensions Regulator: The Pensions Regulator has [issued its "early views"](#) on the factors that trustees should take into account when making a decision to distribute surplus and proposes to issue more detailed guidance later this year.

Its early views suggest that relevant factors to consider when reaching a surplus release decision might include:

- **Policy:** Whether there a surplus policy and what it says, or if there isn't one, whether one should be put in place. Trustees should also ensure that the funding and investment strategy aligns with the surplus policy.
- **Scheme rules:** What the rules require and how they should be interpreted.
- **Scheme liabilities:** How clear the liabilities are. Trustees will need to think about where the scheme is with GMP equalisation and Virgin Media issues and if further work is required in any areas.
- **Funding:** The funding level, the right level for surplus release and over what period. This means considering "the size of the financial buffer above low dependency" (suggesting there should be one).
- **Long-term strategy:** If run-on and releasing surplus is viable and, if so, for how long.
- **Covenant:** The current strength of the employer covenant and its future prospects. It may also be relevant to consider how the employer has engaged with the scheme in the past.
- **Contingent assets:** These may be particularly useful where release is being considered and the scheme is not funded at full buyout level.
- **Members:** Although there is no policy intent "to mandate the use of surplus for any particular purpose", member expectations should be considered. Trustees may want to think about the extent to which members have contributed to the scheme, whether benefits have been reduced or augmented in the past, indexation and what expectations are.

For more details on the proposals, see [our briefing](#)

Practical points:

- [Sponsors and trustees should consider whether they might want to make use of the new regime.](#)
- [Watch out for guidance and final regulations and consider impact on any proposed refund.](#)

VAT guidance on pension fund management costs

HMRC has [issued updated guidance](#) on how employers can claim back the VAT on costs, particularly investment costs, linked to pension funds.

Over the years the ability of an employer to recover VAT on investment costs relating to a pension scheme has been subject to a number of different approaches by HMRC.

Its historic policy was that employers could not recover investment costs as they were not seen as being linked to its business. However, pre-Brexit, the European Court held that an employer was entitled to deduct VAT paid on services relating to both pension fund administration and investment if it could demonstrate that they were directly and immediately linked to its business.

HMRC struggled to find an appropriate way to implement this. However, it [announced last year](#) that from 18 June 2025, "subject to normal deduction rules", employers could deduct VAT incurred on all investment costs (as well as administration costs).

It promised updated guidance on this at the time and has now issued it. The [updated guidance](#) provides:

- If the employer contracts directly with a fund manager, it can deduct the VAT incurred.
- Invoices correctly made out to a trustee may not be re-issued to the employer. Any VAT on them is the trustees' liability.
- If the contract for services is between a fund manager and the trustees, for the employer to deduct the VAT, the trustees should make a taxable charge to the employer for running the scheme on its behalf. The employer will then be able to deduct input tax on this charge. The trustees will need to be VAT-registered to adopt this approach.
- If trustees do this, input tax that they incur on related services will be deductible. This applies even where the services were specific to the trustees' activities, provided those services are used to run the scheme. This analysis is not affected by any potential conflict between the trustees' and employer's interests.

Previously, guidance provided that VAT on administration charges could be treated as the employer's input tax even where the contract was with the trustees, if the invoice was made out to the employer. This wording has been deleted, which possibly suggests a further change in practice from HMRC.

Practical points:

- Consider whether employer recovers VAT on any scheme costs.
- Does the new guidance require a change in practice?

Consultation on GMP conversion legislation

HMRC has issued [draft regulations for consultation](#) aimed at assisting GMP conversion by ensuring that conversion should not result in deferred members needing an annual allowance check (which could potentially result in an annual allowance charge).

The [Pension Schemes Act 1993](#) contains legislation which allows GMPs to be converted into other benefits if various conditions, including actuarial equivalence, are satisfied.

Following the [Lloyds Bank decision](#) in 2018 which confirmed that schemes would need to equalise the potentially discriminatory effects of GMPs, it was initially thought that many schemes would make use of the conversion legislation to remove GMPs.

However, the conversion legislation and its interaction with the tax regime gave rise to a number of potential issues.

[Legislation was enacted in 2022](#) to solve some of the non-tax issues (particularly in relation to survivor benefits), but it has never been brought into force.

The biggest potential problem is the tax impact that conversion has on deferred members. Normally there is no annual allowance test for deferred members – this is referred to as the deferred member carve out (DMCO). The DMCO will cease to apply if a member's benefits increase by more than a permitted amount (which allows for revaluation and statutory requirements). GMPs are excluded from the value of deferred benefits for these purposes, but the converted amount is not. This means that conversion is likely to take benefits over the level of increases permitted by the DMCO, and result in an annual allowance test.

Many schemes address this by applying at-retirement conversion, but 'once and for all' conversion exercises are not generally done.

The loss of the DMCO on GMP conversion was not something intended by the Government. As a result, [draft regulations](#) have been issued for consultation which are intended to ensure that any increase in the value of an individual's pension rights as the result of GMP conversion and accompanying GMP equalisation will generally be disregarded for annual allowance purposes.

This change is to be welcomed as it will remove one significant obstacle to conversion exercises. Consultation closes on 13 July 2026.

Practical points:

- Bear in mind if GMP conversion is being considered for the scheme.
- Watch out for final regulations.

Flexible apportionment arrangements and innovation

The Pensions Minister says that the [Government intends to consult](#) on the use of Flexible Apportionment Arrangements in innovative transactions to determine if additional safeguards are required. The Pensions Regulator has also [issued a blog](#) setting out its approach to innovative endgame planning

Overview: Under the [Employer Debt Regulations](#), if an employer exits a multi-employer scheme, it can become liable to pay a debt to the scheme if there are insufficient assets to secure scheme liabilities with an insurer. The debt will be equal to the employer's share of the shortfall.

In 2011, in the face of significant scheme deficits, [there was a concern](#) that this could "unnecessarily inhibit corporate activity, in particular... the ability of companies to restructure in order to be better able to deal with changes in the economic environment."

As a result, flexible apportionment arrangements (FAAs) were introduced from 2012. They allow an exiting employer, to allocate any debt to remaining employers if it is reasonably likely they could afford to meet the debt and the allocation would not affect the security of benefits and the trustees agree.

FAAs have become a standard way of moving potential liability for section 75 debts from one employer to another to ensure that an exiting employer has no exposure to scheme funding on a future event e.g. winding-up. They are a feature of most cases of sponsor change (whether on an intra-group reorganisation or wider restructuring).

An FAA was used in the recent Stagecoach transaction, with trustee agreement, as part of effecting the assumption by Aberdeen of responsibility for the liabilities of the Stagecoach scheme.

Minister's statement: The Pensions Minister has [issued a statement](#) saying that the FAA in the Stagecoach transaction, whilst complying with the legislation, was used in a way not anticipated when FAAs were introduced. The Government wants to encourage innovation, whilst ensuring "the right legislative guard rails" are in place.

As a result, the Government is planning to review the law relating to FAAs to "ensure the regulatory standards and safeguards evolve and keep pace with the innovation" in the market and with the aim of protecting members and the PPF. They will consult in due course on whether and, if necessary, how the existing FAA regulations could be adjusted.

Pensions Regulator: TPR has [published a blog](#) saying that buy-out is no longer the only endgame solution. Trustees have more options than ever, including running on with the intention of using surplus. New approaches should make trustees look again at their long-term objectives and

consider whether there is potential to not just pay members their promised benefits, but also safely release surplus for the benefit of members and sponsoring employers.

However, the blog cautions that any new approaches must provide both security and value to members. TPR expects trustees, employers and advisers to engage with it early to clearly define how any proposal under consideration delivers a good outcome for members.

TPR also refers to the use of an FAA for the Stagecoach scheme. The trustee approached it to discuss options and TPR says its focus was to ensure member security was retained, the scheme could pay the promised benefits, and the trustee had followed good governance practices.

In relation to governance, TPR wanted to satisfy itself that the trustee had taken appropriate advice, demonstrated an appropriate level of due diligence and given consideration to the risks and opportunities as it sought to enhance member outcomes.

It says that the proposed consultation on FAAs is an opportunity for stakeholders to help shape a proportionate and effective approach for the future.

Ahead of any change in the legislation, TPR will consider an interim approach to transactions involving FAAs that present similar characteristics to the Stagecoach transaction, and will continue to work closely with DWP to ensure that the regulatory framework evolves in step with the market.

Practical points:

- [Watch out for the proposed consultation](#)
- [Bear in mind the potential need for early TPR engagement if considering novel approaches to consolidation or endgame planning.](#)

Amendments to allow transfers to CDC schemes

The Government [has amended](#) legislation to facilitate the transfer of DC benefits to CDC schemes.

Amendments have been made to the [Preservation Regulations](#) to allow DC benefits to be transferred to authorised CDC schemes without member consent (in line with transfers to authorised master trusts).

The change comes into force on 31 July 2026 and is intended to facilitate the use of new unconnected multi-employer CDC schemes.

Practical points:

- [Consider if CDC might be an option for DC members.](#)
- [Note the change if considering a bulk transfer of DC members.](#)

Pensions dashboards update

As we are near the 31 October 2026 longstop connection date for the dashboards, the Pensions Dashboard Programme [has confirmed](#) that it will update its reporting standards and PASA has issued some [useful guidance](#).

Reporting standards: Under the Dashboard Regulations, trustees are required to provide “operational information” to TPR, the FCA or the Money and Pensions Service (MaPS) in accordance with reporting standards issued by MaPS (via the Pensions Dashboard Programme).

Operational information is information relevant to the operation of the dashboards and compliance with dashboard obligations, and includes the number of find requests received, the matching process used, the number of matches and queries and complaints from members about the information received.

In the current version of [the reporting standards](#), the relevant information must be made available to MaPS on request. The PDP [consulted earlier this year](#) on changing this to require information to be submitted automatically on a daily basis. The PDP [has confirmed](#) that it intends to go ahead with this proposal. Mandatory daily reporting will start in March 2027, but voluntary daily reporting will be expected from November 2026.

PASA guidance: PASA [has published guidance](#) to help schemes, providers and administrators monitor ongoing compliance with dashboard requirements.

The guidance focuses on the practical issues with monitoring compliance across three key areas of dashboards activity: matching, providing pension information and connection performance. It also considers the role of member queries, complaints and feedback in identifying potential issues.

PASA has also published a [note on survivor benefits](#) which addresses issues regarding the flagging of the existence of such benefits when providing value data, and provides practical guidance.

Practical points:

- Ensure preparation for dashboard compliance is on track.
- Note changes to reporting standards.

Requirements for auto-enrolment schemes

The Government is [seeking views](#) on whether some of the tests used by DB and hybrid schemes to demonstrate that they are of sufficient quality to be used for auto-enrolment meet their policy objectives and are easy to use. Views are also invited on the tests for CDC schemes.

For a scheme to be used for auto-enrolment it must meet minimum quality requirements.

For DB schemes, the basic requirements are that the scheme must provide benefits which are broadly equivalent to a test scheme which provides a pension from age 65 (increasing to 68) based on 1/120th of average qualifying earnings (between £6240 and £50,270) in the last three years of pensionable service, multiplied by the number of years of service, up to a maximum of 40.

However, DB/hybrid scheme employers can certify that their scheme meets alternative DB quality requirements if that is simpler for them.

Since 1 April 2015, there have been two alternative tests, which in high-level terms are:

- A minimum contribution of 8% of qualifying earnings and meeting additional conditions, including a requirement that benefits are calculated by reference to factors which include the contributions made to the scheme by, or on behalf of, the member; or
- The cost of accrual of active member benefits is at least equal to 8% of qualifying earnings.

The quality requirements for CDC schemes are similar but focus on the impact of each test on members overall, or on a proportion of members.

The Government is seeking views on the operation of the alternative quality requirements for DB, hybrid and CDC schemes by 27 July 2026.

Practical points:

- Consider if there are any issues with AE compliance in existing DB, hybrid or CDC schemes.
- If yes, think about responding to call for evidence.

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. Regulations will also allow transfers to them without consent.</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 on unconnected employer CDC come into force on 31 July 2026.</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. 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.	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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