Quarterly briefing

September 2025

Highlighting significant developments in pensions law, covering key areas such as pensions reform, regulatory developments, new legislation and cases

Q3

September 2025

On the front cover this quarter: Adeline Chapman (partner) and George Carr (senior associate)

Abbreviations

AUM: Assets under management

Bill: Pension Schemes Bill

BPA: Bulk purchase annuity

CDC: Collective DC

DB: Defined benefit

DC: Defined contribution

DESNZ: Department for Energy Security and Net Zero

DWP: Department for Work and Pensions

ECCTA: Economic Crime and Corporate Transparency Act 2023

FAS: Financial Assistance Scheme

FCA: Financial Conduct Authority

FRC: Financial Reporting Council

HMRC: HM Revenue & Customs

HMT: HM Treasury

ICO: Information Commissioner's Office

IHT: Inheritance tax

PPF: Pension Protection Fund

PR: Personal representative

PRA: Prudential Regulation Authority

PSA: Pension scheme administrator

STTR: Solvency-triggered termination rights

TPO: The Pensions Ombudsman

TPR: The Pensions Regulator

VAT: Value added tax

VFM: Value for money

In this issue

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Current legal agenda

Topic	Summary	Timing
Virgin Media[1]	DWP has confirmed it will legislate to give affected schemes "the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards"	DWP hasn't given any timings or details of the legislation
	A case has been heard considering various section 37 issues[2]	Judgment isn't expected until later in the year
VFM	Bill includes VFM framework for trust-based schemes	First assessments not expected until 2028 (see page 5)
	FCA consultation on rules for VFM framework for contract-based schemes closed in October 2024	FCA plans to publish a final policy statement, rules and guidance "in due course"
Pensions dashboards[3]	Schemes are connecting to the dashboards ecosystem Statutory connection deadline is 31 October 2026	Limited consumer testing of the MoneyHelper dashboard expected to start in late summer
CDC[4]	DWP consulted on expanding CDC regime to unconnected employers in 2024	Regulations are expected in the autumn
IHT changes	HMRC consultation response on proposals to bring most unused pension funds and death benefits in scope published 21 July 2025	Consultation on draft legislation closes on 15 September 2025 (see page 10) Changes to take effect on and from 6 April 2027
Pension Schemes Bill	"Game changer" Bill will introduce significant changes	Aim is for all changes to be in force by 2030 (see pages 4 to 8)

1 See our Alert: Court of Appeal upholds High Court's Virgin Media decision on failure to obtain a s37 confirmation (26 July 2024)
2 See our Quarterly Briefing (June 2025)
3 See our Hot Topic: Dashboards are here! Are you ready? (April 2025)
4 See our Hot Topic: CDC schemes – the future of pensions? (November 2024)

Pension Schemes Bill

Bill to receive Royal Assent in 2026

The Bill was published in June 2025,[5] covering a wide range of measures, and building on three pensions papers issued in May.[6] It is expected to receive Royal Assent in 2026, with consultations on various sets of draft regulations to introduce many of the measures then expected to follow. The aim is for all changes to be in force by the end of 2030, but timings are "very much indicative".

DB surplus

Under the Bill, trustees would be able to amend scheme rules, by resolution, to allow payment of surplus to an employer where no power exists, or to remove or relax any restriction where trustees already hold such a power.

Release of surplus to be made easier

Unsurprisingly, there will be "stringent funding safeguards", including the need for actuarial certification. With the Government proposing to change the threshold at which trustees can share surplus with sponsoring employers (from the current buy-out level down to fully funded on the low dependency funding basis), the Bill paves the way for the detail to be included in regulations. Members will likewise need to be notified of any surplus payment beforehand.

Timings

The Government plans to consult on regulations in 2026, with DWP / TPR guidance "to facilitate trustee comfort" scheduled for 2027, and the flexibilities then due to come into force "by the end of 2027".

DB superfunds

Whilst individual models differ, a superfund is essentially an occupational pension scheme set up to facilitate DB consolidation. Common features include:

- that a transfer results in the link to the transferring scheme's sponsoring employers being severed, with "covenant" replaced by a capital buffer provided through a mixture of external investment and cash injections from the transferring employers, and
- a mechanism enabling returns to be payable to persons other than members or service providers.

Legal framework for superfunds

Having been subject to a TPR interim authorisation regime since June 2020,[7] the Bill sets out a regulatory framework for superfunds. Under the proposed framework, superfunds will need:

- ✓ to be authorised and supervised by TPR
- ✓ to have effective governance in place
- ✓ adequate policies and procedures for monitoring various financial thresholds

In addition, there will be triggers governing when TPR can intervene, profit can be taken, and the superfund must be wound up.

Timings

The Government plans to consult on and agree regulations in 2026/27, with the aim of bringing them into force, alongside the accompanying TPR code, in 2028.

5 See our Alert: The Pension Schemes Bill begins its Parliamentary journey (5 June 2025)
6 See our Alert: Government previews its pension plans in three major papers (29 May 2025)
7 See our Hot Topic: DB superfunds – what trustees need to know (July 2020)

Pension Schemes Bill cont.

VFM

A new standardised VFM test will apply consistently across the whole pensions market, with the Bill introducing requirements for trust-based schemes to complement those being established by the FCA in the contract-based space.[8] The detailed rules will be set out in regulations.

First VFM assessments in 2028

The VFM framework is intended to enable a shift in focus from cost towards value amongst employers, trustees and managers of workplace pension schemes. By encouraging a holistic view of value (assessing investment, costs and services), the framework aims to improve outcomes for pension savers through a potential improvement in performance (where achievable) or removal (where not possible) of poor performing pension schemes / arrangements from the market.

Timings

The aim is for the VFM regulations process to be carried out during 2026/27, with the first assessments expected in 2028.

Automatic consolidation of deferred small pots

Having explored numerous options over the years, the Bill lays the groundwork for a new multiple default consolidator system, under which members with certain deferred small pots would be automatically consolidated into a small number of authorised consolidator schemes.[9]

Which pots will be eligible under the proposals?

- ✓ A pot will become eligible for automatic consolidation 12 months after the last contribution was made into it.
- ✓ Initially pots of up to £1,000 will be in scope. The Secretary of State will review this limit at regular intervals.
- ✓ There will be no minimum pot size.

Timings

The Government intends to consult on regulations in 2027/28, with master trusts able to apply to become an authorised consolidator around the same time. The aim is for consolidators to be selected in 2029, with transfer duties on pension schemes due to come into force in 2030.

Default retirement solutions

New trustee duty to provide retirement solutions

The Bill will place duties on DC trustees to provide default retirement solutions for their members (from which they can choose to opt out). Where it is "not practicable" for trustees to design and make available a default retirement solution, trustees will need to partner with another scheme that is able to deliver this. Comparable rules will be required from the FCA for the managers of contract-based schemes.

Timings

The plan is for DWP regulations and FCA rules to be agreed during 2026/27 and for the duty to be phased in from 2027, with master trusts first to comply.

8 See our Alert: FCA consults on the new value for money framework (8 August 2024)
9 See our Hot Topic: Government announces small pot proposals (April 2025)

Pension Schemes Bill cont.

Achieving scale in the DC market

Measures under the Bill will:

Creating DC "Megafunds"

- require DC providers and master trusts to have £25bn in AUM in at least one large "Megafund" default arrangement by 2030. The assets in question must be managed under a "common investment strategy". Creation of new default arrangements will also be restricted
- allow certain providers and master trusts additional time to reach scale. To be eligible, they will have to demonstrate that they will have at least £10bn in AUM in an arrangement by 2030, and to meet any other conditions set out in regulations
- provide for a "new entrant" pathway, which will allow new market entrants who can demonstrate "strong potential for growth" and an "ability to innovate" to seek authorisation, ie where they are offering something significantly different that could benefit savers or employers
- exempt hybrid schemes and default arrangements that serve protected characteristics, such as religion. Regulations can set out other exemptions, which may include excluding from scope single employer trusts and CDC schemes which are only available to a closed group of employers related through their industry or profession.

Contractual override

To help overcome the current need for individual consents to transfer, a key barrier to consolidation, the Bill also provides a contractual override, allowing pension providers to transfer pension pots to another scheme without the relevant member's consent. This will be subject to appropriate protections, such as the transfer only being permitted where it is in savers' best interests and is certified by an independent person. Detailed rules on the use of the new regime will be developed by the FCA.

Timings

These measures will be staged. We can expect the contractual override and default consolidation to start in 2028. It will be followed by a review in 2029, ahead of the 2030 deadline for the creation of the Megafunds.

What else does the Bill do?

- ✓ Remove the requirement for trustees to apply to the County Court to enforce a TPO determination, where the recovery of an overpayment is disputed by a member (this reverses the current position established in a Court of Appeal decision).
- ✓ Change PPF and FAS compensation rules to enable lump sums to be paid to eligible members with a terminal illness at an earlier stage, ie where life expectancy is less than 12 months rather than six.
- ✓ Given recent experience, remove current restrictions preventing the PPF from calculating a zero levy if appropriate.

What next?

With the Bill not expected to receive Royal Assent until 2026, and then detailed regulations to follow in many cases, there is some way to go before the Bill's provisions come into force. But the scale of some of the changes means that there is a busy period ahead.

Pension Schemes Bill: mandation power

The Bill is designed to "transform the £2 trillion pensions landscape to ensure savers get good returns for each pound they save, and drive investment into the economy". As part of this drive, the Bill provides a reserve power that would allow the Government to set quantitative baseline asset allocation targets for some pension scheme investments – "mandation".

The detail

Who does the mandation power apply to?

As drafted, the mandation power contained in the Bill will apply to authorised DC master trusts and DC group personal pension schemes that are qualifying schemes used for automatic enrolment purposes. Such schemes will need regulatory approval in respect of both a "main scale default arrangement" and an "asset allocation requirement". As currently written, it appears that failure to obtain approval would affect the scheme's eligibility to be a qualifying scheme for automatic enrolment purposes.

The mandation power will not apply to other types of scheme – for example, single employer own trust schemes or DB schemes. There is also scope within the Bill for the Government to grant exemptions through regulations.

What is the mandatory asset allocation requirement?

The Bill states that a prescribed percentage (by value) of total scheme assets will have to be "qualifying assets", meaning "an asset of a prescribed description that is held in a *default fund* of a relevant master trust or a group personal pension scheme". The reference to *default fund* here is not necessarily the same as the scheme's "main scale default arrangement" (this is addressed elsewhere in the Bill).

What types of assets are "qualifying assets"?

The detail of what types of assets are "qualifying assets" is left to regulations. The Bill provides that publicly listed assets are not in scope and sets out the following non-exhaustive list of examples of what may be in scope:

- private equity
- private debt
- venture capital, or
- interests in land.

What is the prescribed percentage?

The exact percentage target has not been specified in the legislation but will be addressed in the subsequent regulations. The Mansion House Accord seeks to allocate 10% to private markets with at least 5% going to UK private markets. In theory the regulations following the Bill could be used to set a target that looks very different to this agreed voluntary percentage.

The Bill also states that the regulations "may assign different descriptions of asset to different fractions of the percentage prescribed".

How will compliance with the provision be demonstrated?

It is likely that the future regulations will set out detail on how schemes should evidence compliance with the mandatory asset allocation to regulators. As drafted, the default is not set out in the Bill. Statutory guidance may also be provided.

How does mandation interplay with scheme documentation?

The Bill expressly states that mandation would override any conflicting provisions in scheme rules, as well as overriding investment duties under common law.

Pension Schemes Bill: mandation power cont.

What procedural safeguards will there be?

Before any regulations implementing mandation are made, the Government must provide a report on the effects of the measure on members' financial interests and UK growth and "any other matters the Secretary of State considers appropriate". In addition, the relevant minister must consult with HMT and other such persons they consider appropriate.

Separately, schemes will be able make a formal application to regulators for a temporary suspension of the asset allocation requirement under a "saver's interest test", as set out in the Bill. The Bill states that regulators must not grant a temporary suspension unless they are satisfied that meeting the asset allocation requirement would cause material financial detriment to the scheme or members. Regulations will set out more detail about this exemption and the process for applying for it.

There are also sunset provisions in the drafting that state that the Government cannot increase the prescribed percentage after December 2035 and that the mandation power in the Bill will expire if it is not used by the end of 2035.

Mansion House Accord

17 workplace pension providers, managing around 90% of active savers' DC pensions, signed the Mansion House Accord in May 2025. The signatories have committed, subject to fiduciary duty and the consumer duty, to the "ambition of":

- allocating at least 10% to private markets across all main DC default funds by 2030, and
- within that, at least 5% of the total going to UK private markets, assuming a sufficient supply of suitable investible assets for providers.

The commitment is voluntary and is dependent on implementation by the Government and regulators of "critical enablers". The Accord builds on the 2023 Mansion House Compact which has a target of allocating 5% of DC default funds to unlisted equities by 2030. For providers signed up to both, progress under the Mansion House Compact counts towards meeting the Accord's goals.

When will the power be used?

Power is not expected to be used

The Government has said very publicly that it "does not anticipate exercising the power unless it considers that the industry has not delivered the change on its own". The hope is that industry initiatives (such as the Mansion House Accord) will mean the expectations for UK investment will be met voluntarily.

When will the mandation power become law?

The mandatory asset allocations will not come into force immediately when the Bill becomes an Act. As mentioned on page 4, the Bill is expected to receive Royal Assent in 2026. Consultations on draft regulations (required in order to set out much of the detail and granularity of the legislation) are then expected to follow, with the aim of all changes being in force by the end of 2030.

There are some potential technical legal drafting queries about timing aspects of the mandation power within the Bill and we understand that these are being raised by various industry bodies. Of course, legislative drafting could evolve as it progresses through the parliamentary timeline.

Finance & investment update

Bulk purchase annuities

The PRA has published a "Dear Chief Risk Officer" letter on the potential risks arising from the use of STTR clauses in BPA transactions following its recently completed thematic review of the issue. STTR clauses allow trustees to terminate a buy-in contract in the event of the insurer's solvency coverage ratio falling below a pre-defined level for a period of time.

The PRA considers that "the use of STTR clauses introduces various potential risks for insurers in the event the clauses are triggered". The letter points to risks including impacts on the composition of firms' remaining asset portfolios, their liquidity positions and the management of their matching adjustment portfolios. In addition, firms might face operational challenges if these clauses are triggered in a stress situation.

Insurance firms need to consider the risks of using STTR clauses

The review found that many firms were mindful of some of the potential risks and had taken steps to manage them. However, "most firms need to do more to demonstrate that they have adequately considered the full range of risks involved". Greater detail on the assessment of potential risks and how these are currently being mitigated by firms is included in the annex to the letter.

Firms are asked to consider the points raised in the letter and take any appropriate remedial actions. The PRA will engage with relevant firms, on a case-by-case basis, to understand how they intend to respond. A follow-up review is planned for 2026 to assess how market practices for STTR clauses have evolved and the extent to which firms' risk management approaches have developed in response.

Given the volume of transactions accumulating "and the potential for aggregate risks to increase if STTR clauses become more prevalent", the PRA asks firms to notify supervisors promptly of individual BPA transactions containing STTR clauses entered into from the date of the letter.

Stewardship Code

The FRC published the UK Stewardship Code 2026 in June 2025, along with draft guidance. The new code will take effect from 1 January 2026 and "aims to support long-term sustainable value creation while significantly reducing the reporting burden for signatories". Key features include:

Revised Stewardship Code takes effect from 1 January 2026

- an "enhanced" definition of stewardship
- a reduced reporting burden
- flexible reporting, and
- "targeted principles" for different types of signatories.

Specific references to the environment and society have also been replaced by the concept of "sustainable value" within the new code.

Climate-related transition plans

The DESNZ has published a consultation on how the Government can fulfil its manifesto promise of requiring financial institutions (including pension funds) to develop and implement credible transition plans that "align with the 1.5°C goal of the Paris Agreement". The DWP asked TPR to assess the practicalities of transition plans for pension schemes and TPR has since announced that it will "work with industry stakeholders, advisers and professional bodies to develop and test a voluntary transition plan template fit for occupational pension schemes" with the help of a working group.

Pension fund clearing exemption

Pension funds had a temporary exemption from the obligation to clear certain derivatives contracts. This exemption recognised that clearing contracts through a central counterparty, which typically requires collateral to be provided in cash, could cause particular challenges for pension funds. The exemption has now been made permanent, although this will be kept under review in coordination with the UK regulatory authorities.

In other news

Pensions Commission

The Government has revived the Pensions Commission to consider the long-term future of the pensions system to "make today's workers better off in retirement". Building on the recent Pensions Investment Review, the Commission will explore, among other things:

Commission to look at long-term pensions solutions

- outcomes and risks for future cohorts of pensioners
- how to improve retirement outcomes, particularly for those on the lowest incomes and at the greatest risk of poverty or undersaving
- the role of private pension provision and wider savings in delivering financial security in retirement and supporting those approaching retirement, and
- proposals for change beyond the current Parliament, to deliver financial security in retirement through a pensions framework that is "strong, fair and sustainable".

The Commission is expected to submit its final report to the Government in 2027.

Inheritance tax

IHT to apply to most unused pension funds and death benefits from 6 April 2027

The Government is going ahead with its proposal to include most unused pension funds and death benefits in the value of a person's estate for IHT purposes from 6 April 2027.[10] But all death-in-service benefits payable from registered pension schemes will be out of scope of IHT, whether discretionary or non-discretionary.

After listening to industry feedback, there are some important changes to the original proposals, including that PRs, rather than PSAs, will be primarily liable for reporting and paying IHT on any unused pension funds and death benefits. However, pension beneficiaries may be able to give notice requiring their scheme's PSA to pay the IHT on their behalf directly to HMRC.

The Government has published draft legislation to implement these changes for technical consultation. The deadline for responses is 15 September 2025.

As the reporting and paying processes will require information to be shared between PSAs, PRs and HMRC at various points, the Government will consult separately on any necessary changes to legislation to facilitate this "in due course".

Targeted support

Targeted support framework proposed

The FCA has launched a consultation on its proposed regulatory framework for "targeted support". Targeted support is aimed at the gap between existing guidance-based services and more bespoke advice, and would enable authorised firms to make suggestions that have been developed for a group of consumers who share similar circumstances and characteristics.

The consultation also sets out the FCA's "early thinking and its direction of travel" on simplified advice and clarifying the Advice Guidance Boundary. The deadline for responses is 29 August 2025, with the FCA aiming to publish the final rules by the end of 2025.

HMT has published a policy note and draft Order to enable the implementation of targeted support, which should be considered alongside the FCA consultation. Any comments on the Order should also be provided by 29 August 2025.

10 See our Alert: Government presses ahead with plans to apply inheritance tax to unused pension funds and death benefits (22 July 2025)

In other news cont.

Statement of strategy

TPR has published its response to its consultation on the statement of strategy that trustees need to submit under the new DB funding regime. Schemes that meet TPR's "low risk" criteria will not have to provide any detailed information about the employer covenant, and the reduced information requirements for small schemes have been adjusted. TPR has also launched its new "Submit a scheme valuation" digital service, which trustees should use to complete and submit their statement of strategy.

DB endgame guidance

TPR has issued new guidance for trustees and employers of DB and hybrid schemes who are exploring endgame options for their scheme. The guidance covers different financial, governance and insurance options available, including running on the scheme. For all the options, TPR expects trustees to take certain steps, including:

- seeking "appropriate and proportionate" professional advice
- managing any conflicts of interest appropriately
- carrying out a full risk assessment of the relevant options and considering how these risks can be mitigated.

Data (Use and Access) Act 2025

The new Data (Use and Access) Act 2025 is designed to update key aspects of data protection law, including around automated decision making, data protection complaints procedures and data transfers, and provides the ICO with new powers. Most of the provisions of the Act will come into force under secondary legislation, but a limited number of provisions came into force immediately, including that, in responding to data subject access requests, controllers are only required to undertake "reasonable and proportionate" searches for personal data.

The Government has published some useful factsheets to support organisations, which can be read alongside the ICO's suite of guidance.

VAT deduction on pension fund management costs

HMRC has announced a policy change to VAT deduction on the management of pension funds. Since 18 June 2025, employers can claim back all the VAT on investment costs linked to pension funds, and no longer need to split the costs with trustees. If trustees are providing pension fund management services and charging the employer, they can also claim back VAT on their costs if they are VAT-registered. Both must still follow the usual VAT rules.

ECCTA – failure to prevent fraud

Trustees should check fraud prevention measures

From 1 September 2025 there will be a new criminal offence of failure to prevent fraud. Under the offence, a "large organisation" (or an entity with a "large organisation" as a parent undertaking) may be criminally liable where an employee, agent, subsidiary, or other "associated person", commits a fraud intending to benefit the organisation and the organisation did not have reasonable fraud prevention procedures in place. A trustee may come within scope of the legislation if its parent is a "large organisation". The Government has produced guidance, noting that even though it only applies to large organisations, it represents good practice and may be helpful for smaller organisations.

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Upcoming webinars and seminars

We offer an extensive programme of client workshops and seminars. In addition to the quarterly legal updates, our seminars, which are led by our experts, offer clients the opportunity to ask questions and to share experiences on topics.

Lessons from the Pensions Ombudsman – current trends and what they mean for you	23/09/2025	Online webinar Our litigation team will identify and discuss current trends emerging from TPO. They will also provide some insight on both DB and DC related complaints, as well as providing input on the process and workings of a member complaint.
Quarterly legal update	13/11/2025	Online webinar This session will provide an essential overview of significant developments affecting occupational pension provision in the UK for employers and trustees.

If you would like to attend any of our events, please contact our marketing team at marketing@sackers.com.

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Recent publications

The Pensions litigation briefing – May 2025 reviews recent case law and examines the practical lessons for trustees and employers.

The DC briefing – March 2025 highlights topical news on DC pensions from a legal viewpoint.

Sacker & Partners LLP
20 Gresham Street
London EC2V 7JE
T +44 20 7329 6699
E enquiries@sackers.com
www.sackers.com