

Quarterly briefing

December 2025

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



Q4

December 2025

On the front cover this quarter:
The reception area in our newly
refurbished offices.

Abbreviations

AUM: Assets under management

BPA: Bulk purchase annuity

CDC: Collective DC

DB: Defined benefit

DC: Defined contribution

DWP: Department for Work & Pensions

FAS: Financial Assistance Scheme

FCA: Financial Conduct Authority

FRC: Financial Reporting Council

HMRC: HM Revenue & Customs

ISPV: Insurance Special Purpose Vehicle

IHT: Inheritance tax

LSA: Lump sum allowance

LSDBA: Lump sum and death benefit allowance

LTA: Lifetime allowance

PCLS: Pension commencement lump sum

PPF: Pension Protection Fund

PRA: Prudential Regulation Authority

PSB: Pension Schemes Bill

RST: Reference scheme test

Solvency UK: the current UK prudential regime
for insurers (previously Solvency II)

TPR: The Pensions Regulator

UFPLS: Uncrystallised funds pension lump sum

UMES: Unconnected multiple employer
schemes(s)

VFM: Value for money

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Current legal agenda

Topic	Summary	Timing
 Pension Schemes Bill¹	“Game changer” PSB will introduce significant changes	Aim is for Royal Assent early 2026 and for all changes to be in force by 2030 (see pages 4 to 7)
 Virgin Media²	Legislation to give affected schemes “the ability to retrospectively obtain written actuarial confirmation that historic benefit changes” met the necessary contracting-out standard A separate case has been heard considering various ancillary issues³	New clauses have been added to the PSB (see page 4) Timing of judgment currently unknown
 DB surplus	With Government estimates suggesting DB surpluses are currently “worth collectively £160 billion”, DB trustees will be given greater flexibility over their use	New powers not expected to be in force until the end of 2027 (see page 5)
 VFM	VFM framework for DC trust-based schemes included in the PSB FCA consultation on rules for VFM framework for contract-based schemes closed in October 2024	First assessments not expected until 2028 (see page 6) FCA plans to publish a final policy statement, rules and guidance “in due course”
 CDC⁴	Final regulations published on expanding CDC to whole-life unconnected multiple employer schemes (“UMES”) New consultation launched on decumulation-only CDC	Regulations in force 31 July 2026 (see page 10) Consultation closes on 4 December 2025
 Budget watch	Legislation expected to be included in the upcoming Finance Bill to bring most unused pension funds and death benefits in scope of IHT All eyes will be on the upcoming Budget, on 26 November 2025, to see if any other pensions tax changes are on their way	Changes to take effect on and from 6 April 2027 (see page 11)

- ¹ See our Alert: [The Pension Schemes Bill begins its Parliamentary journey](#) (5 June 2025)
- ² See our Hot Topic: [PSB DB – proposed Virgin Media remedy](#) (October 2025)
- ³ See our [Quarterly briefing](#) (June 2025)
- ⁴ See our Alert: [Expanding the availability of CDC schemes](#) (23 October 2025)

Pension Schemes Bill

Bill due to receive Royal Assent early 2026

Covering a wide range of measures, the PSB started its Parliamentary journey on 5 June 2025 and is expected to receive Royal Assent early in 2026. Published alongside the PSB, the Government's [roadmap](#) sets out indicative timescales for the new measures coming into force, the aim being that all are in place by the end of 2030.

Unsurprisingly, some changes and additions have been made during the PSB's passage through Parliament, the most notable of which is the proposed Virgin Media remedy.

Virgin Media remedy

By way of recap, the Court of Appeal confirmed in *Virgin Media*⁵ that a written actuarial confirmation ("section 37 confirmation") was required where an alteration to a scheme's rules affected pension benefits attributable to past or future service benefits related to certain contracted-out rights (known as "section 9(2B) rights"). In the absence of a section 37 confirmation, confirming that the scheme would continue to satisfy an overall quality test known as the "reference scheme test" ("RST"), an amendment would be void.

A section 37 confirmation did not have to be given in any particular form, so it could simply have been wrapped up as part of written advice. This could make establishing whether or not such a confirmation was provided at the relevant time difficult. Measures aimed at addressing issues arising from *Virgin Media* have therefore been included in the PSB.

Proposed remedy

To be in scope of the proposed remedy, certain conditions must be met

A purported amendment will be "potentially remediable" if:

- the alteration could not be made unless the requirements (as they stood at the time) were met
- the scheme trustees or managers treated the relevant amendment as valid
- no "positive action" has been taken by the trustees or managers on the basis that they consider the alteration to be of no legal effect due to its non-compliance with the section 37 confirmation requirements, and
- it is not otherwise excluded from the scope of the proposed remedy.

Generally, for a potentially remediable alteration to be treated as valid:

- the trustees or managers must first write to the scheme actuary (either the current actuary or another appointed for this purpose) asking them to consider whether or not, on the assumption that it was validly made, the relevant alteration would have prevented the scheme from continuing to satisfy the RST, and
- the scheme actuary must then provide written confirmation that, on the assumption that it was validly made, in their opinion it is reasonable to conclude that the alteration would not have prevented the scheme from continuing to satisfy the RST.



Schemes that have wound up or gone into the PPF or FAS before the measures come into force will be treated as special cases, with any potentially remediable alteration regarded as having met the relevant section 37 requirements and, as such, as having always been valid.

5 See our Alert: [Court of Appeal upholds High Court's Virgin Media decision on failure to obtain a s37 confirmation](#) (26 July 2024)

Pension Schemes Bill cont.

Simply investigating potential problems should not fall foul of the exclusions

Exclusions

As things stand, an amendment will not be covered by the proposed remedy where:

- trustees or managers have taken “positive action” on the basis they considered the amendment to be void due to non-compliance with the section 37 confirmation requirements – eg changing the scheme’s administration, including notifying members in writing and altering benefit payments, or
- it is / was the subject of certain legal proceedings to which the trustees or managers are / were a party.

Timings

The *Virgin Media* remedy is due to take effect two months after the PSB receives Royal Assent. We are also awaiting judgment in the *Verity Trustees* case.

DB surplus

DB trustees will be given power to amend their scheme rules to pay surplus to sponsoring employers. Unsurprisingly, the new powers will be subject to “stringent funding safeguards”, including the need for actuarial certification. However, the Government is minded to lower the minimum statutory funding threshold at which trustees can release surplus, from current buy-out levels to a requirement based on a low dependency measure.

Proposed powers in brief

In future, subject to certain conditions, trustees will be able to amend their scheme rules by resolution to:

- ✓ allow payment of surplus to a sponsoring employer where no such power currently exists, or
- ✓ “remove or relax any restriction” currently imposed where trustees already hold such a power (whether by virtue of the above or otherwise).

The new powers will not apply to schemes in winding-up, and any power to distribute assets to a sponsoring employer on winding-up is likewise disregarded for the above purposes.

For more details, including the important role ahead for trustees, see our [Hot Topic](#)

What else can we expect?



The detailed conditions for paying surplus to an employer under the new powers will be set out in regulations.



Given their pivotal role in providing the necessary certification to enable payments to go ahead, actuarial guidance seems likely. Joint DWP and TPR guidance “to facilitate trustee comfort” is likewise on the cards.



But it remains to be seen whether the Government’s original proposals to permit one-off member lump sums from surplus (without baking in long-term liabilities) will get the green light.

Timings



2026

Government consults on regulations

2027

DWP / TPR surplus guidance

By the end of 2027

New surplus powers come into force

Pension Schemes Bill **cont.**

PSB DC changes



VFM

A new standardised VFM test will apply consistently across the whole DC pensions market, with the PSB introducing requirements for trust-based schemes to complement those being established by the FCA in the contract-based space.⁶ Intended to shift focus from cost towards value, to improve outcomes for pension savers, and ultimately to remove poor performing pension schemes / arrangements from the market, detailed rules will follow in regulations.

Timing

Regulations to be consulted on during 2026/27, with the first VFM assessments expected in 2028.



Paving the way for DC “Megafunds”

The PSB will:

- require DC providers and master trusts to have £25bn in “assets under management” (“AUM”) in at least one large “Megafund” default arrangement by 2030. The assets in question must be managed under a “common investment strategy”
- allow certain providers and master trusts additional time to reach scale, provided they can demonstrate that they will have at least £10bn in AUM in an arrangement by 2030
- provide for a “new entrant” pathway, allowing those able to demonstrate “strong potential for growth” and an “ability to innovate” to seek authorisation
- exempt hybrid schemes and default arrangements that serve protected characteristics, such as religion. Single employer trusts are also expected to be excluded from scope, as well as CDC schemes which are only available to a closed group of employers related through their industry or profession
- subject to appropriate protections, such as the transfer needing to be in savers’ best interests and certified by an independent person, allow pension providers to transfer pension pots to another scheme without relevant member consent (ie as a “contractual override”).

Timing

Implementation to be staged, with the contractual override and default consolidation to start in 2028. A review of both is then expected in 2029, ahead of the 2030 deadline for the creation of Megafunds.



Automatic consolidation

With numerous options considered over the years, the PSB lays the groundwork for eligible deferred small pots to be automatically consolidated into a small number of authorised consolidator schemes.⁷ Initially pots of up to £1,000 will be in scope and will become eligible for automatic consolidation 12 months after the last contribution was made.

Timing

Consultation on regulations due in 2027/28, with master trusts able to apply to become an authorised consolidator around the same time. 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

In future, DC trustees will need to design and make available default retirement solutions for their members, from which members can choose to opt out. Where that is “not practicable”, trustees will need to partner with another scheme. Comparable rules will be introduced by the FCA for managers of contract-based schemes.

Timing

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.

⁶ See our Alert: [FCA consults on the new value for money framework](#) (8 August 2024)

⁷ See our Hot Topic: [Government announces small pots proposals](#) (April 2025)

Finance & investment update

PSB investment duty amendment

On 21 October 2025, an amendment to the PSB was tabled in the House of Commons which seeks to clarify the investment duties for pension fund trustees. The amendment, [NC17](#), aims to permit trustees to consider wider issues beyond short-term financial returns when making investment decisions.

Key aspects of the proposed investment duty amendment include:

System-level considerations	Trustees would be able to take into account risks and opportunities relevant to the scheme that: • cannot be fully managed through diversification alone, and • arise from circumstances at the level of one or more economic sectors, financial markets or economies, including but not limited to those relating to environmental or social matters.
Foreseeable impacts	Pension schemes would be able to consider the reasonably foreseeable impacts over the appropriate time horizon of the assets or organisations in which the scheme invests upon prescribed matters, including upon members' and beneficiaries' standards of living.
Member views	Trustees would be able to consider the views of their scheme members and beneficiaries.
Clarification, not compulsion	The amendment will empower trustees to invest more responsibly without requiring them to invest in a particular way. It does not dilute the existing duty to act in members' best financial interests but provides legal clarity that considering wider economic and social impacts is consistent with these obligations.

Investment amendment is still subject to Parliamentary debate

The amendment was tabled by the Chair of Business and Trade Committee based on proposals by ShareAction and other civil society groups. Sackers' Andy Lewis and Stuart O'Brien assisted in formulating the proposals.

New technical guidance on vote reporting template

Pensions UK [published technical guidance](#) on 30 September 2025 to support individuals using its industry standardised [vote reporting template](#) (issued earlier this year). The technical guidance provides explanations for each field within the template and aims to provide clarity on data expectations, formatting and interpretation. It is intended to maximise the template's usability ahead of the 2025/26 reporting cycle.

The guidance reflects feedback from the industry and is "aligned with... the UK Stewardship Code and DWP Implementation Statement requirements".

New guidance provides explanations and clarity

FRC publishes guidance to support stewardship code reporting

On 30 October 2025, the FRC [published its guidance](#) to the UK Stewardship Code 2026. A draft version of the guidance was published in June 2025 to support applicants' obligations to report against the revised code and has now been finalised following feedback.

The guidance is "optional and not prescriptive". It offers suggestions for the types of information organisations might choose to include in their reporting to explain their approach to stewardship. It is intended to reflect the flexible nature of the code, which recognises that organisations differ in size, structure, and investment strategy, and therefore exercise stewardship in different ways.

The FRC intends to engage with signatories throughout 2026 to support their transition to reporting against the updated code.

Guidance finalised to support new code

Finance & investment update cont.

Rethinking FundedRe

Funded Reinsurance, or “FundedRe” has returned to the spotlight in the pensions risk transfer world following renewed PRA commentary in a recent [speech](#) by Vicky White (Executive Director of Insurance Supervision at the PRA) at the Bank of America Annual Financials CEO Conference. FundedRe has been a feature of some insurance provider’s strategy for some time now, and this is not the first time it has been the subject of PRA scrutiny.



... now is the right time to take stock, to ask whether the current regime is supporting the right behaviours in a sustainable way, and to engage with industry on how we can collectively shape a future that works for policyholders, firms, and the wider UK economy.

Vicky White (Executive Director of Insurance Supervision at the PRA)



The use of FundedRe

FundedRe involves a significant transfer of risk between the bulk annuity provider and its (typically overseas) reinsurer by combining (in effect) a collateralised loan component with traditional longevity reinsurance. The entire structure receives the favourable treatment typically reserved for pure reinsurance arrangements, meaning that under current UK rules the strategy is capital efficient for insurers.

Regulatory and/or reputational concerns tend to focus on the overseas element, noting that structurally it appears that the insurers are passing on a significant part of their risk to reinsurers outside the UK or Europe, to jurisdictions with different regulatory standards.

Apologists for the strategy would argue that FundedRe can be put in place with robust collateral provisions to mitigate any perceived risk, and can form a suitable part of an appropriately diversified investment strategy. Pension scheme clients, they would argue, benefit from keen pricing without taking on additional risk.

From the pension scheme trustee perspective, trustees’ counterparty exposure on a buy-in is always first and foremost to the UK counterparty insurer. Trustees are entering into a contract with the insurer, which is obliged to fund its liabilities in accordance with the regulatory framework. While trustees may be interested in a “snapshot” view of the insurer’s financial conditions, they are ultimately, and in the longer term, buying into the UK regulatory regime. That regime currently permits prudent FundedRe and acknowledges that such a contract may be an appropriate matching asset for pension scheme liabilities.

Trustees concerned about this issue will not have any rights under a buy-in contract to control an insurer’s use of FundedRe, any more than they would be able to control an insurer’s investment strategy generally. In practice, therefore, this is something to explore in the run-up to any transaction and with the input of the scheme advisers. Not all insurers use FundedRe, and for those that do it may only form a relatively small proportion of their investment strategy, though of course this could change over time.



Regulatory concerns

White’s speech reveals ongoing regulatory unease about the rapid growth of the use of FundedRe and its underlying drivers, as well as its potential complexity and lack of transparency. The PRA is clearly concerned about excessive use of the arrangements.

Significantly, the PRA has also identified that FundedRe may be “driving investment away from UK productive assets which support the growth of the UK economy, and towards internationally based reinsurers”, potentially undermining the aim to align pensions assets with UK economic growth – a prominent policy since the 2023 Mansion House reforms.

Finance & investment update cont.



PRA's aim

The PRA is looking to ensure that the right regulatory regime is in place, amid concerns that the growing use of FundedRe could, if not properly managed, lead to a build-up of systemic risk in the sector.

The PRA plans to hold roundtables this autumn “to get to a common understanding of the issue and decide if the right course of action is to change the rules to ensure a consistent treatment across economically similar structures”. The focus will be on whether the investment component of FundedRe needs to be “unbundled” – separated from the longevity reinsurance for valuation in the Solvency UK balance sheet.

Any changes would only apply prospectively; existing transactions would be grandfathered. White provided reassurance in her speech that the aim of the PRA is not to prohibit FundedRe but rather to ensure regulatory consistency.



Alternative capital solutions

White's speech also addressed the broader question of capital availability for the growing BPA market. The PRA plans to publish a discussion paper on alternative life capital options, exploring how “Insurance Special Purpose Vehicles” (“ISPVs”) or other structures could be made more accessible to UK life insurers.

This initiative, conducted in conjunction with HM Treasury, reflects the PRA's “ambition to reform the functioning of the UK ISPV regulatory regime, while keeping policyholder interests forefront in our minds”.

While ISPVs have traditionally been deemed unsuitable for annuity type business due to concerns about finite capital supporting long-term market and credit risks, the PRA appears willing to reconsider this position in light of market evolution and industry feedback.



Implications for pension scheme trustees

While trustees will want to be aware of the ongoing interest in this topic, we do not see this as something that will interfere with ongoing proposals to buy in or buy out.

White's speech makes clear that the use of FundedRe has developed against a regulatory backdrop and that the PRA is continuing to consider the wider economic implications of the strategy. We would expect insurers to be actively engaging with the PRA to respond to any possible rule changes and to explore alternative capital frameworks.

Expanding the availability of CDC

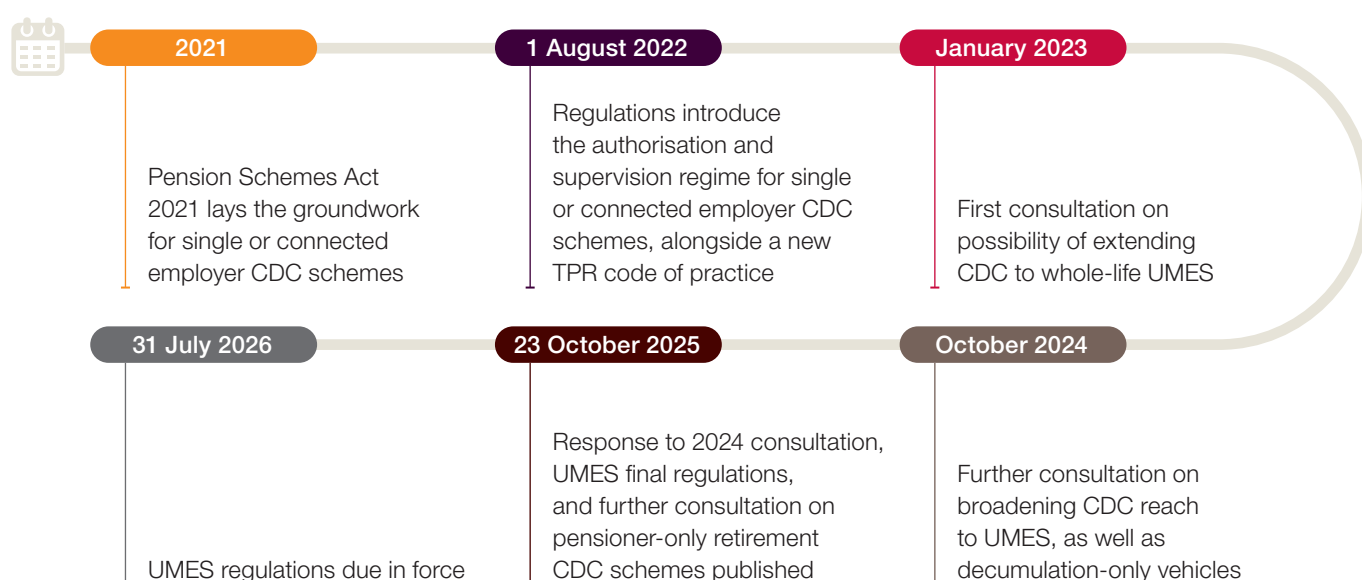
Final regulations published

To help “build a fairer pensions system that gives people confidence their hard-earned savings will last and they can enjoy their retirement”, on 23 October 2025, the Government published a package of documents intended to expand the availability of CDC arrangements.

What is CDC?

Seen as a “third way” between traditional DB and DC, CDC is a type of DC arrangement where member and employer contributions are invested in a single collective fund, rather than individual pots. Unless a member chooses otherwise, a CDC scheme will provide a pension from the scheme at retirement based on the value of assets in the scheme.

The CDC journey so far



Master trusts looking to offer UMES CDC will need to seek a new authorisation

UMES CDC

Whilst the new UMES CDC authorisation and supervision regime broadly follows the existing framework for single or connected employer CDC, as well as borrowing elements from the DC master trust requirements, it is an entirely separate regime. There are also some key differences. For example, a UMES CDC must:

- generally start operating within 24 months of TPR receiving the authorisation application
- have a single “scheme proprietor” responsible for, for example, making business decisions to cater for the scheme’s specific commercial activities and financing the scheme if charges are insufficient to cover costs.

Decumulation-only CDC

Concerned that people approaching retirement are often “left navigating complex choices and shoulder risks they shouldn’t have to face alone”, the Government has also launched a further consultation on policy proposals for creating pensioner-only retirement CDC arrangements. In the absence of regular or ongoing contributions from members or employers, and with no new benefits building up, retirement CDC schemes would take advantage of longevity pooling so as to provide retirement income.

Changes to other legislation, such as preservation requirements, are also in the pipeline to allow transfers of DC benefits without consent to authorised CDC schemes.

Consultation closes on 4 December 2025

In other news

HMRC update

HMRC's [pension schemes newsletter 173](#) includes key updates on:

- **Returning tax-free lump sums** – issued alongside [the FCA](#), this makes clear that the tax consequences of certain actions can only be reversed where they are expressly referred to in FCA rules requiring cancellation rights be provided. Allowing a person to take a PCLS or an UFPLS is not a “cancellable contract” under the FCA rules. So, once paid, associated tax consequences (including the use of the individual's LSA and LSDBA) cannot be undone.
- **Abolition of LTA** – further amendments will be made to the legislation, clarifying certain provisions, correcting minor drafting inconsistencies and supporting smoother implementation. Regulations will be made in early 2026 and, when introduced, they will have retrospective effect from 6 April 2024.

Important changes imminent for corporate trustees

Designed to enhance corporate transparency, key reforms are coming into force on 18 November 2025 under the [Economic Crime and Corporate Transparency Act 2023](#). These include important changes to company registers and new requirements for certain individuals to verify their identity, such as directors or “persons with significant control” (very broadly, individuals who own or control the company).

With different deadlines applying depending upon a person's role, as well as whether it is an existing or new appointment, corporate trustees may wish to consider streamlining the identity verification process as far as possible.

Inheritance tax

The Government is going ahead with plans to include most unused pension funds and death benefits in the value of a person's estate for IHT purposes from 6 April 2027.⁸ But all death-in-service benefits payable from registered pension schemes will be out of scope of IHT, whether discretionary or non-discretionary. Consultation on draft legislation to implement these changes closed on 15 September 2025.

Targeted support

The FCA has consulted on its proposed regulatory framework for “targeted support”, which 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.⁹

As currently drafted, the proposals will not allow DC trustees to offer targeted support directly to members. Instead, they will need to partner with an authorised firm and take care around how the targeted support services are structured within the scheme. Whilst many schemes will want their members to benefit from targeted support, as things stand, there will be no obligation for authorised firms to provide it.

See our [Hot Topic](#) for more details

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

Targeted support framework proposed

⁸ See our Alert: [Government presses ahead with plans to apply inheritance tax to unused pension funds and death benefits](#) (22 July 2025)

⁹ See our: [Response to consultation](#) (28 August 2025)

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.

Quarterly legal update

05/02/2026

Online webinar

This session will provide an essential overview of significant developments affecting occupational pension provision in the UK for employers and trustees.

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Recent publications



The [Master trust agenda – Q3 2025](#) reviews current and future developments affecting master trusts.

The [DC briefing – October 2025](#) highlights topical news on DC pensions from a legal viewpoint.