Sackers

The Pension Schemes Act 2026 receives Royal Assent

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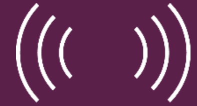

Introduction

The Pension Schemes Act 2026 ("the PSA26") has received Royal Assent and will introduce a package of measures which are intended to modernise the pensions system, drive economic growth and improve retirement security.

Key points

- Debate of the "mandation power" dominated Parliamentary "ping pong", with agreement only reached following several material revisions which, among other matters, bring it more closely into line with the Mansion House Accord and put in place additional safeguards around its use (see below for details).
- Amendments were also made to the regulation-making powers for the scale requirements to address concerns relating to their impact on competition and innovation.
- The potential remedy for dealing with issues arising from the Virgin Media case comes into force immediately.
- Although a requirement for new statutory investment guidance for trustees was not agreed and is not included in the PSA26, the Government remains "committed to improving clarity around trustees' existing investment duties".
- A revised roadmap setting out the timetable for reform is expected shortly.
- Separately, work continues towards the expansion of CDC schemes, with the new code of practice also laid before Parliament on 29 April 2026. This is expected to come into force in mid-October, with multi-employer CDC schemes potentially operating from early 2027. TPR has published its response to the consultation on the draft code and aims to issue further guidance "before the summer".

Background

The PSA26 is the culmination of the Government's policy drive towards having "fewer, bigger, better run schemes" which will be able to "boost investment in the UK" and improve returns for savers.

The new measures for DB schemes include:

- a new surplus power, enabling trustees of well-funded DB schemes to pass a resolution amending their scheme rules to allow greater flexibility over the use of any surplus, subject to "stringent" funding safeguards to be set out in regulations
- the legislative framework for commercial DB superfunds, and
- a remedy to deal with issues arising from the Virgin Media case (see below).

For DC schemes, the PSA26 enables:

- the new VFM framework for trust-based schemes which will mirror the FCA's proposals for contract-based arrangements
- automatic consolidation of small "dormant" pension pots into consolidator schemes and arrangements to be authorised by TPR
- the scale and asset allocation requirements for certain schemes used for automatic enrolment (see below), and
- new "guided retirement" duties to be placed on trustees to offer a retirement income solution or range of solutions.

The PSA26 was amended extensively before receiving Royal Assent. Significant changes to the version first introduced to Parliament on 5 June 2025 are summarised below.

Virgin Media remedy

The Virgin Media case confirmed that schemes which were contracted-out on a DB basis between 6 April 1997 and 6 April 2016 had to meet certain requirements to make a valid alteration, if benefits relating to contracted-out rights (known as "section 9(2B) rights") would be affected. These requirements included written actuarial confirmation that, if the alteration were made, the scheme would continue to meet an overall quality test known as the reference scheme test ("the Confirmation").

The PSA26 gives pension schemes the ability to validate certain affected amendments retrospectively (see our Hot Topic for further details).

Where a scheme has wound up or gone into the PPF or FAS before 29 April 2026, any potentially remediable alteration will be treated as having met the Confirmation requirements and, as such, as having always been valid for these purposes.

Trustees of affected schemes should discuss the potential application of the remedy with their advisers.

Scale and asset allocation requirements

The PSA26 will introduce:

- new scale requirements for DC master trusts and GPPs used for automatic enrolment. These schemes will be required to have at least one "main scale default arrangement" with assets of at least £25bn from 2030, subject to pathways to allow smaller or certain new, innovative schemes to get up to scale, and

- the ability for the Government to mandate certain asset allocations for such schemes' default funds (referred to as the "mandation power").

The mandation power was the subject of significant scrutiny by the House of Lords and debate in Parliament. Having rejected several revised proposals, the Houses eventually agreed to a power which:

- can only be exercised after 1 January 2028
- can only be exercised once the Secretary of State takes certain steps, including preparing and publishing a report setting out:
  - the FCA and TPR's joint assessment of the extent to which there is evidence of competitive conditions restricting schemes in scope from investing in qualifying assets (broadly, those to be prescribed under the power)
  - the Secretary of State's assessment of the extent to which schemes in scope have made progress towards achieving investments in line with the parameters specified in the PSA26 (see below)
  - an assessment of any barriers to schemes in scope investing in qualifying assets, particularly where such assets are located in the UK, and the steps taken by the Secretary of State or the FCA to address such barriers, and
  - as originally proposed, how the financial interests of members of schemes in scope are or would be affected by the proposed regulations and what effects the proposed measures could be expected to have on economic growth in the UK, as well as any other matters the Secretary of State considers appropriate.
- is limited to no more than 10% (by value) of all of the assets held in a scheme's main default funds, with no more than 5% (by value) of these assets to be of a "UK-specific description", being "a description framed by reference to whether an asset is located in or meets any other condition linked to economic activity" in the UK
- can be suspended by TPR where a scheme complies with certain requirements and, broadly, TPR agrees that it was reasonable for the trustees to have concluded that meeting the asset allocation requirement is "likely not to be in the best interests" of scheme members
- can only be used once and will be repealed if it has not been used by the end of 2032 (rather than 2035).

Whether or not the mandation power has been exercised, the entire regime will now fall away at the end of 2035. This means that any asset allocation requirements and associated penalties for non-compliance will no longer be in force after 2035.

As well as introducing additional safeguards around its use, these changes align the power more closely with the voluntary commitment made by 17 pension providers in the Mansion House Accord (although the Accord is subject to trustees' fiduciary duties, the Consumer Duty and dependent on supporting actions by Government).

Next steps

Detailed regulations will be required to implement many of the reforms. We expect the timing of these to be clarified in the DWP's revised roadmap.

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