

Making sharing surplus easier – new authorised member payments



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Introduction

Building on the DWP's June [consultation](#) on new conditions for releasing surplus from an ongoing DB scheme, on 13 July 2026, HMRC published [draft legislation](#) (together with a [policy paper](#)) designed to introduce new "authorised member surplus payments". The deadline for providing feedback on the draft legislation is **7 September 2026**.

Key points

- HMRC's consultation forms part of a broader package of reforms "aimed at modernising defined benefit pension scheme management and unlocking economic value" for both employers and scheme members.
- The Government's original surplus flexibility proposals, which were set out in its [Options for DB schemes consultation](#), considered the possibility of allowing trustees to make **one-off lump sum payments** to members **without baking in long-term liabilities**. However, such payments are currently unauthorised under the pensions tax rules.
- As part of its [Autumn Budget 2025](#), the Government confirmed that tax legislation would be amended to enable **direct surplus payments to members to be treated as authorised** where certain conditions are met.
- With the draft legislation ultimately destined to form part of the 2026/27 Finance Bill (which is likely to be published following this year's autumn Budget), the new authorised member surplus payments are expected to come into force on **6 April 2027**.
- The draft legislation therefore reinforces the accelerated timeline (see "Timetable for changes" below) of **6 April 2027 for new DB ongoing scheme surplus release powers coming into force**.
- For many clients planning to run on to produce a surplus to share, this draft legislation is a key piece of the jigsaw puzzle to allow release on one or more occasions without risking additional liability regret.

Background

Forming a core part of the Government's [plans](#) to boost UK investment, by removing “barriers” to extracting DB surplus “while maintaining stringent funding safeguards to protect member benefits”, new powers under PSA26 will provide greater flexibility to pay surplus to employers from an ongoing scheme.

As part of the new surplus measures, most of the existing legislative requirements governing the payment of DB surplus on an ongoing basis will be repealed and replaced. The Government is therefore currently consulting on new conditions for making such payments, which are set out in the draft [Occupational Pension Schemes \(Payments to Employer\) Regulations 2027](#) (“draft DWP regulations”). Where the conditions under the draft DWP regulations for making a surplus payment to the employer are met, the Government likewise expects trustees to consider how members might also benefit.

The payment of surplus to employers is already permitted by the pensions tax rules and treated as an authorised payment, albeit subject to a 25% tax charge. However, direct payments of surplus to members are not authorised, so any such payments would currently result in substantial tax charges.

New authorised member surplus payments

Assuming the conditions under the draft DWP regulations for paying surplus are satisfied (including the low dependency funding test), from 6 April 2027 onwards, the tax rules will allow authorised member surplus payments to be made. Unsurprisingly, various other conditions will apply under tax legislation, such as:

- in keeping with trustees being in the driving seat under PSA26 changes, “the decision to grant the right to receive the payment” must be “at the discretion of the trustees or managers”
- likewise echoing DWP legislation, the payment must be made from a DB arrangement, and the pension scheme must not be winding-up
- a payment can only be made to a member on or after reaching NMPA (or earlier on grounds of ill-health) or to a dependant after the member’s death. (The intention is that trustees will be able to award authorised member surplus payments before a member reaches NMPA, provided payment is deferred until then.)

Other conditions may also be set out in regulations.

Tax treatment

Authorised member surplus payments will be treated as pensions income in the hands of the recipient and taxed accordingly.

However, such payments will not be treated as either pension benefits or lump sums for certain other purposes. As a result, authorised member surplus payments will not count as pension input for AA purposes and will not be taken into account in determining an individual’s entitlement to either of the lump sum allowances (ie LSA or LSDBA).

Timetable for changes

The Government also published its updated “[roadmap](#)” on 13 July, bringing together its “programme of pensions reforms” (particularly those under PSA26) “into a clear and sequenced plan for delivery”. Recognising that this is an “ambitious set of reforms”, the roadmap “charts the direction and provides indicative timelines”, representing the Government’s “best estimates”.

With HMRC’s consultation forming a single piece in the overall surplus jigsaw, as things stand, the main pivotal points for the surplus reforms are as follows:

- **2 September 2026** – consultation on the draft DWP regulations closes
- **7 September 2026** – deadline for feedback on the draft authorised member surplus payments legislation
- **autumn 2026** – the above legislation will be included in the 2026/27 Finance Bill
- **later this year** – TPR to consult on guidance covering the factors trustees should consider when releasing surplus and how to comply with the draft DWP regulations
- **spring 2027** – guidance expected on the requirement to notify TPR of a surplus payment
- **6 April 2027** – the draft DWP regulations and tax changes introducing the new authorised member surplus payments take effect.

No doubt this new option will provide additional welcome flexibility for DB trustees considering surplus release, alongside existing options such as using surplus to award pre-1997 indexation where not already provided (as noted in the DWP’s June consultation). Looking ahead to April 2027, it will be important to factor this new member option into any trustee policy on surplus release, which TPR’s recent [statement on the new DB surplus flexibilities](#) recommends trustees consider putting in place.