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Current issues

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Articles this month:

Reform roadmap: a deluge of DWP documents

On 13 July 2026, the Department for Work and Pensions (DWP) published a bumper, fun-packed, summer-holiday-edition bundle of documents, laying out its plans for the implementation of the reforms contained in the *Pension Schemes Act 2026*. The main focus is on the Act's defined contribution (DC) measures, though there are updated timing indications for both the DC and defined benefit (DB) elements.

Up-scaling DC investment defaults to £25bn

A *Discussion Paper on Key Elements of the Scale Policy* describes how the Government plans to bring the size of the default investment arrangements of DC master trusts and group personal pensions used for auto-enrolment compliance up to at least £25bn. The Act says that the scale requirement can't be inserted into the auto-enrolment legislation until 1 January 2030, at the earliest; the discussion paper suggests that 6 April 2030 is the likely commencement date.

In the paper, the DWP asks for details of providers' existing default arrangements and any plans that they may have to consolidate them to create '*main scale default arrangements*' (MSDAs) that achieve the new asset threshold. It also discusses the practical implications of the requirement for MSDA assets to be subject to a '*common investment strategy*', and what sorts of connections between a provider's different could allow them to be considered to form a single MSDA.

The Discussion Paper is open for comments until 7 September 2026.

Default DC benefit solutions

A policy paper on *Pension Schemes Act 2026: Guided Retirement Guiding Principles* gives the government's expectations for how trustees will go about meeting the new obligation to provide members with 'default pension benefit solutions' for their DC funds at retirement. The criteria that the DWP has set for the reform are—

- avoiding the need for members to make complex financial decisions,
- the provision of protection against longevity risk,
- freedom of choice for those who want to do their own thing, and
- buy-in at the key moment from members who prefer to follow the default route.

VFM nitty gritty

A consultation paper[1] sets out the objectives and implementation approach for the new DC value-for-money (VFM) framework. Alongside the consultation, the DWP published draft versions of the regulations that would apply to occupational schemes and the equivalent Financial Conduct Authority rules for contract-based schemes. The DWP says that it wants to achieve consistency, regardless of which regulatory regime applies.

The consultation exercise runs until 1 September 2026. The DWP intends to announce the outcome and (subject to approval by Parliament) publish the final regulations in January 2027. The draft regulations have a provisional coming-into-force date of 6 April 2027; it's intended that the FCA's rules will take effect at the same time as the DWP legislation.

A phased implementation approach is now proposed, however, with the largest schemes completing their first assessments in 2028, based on data collected from July to December 2027, with the other schemes in scope joining in from 2029. There would be no immediate, formal requirement for schemes assessed as underperforming as part of the initial assessment cycle to close to new business or transfer members to better-value arrangements (though ordinary trustee obligations and Consumer Duty will continue to apply, as appropriate); those formal consequences of the VFM framework would kick in for subsequent assessments.

There are other changes to previous proposals, such as a switch from an arithmetic to a geometric method of measuring investment performance; removal of a requirement to obtain third-party advice on forward-looking metrics, to be replaced by mandatory disclosure of assumptions; and exclusion of '*in-house*' additional voluntary contribution (AVC) arrangements from the scope of the VFM framework.

The long & (of course) winding road ahead

An updated '*Roadmap*' gives indicative timings for implementation of the *Pension Schemes Act* reforms to both DC and DB pensions. The revised version is far more densely populated than the original document that was published in June 2025. A real riot of colour, the update provides lots of additional detail of the government's implementation calendar.

One notable (and expected) change is the deferral of commencement of the new guided-retirement obligations until a point after retirement collective defined contribution (R-CDC) schemes become a possibility. The

[1] A joint effort by the DWP, Financial Conduct Authority (FCA), and Pensions Regulator, and bearing an FCA consultation reference (CP26/25).

government is also considering giving more time to those who are pursuing R-CDC as their default pension benefit solution, and has plans for a consultation exercise on the subject (and draft regulations) in the autumn.

Benchmarks for success

Lastly, the DWP has published an evaluation strategy. It sets out the metrics that'll be used to assess progress against the aims of the reforms. The measures will look not only for evidence of increased scale, returns and UK-growth investment in the DC sphere, but also track the number of DB superfunds and the extraction of surpluses.

We're pleased to see that, despite leadership change and other distractions, the government is sustaining momentum by defining and refining its implementation plans.

The Roadmap takes us up to the end of the decade and beyond. Careful shepherding of the introduction of the reforms, and responsiveness to feedback and experience, will be vital to achieve the desired improvements in member outcomes without overburdening trustees and administrators. For reactions to the individual announcements, from our subject experts, please visit our *media centre*.

Operating surplus—an embarrassment of legislative riches

His Majesty's Revenue and Customs (HMRC) has published draft legislation, destined for the *Finance Bill 2026/27*, that would establish '*authorized member surplus payments*' (AMSPs) as a new category of authorized payment within the pensions-tax legislation. The changes would be effective for payments on or after 6 April 2027, to coincide with the coming into force of *Pensions Schemes Act 2026* reforms to the rules for extraction of surplus from private-sector defined-benefit (DB) schemes.

Recap

We reported last month on the Department for Work and Pensions' (DWP's) draft regulations for the payment of DB surplus to employers.[2] As part of that consultation exercise, the DWP proposes that any AMSPs awarded to members before '*normal minimum pension age*' (NMPA—currently 55, rising to 57 on 6 April 2028) would have to be revalued annually until NMPA in line with inflation, capped at 2.5% per annum.

Draft Bill clauses

The draft legislation subsequently published by HMRC would determine the conditions under which AMSPs could be paid without incurring penal tax charges. Consistent with the DWP's proposals, payments couldn't be made to members below NMPA, unless they meet the conditions for early commencement of pension on ill-health grounds. Payment to surviving dependants would also be possible.

Other conditions would mean that AMSPs could only be made by the exercise of trustee discretion, that they couldn't be paid in connection with winding up, and that the conditions for an employer surplus payment would also have to be satisfied.

The draft legislation provides for an AMSP to be taxed as though it were a pension, at the member's marginal income-tax rate, whilst being classed as neither a pension nor a lump sum for other purposes under the

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[2] See '*Surplus 2.0 requirements*', in *Current Issues* July 2026.

pensions taxed legislation. That would ensure, for example, that the AMSP doesn't count toward the member's (annual allowance) pension input amount, and that it won't diminish the member's lump sum allowance or lump sum and death benefit allowance. The draft clauses also provide that an AMSP is to be considered a defined benefit, for tax purposes, but that the award of an AMSP doesn't count as accrual of benefits.

Lastly, the introduction of the concept of an AMSP would prompt some consequential adjustments to existing terminology: '*authorized surplus payments*' would be re-named '*authorized employer surplus payments*', and the '*authorized surplus payments charge*' re-branded as the '*authorized employer surplus payments charge*'.

Any comments should be submitted to HMRC by 7 September 2026.

The Finance Bill legislation will determine the tax treatment of AMSPs rather than empowering trustees to pay them. Unlike the *Pension Schemes Act 2026* reforms to the employer-surplus-payment requirements, trustees are not being given a statutory resolution-making power to amend scheme rules to allow them to make AMSPs. They'll need to consider their existing powers to see if changes are necessary or desirable. They'll also need to think about where they'll fit that requirement for an exercise of trustee discretion into their procedures for surplus extraction—it appears that it can't be an entirely formulaic exercise.

Tax facts to die for

Legislation governing exchanges of pensions information following a death, for inheritance-tax purposes, has been laid before Parliament. The *Registered Pension Schemes (Provision of Information) (Miscellaneous Amendments) Regulations 2026*[3] will come into force on 6 April 2027, affecting deaths on or after that date. The Regulations differ in notable ways from those that were circulated for consultation, by His Majesty's Revenue and Customs (HMRC), in May 2027.

Many of the differences between the consultation-draft and final Regulations seem like refinements to phrasing, but there are more-substantial changes too. For example, the Government has dropped its plan to require scheme administrators (SAs) to report quarterly to HMRC about death-in-service payments (which are excluded from the scope of IHT).

Scheme administrators will need to give some basic information, automatically, to personal representatives (PRs), about lump sum death benefit (LSDB) payments that reduce the member's lump sum and death benefits allowance (LSDBA). The deadline for provision of that information is three months from the date of the last payment. Additional details about the lump sum, the LSDBA that was expended, and any reduction of the benefit because of direct payment of IHT by the SA will now be given on request from the PRs, within one month. The PRs will then have two months (rather than 30 days) in which to provide HMRC with the necessary details about the LSDB payments.

There are some changes to the IHT-related details that SAs must provide in response to a request from PRs. As envisaged by the consultation draft legislation, SAs will have to give information about the scheme and the value of the '*notional pension property*' (NPP) that's to be treated as part of the deceased member's estate, for IHT purposes, under the new rules (a provisional estimate may be given in the first instance). However, rather

[3] SI 2026 No. 818.

than simply describe how the NPP will be apportioned between exempt and non-exempt beneficiaries, SAs will, under the final Regulations, have to specify the percentages (if non-zero) that will go to (i) charities or registered clubs, (ii) a surviving spouse or civil partner, and (iii) any other exempt beneficiaries.

If PRs issue a notice requiring the SA to withhold benefits in connection with IHT liability, the SA will still have to confirm receipt of the notice and its validity within 14 days, but will have 28 days in which to provide details about beneficiaries and amounts. The timing of SAs' communications with beneficiaries about withholding notices has been revised so that there can be a separate 14-day deadline for each beneficiary, allowing for the possibility that trustees' benefit decisions are spread out, chronologically.

There has also been some reorganization of certain information requirements. The details to be provided by SAs if PRs are required to file an IHT account with HMRC have been combined under one regulation.

Levy still drying up

The Government is consulting on proposed increases to the general levy on pension schemes, for the period from 2027 to 2030, having concluded that the current levy rates will fail to eliminate a large and growing deficit.

The general levy is intended to pay for the activities of the Pensions Regulator, the Pensions Ombudsman and aspects of the Money and Pensions Service. It's charged on a per-member basis, using levy rates that vary according to scheme type, though with a minimum levy applicable to the membership band within which each scheme falls.

Toward the end of the last decade, the Government identified a significant and worsening funding gap. Structural changes introduced in 2021/22, and substantial (6.5% per annum) increases made to the levy rates effective from 2024/25 to 2026/27 had been expected to put the levy fund back in the black by 2030/31. However, higher-than-expected inflation and increasing demands on the levy-funded organizations are now anticipated to result in a £260 million deficit by the end of that period, if the levy isn't changed.

Rather than sharply increase levy rates over the remainder of the period until 2030/31, the Government plans to apply more-gradual increases over a longer period, whilst re-distributing the costs amongst the different classes of scheme. This, it says, will result in 'moderate' increases to the current levy rates for defined-benefit and hybrid schemes, with relatively steeper hikes (albeit from lower starting points) for defined-contribution schemes (especially master trusts and personal pensions). The changes would begin to take effect from 2027/28.

The consultation paper also looks beyond the immediate need to return the levy to a positive funding position, toward possible longer-term reform. It asks for respondents' views on the principles and approaches that might determine how the levy works after 2030.

The consultation period runs from 14 July to 8 September 2026. The Government expects to announce the outcome in early 2027. There may be further consultation exercises depending on its conclusions about the desirability of more-fundamental reforms.

Writing the final chapter

Lord Livermore, as Financial Secretary to the Treasury before the Burnham reshuffle, said that the Government would review rules on access to pension-scheme benefits by those who are terminally ill. He indicated that the review would look not only at the tax-law conditions for serious ill-health lump sums, but also at differences in eligibility from scheme to scheme, and for social-security benefits.

The announcement came in response to a question from Baroness Martin of Brockley, who voiced concern that current rules are out of step with the '*modern clinical reality*' that people may survive for years following a terminal diagnosis.

Limited-time SDLT concession for LGPS

The draft *Finance Bill 2026/27* measures published by His Majesty's Revenue and Customs include temporary relief from stamp duty land tax , designed to facilitate the transfer of Local Government Pension Scheme assets, by administering authorities, into their asset pools. It would apply to transactions with an effective date in the period from the day of the 2026 Budget until 31 March 2032. The relief was foreshadowed in Budget 2025

Growth mindset expected from the Regulator

The Department for Work and Pensions has handed four '*Growth Goals*' to the Pensions Regulator, to clarify how it ought to go about supporting economic growth (whilst recognizing that it has only indirect influence in that area). The Regulator is expected to factor the goals into its business planning and targets for 2027 to 2028.

The goals are to—

1. Reform the workplace pensions sector to boost growth and support adequate income for pension savers in retirement;
2. Unlock surplus/capital to benefit savers, employers and the economy;
3. Support productive investment to help grow the economy and increase saver returns; and
4. Promote the responsible and safe use of AI technologies in pensions to improve saver outcomes.

There are multiple '*milestones*' and indicators of progress for each of the four goals.

HMRC news: July 2026

Pension Schemes Newsletter 183, from His Majesty's Revenue and Customs (HMRC), contains articles on—

- the publication of draft *Finance Bill* clauses that would establish '*authorized member surplus payments*' as a new form of authorized payment (see article in this edition);
- outstanding relief-at-source returns and declarations for 2025/26;
- the introduction of an '*interactive guidance tool*' as a way to find relevant guidance and submit queries (HMRC appears to be retiring the email address that it previously made available for enquiries);
- the laying of the *Registered Pension Schemes (Provision of Information) (Miscellaneous Amendments) Regulations 2026*, which relate to the pensions-inheritance-tax measures coming into force in April (see article in this edition), noting the decision to drop the proposed requirement for quarterly event reporting of death-in-service payments, and saying that there'll be more sets of regulations, and (later this summer) an additional technical note;
- the planned closure of Pension Schemes Online in April 2027;
- pensions flexibility statistics for April – June; and
- a delay to publication of qualifying recognized overseas pension scheme (QROPS) transfers stats.

HMRC also published a July 2026 edition of its *Newsletter on the Public Service Pensions Remedy*. It's primarily given over to the laying of the *Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2026*, but also has a section at the end on the knotty interaction of the *McCloud* remedy and transitional tax-free amount certificates.

HYMANS ROBERTSON

And Finally…

AF was startled to see the Pensions Regulator declare, at the end of June--rather brazenly, we thought—that it had dedicated itself to making pensions worse:

Table 1: Performance against outcomes 2025-26 continued...

Corporate regulatory priority 3: Fewer schemes delivering good outcomes We expect pensions schemes to offer value to members and invest in productive assets and innovative products, where it is in members' interests to do so.	
Performance assessment	**Description**
Amber rating reflects the scale and significance of external	Work on capital reserving has largely progressed as planned internally, including

We fancied that we could hear the evil laughter echoing—*Mwah-ha-ha!*—from Brighton. To our great relief, however, there was a reoccurrence of that regulatory priority within the document, which provided evidence that the seemingly diabolical plan was in fact just an example of a comma (or its absence) making all the syntactical difference in the world:

Regulatory priority 3: Fewer schemes, delivering good outcomes We expect pensions schemes to offer value to members and invest in productive assets and innovative products, where it is in members' interests to do so.
DC schemes offer value We tracked our performance to ensure we were responding to the

In that case, the comma's omission was the commission of the crime. Elsewhere, it's the careless insertion of one that proves troublesome, even as the punchline to a joke about a gun-totin' panda. *AF*'s thinking there of the '*Eats, shoots and leaves*' gag, famously re-purposed as a book title by Lynne Truss. Who is not to be confused with the *other* L. Truss, who might have more name recognition in the pensions world, and whose personal kryptonite wasn't eccentric punctuation…

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