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Current issues

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Articles this month:

DC oversight shake-up

The Pensions Regulator announced changes to its supervision of defined contribution (DC) master-trust schemes.[1] It says that they will allow speedier identification of emerging risks, and help make DC master trusts into '*the gold standard in pensions provision.*' It's part of a move towards a more-prudential approach, under which the Regulator will be watchful for system-wide risks, in addition to scheme-level ones.

Now that master trusts account for around 90% of trust-base DC pensions, the Regulator has concluded that the time is right to prioritise value for money. Investment, data quality and retirement innovation get special mention.

DC schemes will be sub-divided, for supervisory purposes, using the following categories:

- 'monoline' master trusts[2]
- commercial master trusts

[1] *Oversight of largest DC schemes evolves with a sharper focus on member outcomes* (PN25-03).

[2] This odd terminology may be unfamiliar to some readers (they won't find an explanation in the Regulator's announcements), although it has been in use for a few years. The Department for Work and Pensions has used it (*Evolving the regulatory approach to master trusts*, November 2023) to distinguish DC master trusts that were set up to provide employers great and (especially) small with ways to comply with their statutory automatic-enrolment duties—NEST being the paradigmatic example—from the commercial master trusts that choose their customers rather than offering a mass-market solution.

- non-commercial master trusts and collective schemes
- single and connected-employer schemes

The schemes in each market segment will experience a degree of regulatory contact appropriate to the level of risk that it's perceived to present. Each monoline and commercial master trust will be assigned a group of experts specializing in, variously, financial analysis, business strategy, investment and governance.

The Regulator intends to use real-time data to alert it to arising risks. It expects to issue fewer, more-targeted demands for information, and that meetings will become more-focused affairs between experts. It points to a separate report on the outcome of a master-trust supervision pilot, involving three large schemes, as evidence for the expected benefits of the changes.[3] It hopes that problems will be resolved sooner, that its expectations of schemes will be clearer, that it'll gain greater insights about the challenges and risks in the industry, and that regulatory burdens will be reduced.

If parts of this sound eerily familiar, it may be because aspects of it were aired previously, by the Department for Work and Pensions in November 2023, and by the Regulator itself in a speech given last November.

Recruiting regulators to galvanize growth

His Majesty's Treasury (HMT) published a policy paper on getting the various parts of the UK's regulatory system to support growth and innovation. The paper contains, amongst other things, a list of pledges that the regulators and HMT think can be achieved over the coming year to expedite growth and investment.

The Treasury concludes that the current system is complex, burdensome, unpredictable, and risk averse; whereas it wants it to be targeted, proportionate, foreseeable, and to facilitate economic growth. It has come up with a reform programme, by which it intends to cut relevant business-administration costs by 25 per cent, and to simplify regulatory structures.

For its part, the Pensions Regulator has undertaken to—

- review its master-trust capital-reserving requirements (freeing up money for investment elsewhere);
- set up an innovation hub/sandbox to allow market-testing of novel pensions services;
- evaluate the quality of its regulatory interactions;
- review its data-collection demands with a review to reducing unnecessary burdens;
- encourage consolidation via the new value-for-money framework; and
- promote voluntary disclosure of asset allocations as a way of nudging schemes to consider productive investment.

More details of the Regulator's commitments are available in its response to the Government.

[3] *Market oversight: DC and master trust supervision.*

Low-key intervention gets results

The Pensions Regulator published a short regulatory intervention report for the MGN Pension Scheme, after the trustee and sponsor failed to agree on the details of the 2019 and 2022 actuarial valuations by the statutory deadlines.

The Regulator wasn't ultimately called upon to wield any of its formal defined-benefit funding powers (such as imposing a schedule of contributions). Rather, the parties were able, with its encouragement, to reach agreement on the way forward. That involved acceleration of deficit-recovery contributions, support from the wider corporate group, and changes to a dividend-sharing agreement to make it more favourable to the scheme.

Covered by a FIG relief

Late-stage amendments to the *Finance Bill 2024/25*—which has now received Royal Assent, becoming the *Finance Act 2025*—will affect entitlement to contributions tax relief for those affected by abolition of the 'non-dom' tax regime.

Setting the scene

In her 2024 Autumn Budget, the Chancellor of the Exchequer announced plans to abolish the tax regime for non-UK-domiciled persons ('non-doms'), with effect from 6 April 2025. The plans are being brought to life by provisions in the *Finance Act 2025*, under which the non-dom tax rules would be replaced by a new residency-based 'foreign income and gains' (FIG) system.

Broadly, as we understand it, non-doms—those coming to the UK from overseas who don't intend to remain here—don't currently have to pay UK tax on non-UK income and gains unless they are 'remitted' (brought in) to the UK. This treatment can last for up to fifteen years of UK residency.

The changes will mean that, instead, from April 2025, those who become newly resident in the UK for tax purposes won't (as long as they haven't been resident during the previous ten years) need to pay tax on foreign income or gains for their first four years of residence. New residents will have to submit claims for the new FIG reliefs.

Latest amendments—pensions

The amendments, approved at the Bill's Report Stage in the House of Commons, mean that people who have made foreign-income or employment claims will have their entitlement to tax relief on contributions to registered pension schemes limited. The contributions tax relief will be reduced by the relief obtained via the claim (in the case of a foreign-income claim, to the extent that the relief reflects income that is relevant UK earnings). The contributions tax relief won't be reduced below the 'basic amount': £3,600.

The pensions amendments are part of a package of '*technical changes*' designed to '*ensure that any claims... for relief on foreign income and gains are properly accounted for with regard to access to other forms of tax relief.*'

Overseas schemes

Other than the non-dom tax-relief changes, there's little in the 2025 Act that's pensions-related. The exceptions are some changes to the UK's treatment of pension schemes based in the European Economic Area (EEA), consequent upon Brexit:

- transfers made on or after 10 October 2024, from UK registered pension schemes to EEA- and Gibraltar-based schemes, by UK- or EEA-based members, are no longer automatically exempted from the overseas transfer charge (transfers requested before that date will still be exempted if completed before 30 April 2025);
- the conditions for an EEA-based scheme to be accepted as an '*overseas pension scheme*' and subsequently as a '*recognized overseas pension scheme*' (and therefore as a '*qualifying recognized overseas pension scheme*'—QROPS) will be harmonized with those applicable to rest-of-the-world schemes, from 6 April 2025[1]; and
- all scheme administrators of registered pension schemes will have to be UK-resident, with effect from 6 April 2026.

The non-dom amendments seem unlikely to set the pensions world afire, but few of its tax rules are so recherché as to never come up in practice. Forewarned is forearmed.

LGPS update

Government reins in rates & adjustments reviews

The Ministry of Housing, Communities and Local Government (MHCLG) has written to administering authorities of the Local Government Pension Scheme (LGPS) in England and Wales about its intention to amend legislation that permits variations to rates and adjustments certificates, otherwise than in connection with actuarial valuations. The MHCLG is concerned that the variation power is being used inappropriately, in some cases, to manage emerging funding surpluses (or deficits).

Existing rules

A rates and adjustments certificate records the fund actuary's opinion on the employer contributions required, in light of the fund's solvency position, to pay for future accruals of benefits. Scheme employers are obliged to pay contributions in accordance with the certificate.

A certificate is produced as a matter of course following a valuation of the local fund. Additionally, under amendments made in September 2020, the fund's administering authority (AA) is able to obtain a revised certificate at other times. To do so, it must have described its policy on inter-valuation contribution changes in its funding strategy statement, and either—

- it believes that an employer's liabilities or its ability to meet its obligations to the LGPS fund are likely to have changed significantly; or
- an employer requests (and agrees to pay for) the review.

There's guidance from the MHCLG and the LGPS Advisory Board to help administering authorities use the power.

MHCLG letter

The letter announces the Government's intention to consult on changes to the LGPS legislation. It says that it was not intended that employers could request contribution-rate reviews, between triennial valuations, to manage funding surpluses and deficits. The letter also sketches out the expected process, whereby fund actuaries set appropriate employer contribution rates based on the triennial valuation results. The Government Actuary's Department (GAD) analyses the valuation results to determine whether (amongst other things) the established contribution levels are apt to ensure the Scheme's long-term cost efficiency and the fund's solvency (to which existence of a surplus is relevant).

What can I say except, 'You're welcome'?

The LGPS Advisory Board for England and Wales wrote to Torsten Bell MP, welcoming him to the Pensions Minister role that he took up in January 2025. Formalities observed, it goes on to recommend that the Government—

- use the regulation-making power available to it to validate, retrospectively, scheme rule alterations that would otherwise be void, in accordance with the *Virgin Media* judgment[1];
- raise the limit on the payments that can be made to personal representatives of a deceased person who are dealing with small estates, without grant of probate, from £5,000 to £20,000 (and inflation-link it thereafter); and
- '*urgently set out a timetable for Phase Two of the Pensions Review*'.

The LGPS (E&W) Advisory Board is not alone in calling for the Government to press ahead to the 'pensions adequacy' stage of its Review. So far, the response from ministers has, invariably, been that the timetable will be announced 'in due course'. It's unclear what the prospects are for success on the SAB's other requests.

Dashboards news

First schemes ready to go

The Pensions Dashboards Programme (PDP) has announced that three of its approximately twenty volunteer participants—one large pension provider, an integrated services provider and a third-party services provider—have now gone through all the stages required to connect to the pension dashboards ecosystem.

Making connections

The PDP has published a set of FAQs to help trustees and scheme managers understand how to connect to the dashboards via a third party, such as an integrated service provider or third-party administrator.

There are also FAQs on 'integration testing', which determines whether entities that are connecting *directly* to the pensions dashboards system (so, not using an ISP or TPA for the task) are ready to be promoted to the live environment. An overview of the available system-testing resources for organisations that will connect directly is also now available.

Elevating standards

The PDP's Data, Technical and Reporting standards, as well as its Code of Connection, have been approved by the Department for Work and Pensions and the Northern Ireland Department for Communities. The Design standards remain in draft form for the present as they are only relevant for commercial dashboards. The documents can all be found on the Standards page on the PDP's website.

Growing pensions: this year's revaluation in full bloom

Spring is in the air – bringing longer days, blooming flowers, and, of course, the annual shower of increase and revaluation statutory instruments.

Guaranteed minimum pensions (GMPs)

The *Guaranteed Minimum Pensions Increase Order 2025* specifies 1.7% as the percentage by which GMPs accrued after 5 April 1988 are to be increased whilst in payment.[4] It comes into force on 6 April 2025.
The *Social Security Revaluation of Earnings Factors Order 2025* is what's often known as a 'section 148 Order', which determines the revaluation of GMPs during active service, and in some cases for early leavers.[5] The revaluation due from 6 April 2025 is based on earnings inflation of 4.5%.

Public service pensions

The *Public Service Pensions Revaluation Order 2025* fixes the prices- and earnings-inflation rates relevant for revaluation of accrued benefits in the reformed (career-average revalued earnings) public-sector schemes.[6] The specified change in prices is an increase of 1.7%, whilst the change in earnings is an increase of 4.5%. The Order generally comes into force on 1 April 2025, but not until 6 April for the local government and National Health Service schemes in England, Wales and Scotland.
The *Pensions Increase (Review) Order 2025*, which increase in the rates of public-sector pensions (and some private sector ones that have adopted the public sector's increase mechanism),for uplifts based on the 1.7% rise in inflation over the year to September 2024.[7]

HMRC newsletters: March 2025

Pension Schemes Newsletter 168, from His Majesty's Revenue and Customs, contains material on—

- How and when to complete pension scheme tax returns for 2024/25 onwards: they will have to be submitted via the Managing Pension Schemes service (MPSS), and the facility will become available on 15 April 2025;
- The publication of extended drawdown pension tables, applicable to capped drawdown calculations on and after 1 September 2025;
- Changes affecting qualifying recognized overseas pension schemes (QROPS): the *Finance Act 2025* will mean that, from 6 April 2025, EEA-based schemes must meet the same standards as those in the rest of the world (a consequence of the UK's exit from the European Union); HMRC will be writing to EEA-based scheme managers to ask them to confirm compliance;

[4] SI 2025 No. 264.

[5] SI 2025 No. 255. The Orders are produced under the provisions made in section 148 of the *Social Security Administration Act 1992*.

[6] 2025 No. 252.

[7] 2025 No. 343.

- The application deadlines for lifetime allowance protections; this section includes advance notice that HMRC will be looking for volunteers to help develop the look-up service for such transitional protections and enhancements, later this year, once it has been moved onto the MPSS.

And Finally…

This headline from a recent Pensions Regulator press release caught our attention: *Case Ceased Against Former Company Director Charged with Pension Fraud*.

It seemed to *AF* to be an example of what seasoned journalists call 'burying the lede' (or the 'lead').[8] That's when the first lines of a story fail to include its most salient fact. Here, the case was dropped because the accused is a ‘former director’ in the most final sense possible: the sort of ultimacy that afflicted Monty Python's famous 'ex-parrot'.

In fairness to the Regulator, the passing (in the euphemistic sense) of the director, though absent from the headline, is mentioned in the first paragraph. We were, however, left wondering whether the Regulator had any practical alternative but to end its proceedings against the chap '*after it was confirmed that he had died*'. We're presuming that a re-run of the 9th-century Cadaver Synod, in which Pope Stephen VI put the mortal remains of a predecessor, Formosus, on trial for perjury, was not an option. Formosus (surely a name that’s overdue for popular revival) was living proof, if that's not entirely orthogonal to the correct choice of phrase, that you can't keep a good (or bad—allegedly) man down…

[8] The weird spelling practice might have been developed to help distinguish newspaper-editors' type-setting directions from the words that they wanted to be printed.