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Current issues

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Budget 2026—pensions matters

John Healey, Chancellor of the Exchequer, delivered his maiden Budget speech on 28 October 2026. His mantra going in, echoed in the speech, was '*breathing space today and fresh hope for the future*', with the focus on easing cost-of-living pressures and enabling business growth. That being the case, expectations were that this Budget would be a relatively low-key affair and, on that basis, the Chancellor didn't disappoint. For pensions, the highlight was the announcement of a new pension tax allowance for low-income pensioners, but the main Budget document (the Red Book) and various supporting documents added a few other morsels.

Income tax & State pensions

From 6 April 2027 until (at least) 5 April 2030 there will be a new '*pension tax allowance*', ensuring that those with incomes up to the level of the full new State pension (NSP) won't pay income tax.[1] It will be withdrawn, gradually, for those with incomes above the full NSP, at a rate of £1 for every £3 over. The allowance will be applied automatically, without the need to make a claim, to anyone above State pension age or reaching it within the tax year, regardless of the sources of their income. It'll be increased in line with the NSP for the remainder of the current Parliament.

The Secretary of State for Work and Pensions confirmed separately that, from 12 April 2027, basic and new State pensions will be increased by 3.9%, in line with earnings inflation. That'll take it up to around £13, 036 p.a., more than the £12,570 personal allowance. If the Government hadn't acted, basic and new State pensioners with no other sources of income would have begun to receive income tax assessments for the first time. Other State benefits, such as legacy SERPS and S2P ('additional State pension') entitlements, will be

[1] *Reduction in Income Tax for eligible pensioners*. There's also an 'explainer' aimed at pensioners.

increased by 3.5%, in line with the usual measure of price inflation (for more on which, see our separate article in this issue).

LGPS pooling

As previously announced, stamp duty land tax relief will apply when Local Government Pension Scheme (England and Wales) assets are transferred by administering authorities to their asset pools.[2] The relief will apply to transactions occurring from 28 October 2026 to 31 March 2032 where the property is situated in England or Northern Ireland. The relief measure will be incorporated into the Finance Bill 2026/27.

DC futures

Anticipating the introduction of '*guided retirement*' obligations[3], and the creation of retirement collective defined contribution (RCDC) schemes as a new option for later-life income, the Government has identified the need to make several changes to the pensions-tax rules.[4] The amendments, which will be incorporated into the Finance Bill 2027/28, would include the ability to transfer from drawdown arrangements into RCDC schemes (and vice-versa); a cap on the pension commencement lump sum that could be paid by RCDC schemes based on the amount used to purchase the RCDC scheme pension.

To remove some obstacles to DC consolidation, the 2027/28 Bill will also allow protected pension ages (the ability to retire prior to normal minimum pension age, in good health, without triggering tax penalties) and scheme-specific lump sum protections to survive transfers in more circumstances. They will include some cases in which members have defined-benefit and defined-contribution rights under the same scheme, and transfer the DC element in isolation (the method of calculating scheme-specific lump sum protection in such circumstances has yet to be decided).

Terminal illness & death

In another case of an update to a previous announcement, the Finance Bill 2026/27 is to include changes to the pensions-tax rules affecting people with terminal illnesses.[5] They would in principle allow more people to receive serious ill-health lump sums SIHLS), by relaxing the level of confidence with which registered medical practitioners must express the expectation that the member will survive for less than a year. The Government also intends to allow medical practitioners based overseas to supply the evidence necessary to support applications for both SIHLS and early payment of pension on ill-health grounds.

The 'two-year rule' affecting the tax treatment of lump-sum death benefits is to be removed by the Finance Bill 2026/27, for payments made on or after Budget day.[6] It should mean that lump sums in respect of members who die under age 75 remain tax free (to the extent that the member's lump sum and death benefit allowance isn't exceeded) even if payment is made more than two years after the scheme administrator learns (or ought to have known) about the death.

The same Bill will include changes to the taxation of lump sums in excess of a member's lump sum and death benefits allowance, '*to provide greater certainty to individual beneficiaries.*' The excess will be subject to a

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[2] *Local Government Pension Scheme Relief for Stamp Duty Land Tax*.

[3] The need to offer '*default pension benefit solutions*' for members' retirements.

[4] Additional details were supplied by *Pension Schemes Newsletter 186* (see the separate article in this issue for the other contents of the Newsletter).

[5] *Definition of terminal illness for pensions access*.

[6] *Tax treatment of pension and lump sum death benefits under the two-year rule*.

separate, standalone charge at the recipient's marginal tax rate, rather than being treated as pension income.[7] By excluding the excess from income, the change will mean that a person's wider tax position and entitlement to income-related benefits are not affected by the lump sum payment. It's set to have retrospective effect for payments made on or after 6 April 2024 (and with transitional provisions extending to tax year 2023/24).

The relative absence of further pensions upheaval will come as a relief—no tax-punning intended—to many. That is, perhaps, unsurprising, given that the Pensions Commission's recommendations on pensions adequacy, and the Government's resulting policy decisions, are expected within the next few months.

The new pensions tax allowance will be welcomed by those on lower incomes. We're glad that the Government has seemingly relented on plans to restrict the effect to those whose only source of income is the basic or new State pension. Making that distinction would have been complicated and potentially unfair to those with small amounts of additional State pension or private retirement savings.

Inflation implications

In October 2026, the Office for National Statistics reported a 3.5% rise in the Consumer Prices Index (CPI) from September 2025 to September 2026. This figure, typically used to adjust UK pensions and benefits, will be reflected in statutory orders for benefit increases in 2027.

Deferred benefits & pensions in payment

The 3.5% statistic is expected to be included in the upcoming Revaluation Order, which is scheduled for publication before the end of the year. It will determine the minimum increases to deferred final-salary benefits for early leavers reaching normal pension age in 2027; revaluation to benefits accrued after 5 April 2009 will be capped at 2.5%. The legislation requiring increases to pensions in payment, where the benefit was accrued after 5 April 1997, cross-refers to the Revaluation Order, so that the same 3.5% increase should apply, though increases to pensions earned after 5 April 2005 will be capped at 2.5%.

It has been confirmed that the earnings-related addition to the State pension (SERPS and S2P), for those who reached State pensionable age (SPA) prior to 6 April 2016, will also increase next April by 3.5%. Increases to 'official' (public-sector) pensions in payment (and revaluation of deferred benefits under the legacy final-salary schemes) are tied to the additional-State-pension uplift.

For the basic and new State pensions, a non-statutory 'triple lock' policy has been applied in almost all financial years since 2011/12. It involves increasing the basic and new State pensions by the greatest of earnings inflation (currently the only element of the lock that has statutory force), price inflation, and 2.5%.[8] Average-earnings growth of 3.9% gives the highest increase this time around. The step-up will be effective from 12 April 2027.

[7] *Income Tax: collecting tax on excess lump sum death benefits*.

[8] See *Limited opportunities to grow*, in *Current Issues* October 2026, for the Government's plan for how it will work in the future.

Guaranteed minimum pensions (GMPs) in payment, to the extent that they were accrued after 5 April 1988, should be increased next year by 3%, as a 3% cap applies to increases that would otherwise be in line with those in the CPI.

Each of the career-average revalued earnings (CARE) schemes for public-sector workers has its own formula for the revaluation of past years' pensionable earnings. For some, such as the Local Government Pension Scheme, that involves the September-to-September price-inflation change.

Miscellany

Other benefits and benefit-related calculations that stand to be affected by the 3.5% price-inflation increase include:

- any excess over the full amount of the new State pension to which a person who has reached SPA since 6 April 2016 is entitled because of transitional provisions; and
- the adjustment to the opening values of rights under defined benefit arrangements when calculating annual allowance pension input amounts for the 2027/28 tax year.

Although the confirmation of the inflation figures allows for planning ahead, most of the increases mentioned above will need to be confirmed by secondary legislation (statutory orders).

PPF: no 2027/28 levies + valuation news

The Pension Protection Fund (PPF) has announced that it will impose no levies in 2027/28. In addition to continuing its recent policy of not levying conventional schemes, it is pausing the levy for '*alternative covenant schemes*' (ACS) for a year whilst it completes a review of the ACS-levy methodology.

It has also published its conclusions on the July 2026 consultation exercise on assumptions for actuarial valuations. It has re-thought the timing of changes to section 179 valuations (on which levy decisions are based), now applying them to valuation effective dates from 30 November 2026. For section 143 valuations (used to assess schemes for entry into the PPF) its revised assumptions will affect valuations at dates on or after 31 May 2026.

Updated valuation guidance will, later this year, explain how indexation of pre-6/4/1997 compensation, under provisions in the Pension Schemes Act 2026, must be taken into account in valuations. For superfunds, the PPF is going to align the assumptions used for section 179 valuations with those in force for section 143 valuations.

If the cap fits…

The Deputy Pensions Ombudsman (DPO) took aim at a scheme's pensionable-service cap, concluding that its application had discriminated against a member on both age and part-time-working grounds, because she had gained insufficient benefit from continuing her contributions (at the full rate) after the cap took effect.[9]

The DPO said that the scheme administrator had erred when adapting the cap to the member's part-time service, capping her service too soon; that it should have informed her when the cap was reached; that it shouldn't have accepted her contributions for the period that couldn't qualify her for additional accrual (though she did obtain continued final-salary linkage as well as favourable ill-health and death-benefit coverage); and that the rules contravened the *Equality Act 2010*'s non-discrimination rule, so that an amendment to the rules ought to have been sought.

The administrator was directed to recalculate the benefits, pay interest on underpayments, refund contributions in respect of excess service (with interest) and pay the member £1,000 compensation for the distress and inconvenience that she'd suffered.

Caps on reckonable service aren't uncommon in defined-benefit pension schemes. Assuming that the determination stands—we haven't seen anything so far about an appeal to the courts—trustees may wish to consider any such rules affecting their own schemes and how they're applied in practice. Based on the DPO's findings, the details of what benefits are provided to capped members and the contributions that they pay in return could become the particular subjects of scrutiny.

AI'm the king of the world

In October, the Pensions Regulator's output tackled the theme of how the industry ought to welcome its new robot overlords. Firstly, it published guidance on *AI Concentration Risk* in scheme investment portfolios. Later, it encouraged trustees '*to embrace AI opportunities responsibly*', giving guidance on how to do so.

DWP Pondering pension postponement

The Department for Work and Pensions made a call for evidence on State pension deferral. It's looking to gather evidence on why people defer their State pensions, how well they understand their options, what influences the timing of claims, experiences of deferral, outcomes of decisions and any barriers or difficulties encountered.

Responses should be submitted by 1 December 2026.

[9] *Ms H (CAS-53778-W8D6)* (16 October 2026).

HMRC news: October 2026

Much of His Majesty's Revenue and Customs' (HMRC's) *Pension Schemes Newsletter 186* is given over to summarizing the pensions-related announcements from the Budget, and the expected contents of the Finance Bill 2026/27 (for the details, please see our separate Budget article in this edition). The Newsletter also contains sections—

- announcing the Government's intention to permit *prospective* (not just confirmed) personal representatives to oblige scheme administrators to meet inheritance-tax (IHT) liabilities, in some cases, as well as tweaks to the rules that apply a reduced IHT rate when a threshold proportion of a deceased person's estate is donated to charity;
- foreshadowing future *Newsletter* content publicizing the pensions-IHT change, closer to the implementation date (it's effective for deaths on or after 6 April 2027);
- announcing a delay to the digitalization of relief-at-source;
- launching a new online '*triage*' tool to help scheme members obtain pensions-tax refunds;
- giving guidance on when and how to contact HMRC with enquiries; and
- providing updated pension-flexibility and scheme-registration statistics.

Earlier in the month, HMRC updated its guidance for scheme administrators who need to make tax payments to warn that incorrect payment references can result in payments being delayed or credited against different tax liabilities. If the latter happens, one can request that the payment is re-attributed.

And finally…

Pensions, pensions, everywhere,
And all the trustee boards did shrink;
Pensions, pensions, everywhere,
Nor any drop available for capital investment in innovative growth-stage undertakings.

—Samuel Taylor Conservidge

Party-conference season already feels so long ago, and so much has happened since, that *AF* fears readers might have forgotten the booklet (*The Right Way*) that the Conservative Party issued prior to its Birmingham bash. When we CTRL+F'd it for the Party's thoughts on the state of UK pensions, we were not expecting to see the situation likened to the *Rime of the Ancient Mariner*, specifically the famous lines about there being '*Water, water, everywhere, Nor any drop to drink*'.[10] The rather-less-poetic lament in the policy document is that '*We are awash with savings, while growing companies remain starved of capital*' (page 11).

Perhaps it shouldn't have been a surprise to see such a thing coming from the people who would also bring us the '*Birmingham Tapestry*', a satirical take on a much-older work of textile art, currently on loan to the British Museum whilst its usual home in Bayeux gets a couple of coats of vinyl matt emulsion. The Tories' version is even less of a tapestry than the real thing, but was presumably produced considerably closer to the original's hypothesized place of manufacture (which has prompted calls to rename it the Canterbury Embroidery).

Upon reflection, maybe the *Rime*'s relevance to pensions isn't as much of a stretch either. The opening lines about how the Mariner '*stoppeth one of three*' could have been a Nostrodamus-style, cryptic prophecy of the Government's intended triple-lock reform; and it's possible that one or two Chancellors of the Exchequer will have in their accounts-balancing despair felt the projected costs of the current lock as something akin to the mortal remains of a humungous seabird weighing them down…

[10] If your *Rime* is a 13-minute heavy-metal epic from the 1980s, we won't judge.

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