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Current issues

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Articles this month:

Government ponders trusteeship, governance & admin

The Department for Work and Pensions (DWP) has, as promised, published a consultation paper about occupational pension scheme trusteeship. The document, entitled *Trust-based Pension Schemes: Trustees and Governance, Building a Stronger Future*, asks 27 questions about the present and future state of trusteeship and governance, as well as possibilities for the regulation of administration providers.

As its rationale for consultation, the DWP cites the increasing size and complexity of larger schemes, propelled by developments such as the consolidation that followed the establishment of the authorisation and oversight regime for defined-contribution (DC) master-trust (MT) schemes, and the nascent defined-benefit (DB) superfunds market. It also looks ahead to the anticipated creation of 'megafunds' under the influence of the DC 'main scale default arrangement' (£25 billion threshold) requirements contained in the Pension Schemes Bill. It wants to raise the bar for trustees' technical knowledge as well as other capacities, like their ability to hold service providers to account.

Professional trustees

The DWP says that appointment of a professional trustee can be a way to bolster a trustee board's knowledge and expertise, and that it is, most notably in smaller schemes, correlated with higher standards. However, it expresses some concerns about the potential for conflicts of interest when trustee firms offer ancillary services (like secretarial or governance support) to trustees. It also raises the possibility that trustees with multiple appointments might be stretched too thinly, so that they could find themselves unable to respond effectively to a system-wide crisis. One of the questions that it asks is whether there ought to be a limit on the number of appointments that an individual trustee can have. On the other hand, it acknowledges that professional trustee firms will often appoint more than one director to each scheme, and those individuals will have the support of the firm's wider team. The DWP notes too that having the same trustee appointed to multiple schemes could help disseminate good practices.

The consultation paper rehearses questions about the desirability of a statutory requirement for accreditation of professional trustees. It also proposes to formally place higher expectations on professionals than for lay trustees, and asks what they should include and how best it could be achieved. There is discussion of some 'softer' skills (leadership, negotiation, communication…) that might be desirable attributes in the modern pensions environment.

Sole trustees

Similar concerns are raised about the trend toward the appointment of 'professional corporate sole trustees' (PCSTs), which as the name suggests, describes the scenario in which a corporate provider of trusteeship services is a scheme's only trustee, rather than just one member of a larger trustee board. Although noting the Association for Professional Pension Trustees' requirements for the appointment of at least two decision-makers to each case, and for them to prioritize independence from the scheme's sponsor, it sounds notes of caution on the potential for conflicts, lack of diversity of thought, and absence of representation of scheme members' viewpoints. It also notes the risk that, if the switch to sole trusteeship is made quickly, the scheme-specific knowledge built up by the previous trustees will be lost. However, it accepts that PCSTs can bring valuable expertise and efficiency to scheme projects, for example winding-up or buy-out exercises.

The consultation paper asks whether there ought to be an 'enhanced Code of Practice' for PCSTs, and if so what it should contain.

Appointment & replacement

The DWP is keen to ensure that trustee boards acquire the right people and balance of skills, and that everyone remains focused on their fiduciary duties. It's also concerned that heavy demands may soon be made upon the supply of suitable candidates, citing independent (non-governmental) research from 2024 suggesting that around 85% of trustees plan to retire in the next three years.

It asks whether additional conditions should be applied to ensure that appointees serve the interests of scheme beneficiaries, and how to attract suitably talented candidates. Specifically, it questions whether the length of trustees' appointments ought to be restricted, whether by imposing individual term limits or constraining the number of consecutive terms that can be served.

On the subject of the Pensions Regulator's powers to appoint and remove trustees, it also raises the possibility that a public trustee might be established as an alternative to appointments from the Regulator's pool of independent trustees.

Trustee directory

The Government remains committed to the creation of a register of all pension trustees. It would be a regulatory resource, not a record that could be consulted by the public. There would need to be a means of uniquely identifying trustees. The DWP wants it to be set up in a way that provides the Regulator with the information that it needs, without creating onerous administrative burdens. The solution could operate at the trustee level, with a new requirement for registration of individual trustees; or at scheme level, by way of an amendment to the information that must be supplied to the Regulator in scheme returns.

Lay trustees

Whilst noting the trend away from the involvement of lay trustees, the DWP wants to encourage their continued involvement. It asks which traits of lay trustees should be retained in other trusteeship models, and how that might be achieved. It suggests the possibility of having a 'one-stop' website with links to all of the resources that would be relevant to lay trustees. Other questions cover the desirability of a form of continuing professional development, and whether lay trustees should be accredited, as well as their professional colleagues.

Member input

The consultation paper asks how to ensure that member views are considered by trustees, in light of trends toward master trusts and PCSTs, and the associated decline in member-nominated trustees.

Administration

At the end of the consultation document the DWP shifts the focus away from trusteeship and onto scheme-administration issues. It wants to ensure that there is sufficient capacity in the administration-services market to cope with the reform programme and the trend toward consolidation. It is also keen on regulatory consistency between trust- and contract-based schemes.

It's considering whether there's a need for registration and regulation of administration providers. An alternative to direct regulation of that sort would be to set standards and place the onus of compliance on trustees.

It asks about the pros and cons of mandatory minimum standards, and whether the Pensions Regulator should have the same sort of responsibility and powers over administration as the Financial Conduct Authority has for contract-based providers. It poses the question of whether any future requirement for administrators to register with the Regulator should come with the possibility of them being *de*-registered subsequently. It also solicits views on the risks presented by consolidation in the defined-contribution market, under the influence of the forthcoming requirement for master trusts and group personal pensions to have 'main scale default arrangements' of at least £25 billion. Lastly, it wants to explore the possible role of the Regulator in mitigating the risks of an administration provider's 'disorderly exit' from the market.

Next steps

The webpage for the consultation exercise states that it closes on 5 March 2026, whilst the consultation document itself gives the deadline as 6 March 2026. Either way, interested parties will have until early March to provide their responses.

The consultation paper contains few truly novel policy proposals: if not quite a green paper, it's definitely verdantly tinged. That suggests that the DWP is in listening mode, an attitude that we welcome.

Lording it over everyone: the Pension Schemes Bill

The *Pension Schemes Bill 2024/26* reached the House of Lords (HoL) shortly before the Christmas break, receiving its Second Reading on 18 December 2025. It will now move on, early in the new year, to the Committee Stage, at which time members of the Lords are expected to test the Government's policy in several areas in debate and with amendments.

A hazing over haziness

Prior to Second Reading, the HoL Delegated Powers and Regulatory Reform Committee published a report on the Bill. The Committee tends to take a dim view of primary legislation that grants wide powers to the Government and leaves the details to be supplied by secondary legislation. It said that it '*found it exceedingly difficult to provide meaningful comment on the* [Pension Schemes] *Bill... because it is so skeletal*', and that it '*effectively gives a blank cheque to Ministers to fill... the many gaps*'.

Read a second time

The HoL Second Reading debate lasted over four hours, with twenty-three or so speakers participating. The Government's intention to bestow upon itself a reserve power to mandate asset allocations in the default investment arrangements of defined contribution (DC) master trusts and group personal pensions was roundly (if not universally) criticized. Many peers voiced concern about the adequacy of future DC pensions. Several seemed intent upon probing the practical details of the proposed new 'value for money' framework for DC schemes. Fiduciary duty was frequently mentioned, both by those deprecating Government interference with trustee obligations, and in connection with perceptions of trustee confusion or hesitancy over responsible-investment activities. In the defined-benefit pension area, there were calls for carefully considered safeguards around the surplus-refund reforms, and differences of opinion over the number and content of the 'gateway tests' that should apply to superfund transfers. On the Local Government Pension Scheme, there were expressions of interest in simplifying and improving the transparency of employer-contribution-rate reviews, and tweaks to facilitate 'localized' as well as 'local' investment.

Next on the agenda

The Bill will now proceed to a HoL Grand Committee, for clause-by-clause scrutiny, and with the opportunity for amendments. The Committee is slated to begin its work on 12 January 2026.

Any member of the HoL can participate, and the Government doesn't have the same control over the duration of proceedings as it does in the House of Commons. At the time of writing there was already an extensive list of tabled amendments, although some are clearly intended to be 'probing': that is to say, they're designed to facilitate exploration of Government policy, rather than being carefully crafted instances of legal draughtsmanship. None of the amendments proposed came from the Government.

Although the HoL has limited powers to impede a Bill's progress, it can test the Government's resolve on contentious issues, and indeed did so with the recent Employment Rights Bill, which required an extended game of 'ping-pong' between the two Houses before it received Royal Assent. Might the Government's reserved power to force asset allocations into UK investments prove to be as much of a sticking point for the Lords as day-one unfair dismissal rights did?

Collective endeavours

There were further developments in December 2025 in the new and evolving area of collective benefit provision. The changes will facilitate its expansion beyond single-employer schemes, and update the rules on the registration of pension schemes for tax purposes.

Although the relevant legislation refers exclusively to 'collective money purchase' benefits, in this article we will use the more-commonly used term, 'collective defined contribution', abbreviated to 'CDC'.

UMESin' with me?

The *Occupational Pension Schemes (Collective Money Purchase Schemes) (Extension to Unconnected Multiple Employer Schemes and Miscellaneous Provisions) Regulations 2025* have been approved by Parliament.[1] They will come into force on 31 July 2026.

The Regulations extend the statutory regime to allow for the establishment of CDC schemes catering for multiple, unconnected employers (giving rise to the acronym 'UMES'—once the letters are swapped around a little). The regime was set up to permit the Royal Mail's CDC scheme, and hitherto allowed only schemes serving single employers or corporate groups.

The Pensions Regulator subsequently launched a consultation exercise seeking opinions on a new, draft version of its Code of Practice for CDC schemes, updated to cover UMES. The consultation periods ends on 13 February 2026. The revised Code is intended to apply from the same date as the UMES Regulations; the Regulator expects to begin taking applications for authorization of UMES in August, and says that schemes could open their doors in early 2027.

Tax tweaks

The Finance (No.2) Bill 2024/26 contains provisions intended to adapt the pensions tax legislation to recognize the statutory regime for CDC schemes. It would, for example allow His Majesty's Revenue and Customs to refuse to register, and to de-register, schemes that have failed to obtain or have lost the Regulator's authorization.

The potential benefits of CDC—sharing investment and longevity risk across members to deliver a higher, secure income for life—are clear. As are the trade-offs: forgoing the flexibilities associated with traditional DC and the certainty that comes from an annuity. The UMES legislation and draft Code will help scheme proprietors to finalize the details of their offerings and prepare for authorization by the Pensions Regulator.

[1] SI 2025 No. 1313.

Auto-enrolment thresholds reviewed & retained

The Department for Work and Pensions (DWP) has reviewed the auto-enrolment earnings trigger and qualifying earnings band and has decided they will (yet again) remain at their current levels in 2026/27.

The trigger, above which jobholders must be automatically enrolled, is frozen at £10,000, as it has been since 2014/15. The earnings band, on which minimum contributions are based, will remain at last year's level, £6,240 to £50,270; the lower edge of the band has stayed the same since 2020/21, whilst the upper threshold has been at the current level since 2021/22.

The DWP says that keeping the earning trigger at its current level of £10,000 as earnings continue to grow will see private sector pension membership increase by around 39,000 (compared with 2025 to 2026).

The AE thresholds have changed whilst other notable figures have continued to rise. For example, the national minimum wage will be almost twice as much next year as it was when the earnings trigger was last increased, for 2014/15.[2] Someone earning the full rate will have to work a little over fifteen hours per week in 2026/27 to qualify for automatic enrolment.

The lilac'd tract is back

The Pension Protection Fund (PPF) has published the 2025 update to the Purple Book, its annual survey of the private-sector defined-benefit (DB) scene in the UK.

Its headlines are that, between March 2024 and March 2025—

- the number of DB schemes eligible for the PPF fell from 4,974 to 4,840;
- the aggregate funding ratio increased from 123% to 125%;
- on an estimated full buy-out basis, the net funding position improved from a deficit of £69.5 billion to a deficit of £47.2 billion; and
- the proportion of scheme assets invested in equities fell slightly, from 15.5% to 15.1%.

Schemes continued to invest a large proportion (70.6%) of their assets in bonds, whilst the proportion of assets held in annuities reached a record high (13%).

Intriguingly, the proportion of scheme closed to benefit accrual appears to have decreased (if only by a single percentage point).

[2] <https://researchbriefings.files.parliament.uk/documents/CBP-7735/CBP-7735.pdf>.

Growth-asset investment under the lens

The Regulator has begun investigating approaches and barriers to growth-asset investment. Initially, it's using its '*sector insights*' and a strategy of '*targeted engagement*' to gather intelligence, and is concentrating on larger schemes. It says it will intensify its efforts to improve governance standards, and that it expects trustees to have the ability and advisory support to consider diversifying their assets.

The Regulator also expects that trustees will obtain the skills and advice needed to evaluate diversified investments. It says that where schemes lack such capabilities, the trustees should consider the potential benefits to members of consolidating into larger funds.

What's next?

The Regulator will share its findings in a market-oversight report, in 2026, in the hope that it encourages trustee consideration of growth investments.

HMRC newsletters: December 2025

In *Pension Schemes Newsletter 176*, His Majesty's Revenue and Customs (HMRC)—

- publicizes the launch of a new facility, within its online Managing Pension Schemes (MPS) service, to report transfers to Qualifying Recognized Overseas Pension Schemes, and notes plans to upgrade the features during early 2026 to permit searching for transfer reports and provide email confirmation on successful submission;
- says that the MPS will also open its '*Check a pension scheme member's protections and enhancements*' function in early 2026, and that users will need the scheme administrator's check reference and the member's full name, date of birth, and National Insurance number to use it (HMRC is also looking for volunteers to test the system);
- highlights guidance on the process for offsetting unauthorized member payments arising from the remedy for *McCloud* discrimination within the public sector, and how that should be reported;
- notes the Government's intention, via the current Finance Bill, to introduce mandatory registration for tax advisers who interact with HMRC, but with exemptions for scheme administrators and practitioners (among others), who interact with HMRC only to comply with statutory obligations, and saying that mere provision of information to clients and scheme members will not necessitate registration; and
- has some reminders about the deadlines for submission of reports and returns by scheme administrators.

And Finally…

Frohes Neues Jahr to all our readers: for 2026, *AF* has resolved to learn German. Mind you, that's been the case since about 1985, so maybe he should set his sights a bit lower as far as New Year's resolutions go. Get a haircut, or something like that…

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