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Budget 2025

The Chancellor of the Exchequer, Rachel Reeves, delivered a much anticipated/dreaded [Budget speech](#) on 26 November 2025. From a pensions-focused perspective, the big news was the partial negation of the National Insurance advantages of making employee pensions contributions by salary sacrifice, but there were also notable announcements on PPF indexation, inheritance tax on pension death benefits, and DB-surplus distributions.

Spoiler alert

The Chancellor’s thunder was stolen (or at least somewhat muffled) when the Office for Budget Responsibility (OBR) prematurely released its updated [Economic and Fiscal Outlook](#) (EFO). The EFO gives the OBR’s forecast for the economy and public finances, based on the Budget measures. It was hastily withdrawn from the OBR’s website, but not before it had been saved and re-posted elsewhere online by some of those who had spotted the gaffe, and many of the headline changes bandied far and wide.

Pensions-related announcements

The main (thoroughly leaked) news on the pensions front is that ‘employee’ pension contributions made under **salary-sacrifice** arrangements will not, above an annual £2,000 level, be exempt from NICs in future. The change will apply from 6 April 2029. It’s estimated that it will raise £4.8 billion in 2029/30, although that includes a temporary tax-timing effect as some employees switch to making ordinary contributions under relief-at-source schemes; the extra receipts are anticipated to fall to £2.6 billion in 2030/31. Standard employer contributions will continue to be exempt from NICs. Attempts by employers to circumvent the effects of the salary-sacrifice



change by simply revising pay downward and employer contributions upward are to be hampered by legislation requiring that such arrangements are agreed by all staff. There's some basic [HM Treasury guidance](#), with more due before the change takes effect in 2029.

Pension Protection Fund (and Financial Assistance Scheme) payments attributable to pre-6 April 1997 service will be indexed in payment, by up to 2.5%, if the members' original pension schemes provided for indexation. The change will apply from 1 January 2027. The PPF has [responded](#), welcoming the announcement and confirming that it shouldn't affect plans to set a zero PPF levy next year.

The '[Red Book](#)' [Budget Report](#) alludes to additional changes to the Government's plans to subject unused pension funds and certain death benefits to **inheritance tax** (IHT). A [policy paper](#) fills in some of the blanks. Deceased members' personal representatives (PRs) will, [in some cases](#), be able to instruct scheme administrators to withhold half of the taxable death benefits for up to 15 months, to ensure that enough money is retained to meet any associated IHT. The PRs will be discharged from IHT liability for any benefits uncovered, despite due diligence, after they have received a clearance certificate from His Majesty's Revenue and Customs (HMRC); thereafter, liability will lie solely with beneficiaries. The changes are to be included in the *Finance Bill 2025/26* and take effect from 6 April 2027.

From April 2027, the Government will allow private-sector, defined-benefit (DB) pension schemes to make direct payments out of **surplus** to members who are over '*normal minimum pension age*' (currently 55, rising to 57 from 6 April 2028), subject to scheme rules and trustee agreement. Currently, such payments are unauthorised and as such subject to penal tax charges; HMRC has [confirmed](#) that they will in future be authorised and taxed as income at the recipient's marginal rate.

Finance Bill 2026/27 will provide for stamp duty land tax relief on property transferred within the Local Government Pension Scheme (LGPS). Given the timing of the change, and that of other ongoing reforms, it seems to be intended to reduce the costs of moving assets from one LGPS pools to another.

Members of the British Coal Staff Superannuation Scheme are set to benefit from the share of the Scheme's surplus that currently falls to the Government. A similar policy change was announced in relation to the Mineworker's Pension Scheme in the Chancellor's 2024 Budget.

Pensioners who become liable to small tax charges solely because their new or basic **State pensions** exceed the income-tax personal allowance from 2027/28 won't have to go through the 'Simple Assessment' process to pay the tax. The details are yet to be worked out.

Other news

From 6 April 2027, the annual limit for savings into cash **ISAs** will be limited to £12,000, with the remainder (£8,000) of the £20,000 annual ISA allowance reserved for stocks and shares. Over-65s will still be able to save the whole £20,000 into cash ISAs. The Lifetime ISA is to be withdrawn, following consultation in early 2026 on '*a new, simpler ISA product to support first-time buyers*'.

We are concerned about the partial withdrawal of NICs relief, which provides employees with an important incentive to save, and employers with a welcome cost-control mechanism. The OBR assumes that 76% of the additional costs will be passed on to employees in the form of lower employer contributions and pay. Implementation is also bound to be complex: it's no shock that it won't happen until April 2029.

The PPF indexation change is great news for pensioners, though some will be disappointed to learn that its scope is narrower than the Chancellor's speech suggested. Those considering DB run-on or transferring to a superfund will want to think through the knock-on implications. The PPF's coverage will be nearer to 100% than it has ever been.

Flexibility to make payments to members out of DB surpluses without tax penalties or liability increases would be a positive step. It will make decision-making around surpluses easier and allow trustees and employers to provide welcome support to (older) members.

You'll find more expert commentary and insights in our online [media centre](#) and [pensions-policy innovation hub](#).

PPF plans £nil levy—with a twist

The Pension Protection Fund (PPF) has begun the process of [consultation](#) on the levy rules for 2026/27. Provided that measures in the Pensions Schemes Bill look set to pass before the end of the financial year, it doesn't plan to impose levies on conventional schemes. If timely passage of the levy measures looks uncertain, the PPF will revert to its 2025/26 levy rules—which would still give it the option of reducing levy invoices to nothing if sufficient progress is made on the Bill.¹

Legislative plans

So far as it concerns the pension protection levies, the Pension Schemes Bill would—

- make the imposition of the levies optional;
- clarify that the PPF can consider the risks associated with schemes that lack the support of a substantive employer covenant (what the PPF calls '*alternative covenant schemes*'); and
- allow the PPF, if it concludes that it doesn't need to collect levies for a financial year, to resume substantial levies in future years.

The change described in the final bullet point would be accomplished by altering the restriction on the amount that the PPF can seek to raise with the levies. It currently says that the PPF can't impose levies for a financial year that are estimated to raise more than 125% of the preceding year's estimate. Since 125% of £0 is £0, the PPF has to date been reluctant to formally estimate its total levy needs at zero, despite its substantial surplus funding position. Under the Bill, the limit would in future become 100% of the previous year's estimate *plus* 25% of that year's levy ceiling, so that substantial levies could be re-instated even after dropping to zero.²

Conventional schemes

For 2025/26 the PPF set its levy estimate at £45 million, but ultimately declined to issue invoices to levy payers, in reliance upon the passage of the Bill measures. Under the primary proposal for the 2026/27 levy, there would be no levy estimate associated with conventional schemes. As the legislation currently governing the levies restricts the amount that the PPF can seek to raise by reference to the previous year's estimate, the plan for 2026/27 requires a greater leap of faith from the PPF. If it misjudges, and the Bill's levy measures don't become law, it would be unable to re-impose levies in the future. The plan to forego raising levies on conventional

¹ The Department for Work and Pensions [anticipates](#) that the Bill will receive Royal Assent in the first part of the new year.

² The levy ceiling is a separate constraint on the total levy haul. The 2025/26 levy ceiling exceeds £1.4 billion.

schemes in 2026/27 is therefore qualitatively different from the decision to reduce levy invoices to zero in 2025/26, even if the immediate outcome for levy payers is the same. Accordingly, the PPF says that it needs 'a *very high level of confidence*' in the passage of the Bill measures, before 31 March 2026, in order to take this step.

If the required degree of certainty isn't reached in time, all is not lost, however. In that case, the PPF would fall back on its 2025/26 levy rules, with their £45 million levy estimate. Significantly, they would again give the PPF the option to forego issuing levy invoices if the Bill makes more progress after the 31 March cut-off point. The £48 million levy estimate would protect the PPF's ability to resume charging levies in 2027/28 (and beyond), if economic conditions deteriorate. The PPF's modelling suggests that there are a limited number of circumstances in which it would need to resume charging, but the consultation document says that it '*cannot entirely rule out the possibility*'. The PPF says that it would evaluate the feasibility of making up for any deterioration in funding through investment returns before re-imposing levies. If it does have to revert to the 2025/26 levy rules in 2026/27, the PPF says that it will retain the 31 March 2025 measurement date, so that its calculations will be based on data already in its possession. Trustees of conventional schemes are told not to expect to receive £0 levy invoices if their levy is set to zero.

Alternative-covenant schemes

The PPF plans to continue to apply levies to 'alternative covenant schemes' (ACSs), because of the different risks that they present, and the possibilities that new risks arise as the market develops. It plans to raise only a risk-based levy from ACSs, based on a version of the 2025/26 levy rules to which '*small adjustments*' will be made. There would be no scheme-based levy for ACSs in 2026/27, though that position will be reviewed for later years.

Under the Pension Schemes Bill's provisions, the PPF would be explicitly allowed to take account of risks associated with schemes that (in the PPF's opinion) are '*not supported by a substantive employer covenant*'. The quoted phrase would apply when an employer's financial position, ignoring any capital buffer and any unenforceable third-party support, means that it has no realistic prospect of providing material financial support for the scheme's liabilities. For 2026/27, the PPF proposes to extend its definition of alternative covenant schemes to capture more scenarios in which schemes are left with employers that have no material resources from which to meet scheme liabilities. The proposed changes to the ACS levy rules include removal of the underpin that ensures that the ACS levy is not less than would be calculated under the conventional-scheme methodology. The PPF also plans to give itself a broad discretion to recognise arrangements that reduce underfunding risk, as ACSs aren't expected to adopt the same arrangements as conventional schemes, and they are likely to evolve over time.

The PPF is also asking for feedback on how trustees use data that it collects and publishes. The consultation period runs from 17 November 2025 to 5 January 2026.

Scheme returns

The PPF says that it's reconsidering the data that it demands of schemes, via the Pensions Regulator's scheme returns. It won't be able to remove anything in time for the 2026 return, but says that it's considering what changes it could make to the help text that accompanies the returns, to lighten the requirements.

Pension Schemes Bill proceeds

The *Pension Schemes Bill* is [set](#) to have its Report and Third Reading stages in the House of Commons on 3 December 2025. After that, it'll go on to the House of Lords.

At the time of writing, the [latest batch of amendments](#) to be tabled, in advance of the remaining Commons stages, included proposals for—

- a mandatory Government review, in five year's time, of the Bill's effect on retirement incomes, and what more is needed to ensure their adequacy; and
- changing the test for '*new entrant pathway relief*', in connection with the proposed minimum-scale requirement for the default investment funds of defined-contribution (DC) master trusts and group personal pensions (GPPs), to focus on demonstrated growth and innovation potential (which is how it looked in the original version of the Bill).

Several amendments and new clauses are aimed at the indexation of private-sector defined-benefit (DB) pension rights accrued prior to 6 April 1997 (pre-'97 pensions). One would remove references to 6 April 1997 from section 51 of the *Pensions Act 1995*, so that the requirement to increase pensions in payment would apply regardless of when rights were earned. Another would require increases to pre-'97 pensions if and to the extent that a DB scheme is in surplus. There's also an attempt to change the rules of the Pension Protection Fund and Financial Assistance Scheme to require backdated increases, linked to the Retail Prices Index, capped at 7% per year, on *all* accrual (pre- and *post*-'97).

On the DC side, there are numerous proposals concerning the Government's controversial power to impose mandatory asset allocations on the default investment funds used by master trusts and GPPs. The Government intends to keep the power in reserve in case voluntary initiatives to boost investment in UK growth assets fail. One proposed change would amend the 'sunset' clause associated with the power so that it would expire if not used by the end of '*this Parliament*', rather than (as the Bill currently says) if it's still on the shelf at the close of 2035. Another proposal would require the Government to produce a report, before using the power, exploring the barriers to UK investment and the effects of mandating asset allocation on member interests and economic growth. A third would remove the asset-allocation power entirely.

None of the proposed new clauses and amendments has been tabled or supported by the Government, so there's a low likelihood of any of them making it into the Bill. Often, such amendments are brought forward by Parliamentarians as a means of generating debate on a subject, or in the hope that it will nudge the Government into changing its policy.

They are not always meticulously drafted either. For example, it seems to us that the proposal to 'sunset' the asset-allocation power at the end of '*this Parliament*' might encounter a problem in that, whenever the amended section was being read, it would always be '*this Parliament*', so that the sun might effectively never set as anticipated. The new clause proposing indexation of pre-'97 pensions by DB schemes with surpluses contains the line, '*No increase... in the annual rate of pension shall not be paid...*', which made our heads sore.

Retouched returns for DB & hybrids

The Pensions Regulator has [published](#) details of this year's defined-benefit (DB) and hybrid scheme return. It's asking for more information on contingency planning for leveraged liability-driven investment (LDI) arrangements, and a more-detailed analysis of unquoted- and private-equity assets from the largest ('Tier 3') schemes.

Returns will have to be submitted by 31 March 2026.

Unreliable UURBS undertakings uncovered

The Court of Appeal has [upheld](#) rulings denying corporation-tax deductions to two companies, in respect of accounting provisions that they made for future pension liabilities from an unfunded, unapproved retirement benefit scheme (UURBS).³ The Court agreed that the Upper Tribunal (UT), and before that the First-tier Tribunal (FTT), had been entitled to conclude that the unfunded arrangements were not '*incurred wholly and exclusively for the purposes of the trade*', because each companies' primary goal was to reduce its tax liability without incurring actual expenditure.

The companies argued that their decisions to set up the UURBSs had stemmed from a desire to review the attractiveness of their executive-remuneration practices. However, the Court's interpretation of the evidence suggested that, instead, each company had been sold the idea by the same accountancy firm as, primarily, a tax-saving exercise. It was noted, for example, that although the accountants had professed their inability to give advice on the suitability of an UURBS as a way of providing pensions to employees, neither company had sought advice from pensions experts. The Court found that the FTT had been '*entitled, if not bound*' to conclude that the accounting provisions toward the UURBSs weren't deductible, because they were principally aimed at tax avoidance.

That conclusion sufficed to dispose of the case. However, the Court went on to consider an alternative reason given by HMRC for denying the corporation-tax deductions: that the accounting provisions fell under a tax rule about '*employee-benefit contributions*' (EBCs). Had that been correct, the deductions would have been disallowed unless and until (broadly speaking) taxable benefit payments were made to scheme members. The Court found itself unable to accept HMRC's interpretation of the EBC rule, because the companies' accounting provisions didn't involve the contribution of identifiable property, and because of the existence of another tax rule that was more apt to cover unfunded arrangements.

Addendum

Since the publication of the Court's judgment, HMRC has updated the '[Spotlight](#)' guidance in which it gives its view on the (in)effectiveness of arrangements under which companies make unfunded pension promises to obtain a corporation-tax deduction.

³ *AD Bly Groundworks and Civil Engineering Limited & Anor v The Commissioners for HMRC* [2025] EWCA Civ 1443.

Fetter happier

A [recent High Court judgment](#) explores the viability of changes made to a scheme with a fetter on its power of amendment.⁴

The restriction in the case in question prevents modifications to a final-salary scheme that would '*diminish any pension already being paid... or the accrued rights or interests of any Member or other person in respect of benefits already provided... save with the written consent of the Member concerned*'. The sponsoring employer argued that the fetter allowed the scheme's closure to future accrual, in circumstances where the closure deed provided for continued final-salary linkage if the result was more advantageous than revaluation in deferment. A representative beneficiary contended, to the contrary, that the inclusion of '*interests*' in the phrasing of the fetter meant that it encompassed future-service benefits, and therefore prohibited the closure.

The judge declared that, on an analysis of the natural meaning of the fetter in its context, the closure to accrual was, given the maintenance of the final-salary link, permissible and therefore validly accomplished. It was relevant that the word '*interests*' appeared in a composite phrase, in conjunction with the word '*rights*', and that both were then qualified by the expression '*already provided*'.

This judgment will be of special interest to sponsors who were perturbed by the 2024 Court of Appeal ruling in the BBC case, which said that a fetter protecting members' '*interests*' covered their ability to continue to accrue benefits on the same terms as before.⁵ It suggests that it's not always true, although clearly the correct construction is highly dependent on an analysis of surrounding words, so the result will be specific to the individual scheme.

Consultation on 'Fit for the Future' LGPS

The Ministry for Housing, Communities and Local Government has [published](#) consultation drafts of two statutory instruments that would amend the rules of the Local Government Pension Scheme in England and Wales. The proposed changes are designed to implement asset-pooling, local-investment and governance reforms that will be enabled (in part) by the *Pension Schemes Bill* that is currently being debated by Parliament. The consultation period runs from 20 November 2025 to 2 January 2026.

For details of the draft legislation, see the [briefing note](#) from our LGPS experts.

It's rather unusual for governments to consult on implementing regulations before the associated Act of Parliament is in place. The Government has set the deadline for compliance with the pooling reforms at 1 April 2026, subject to the Bill receiving Royal Assent. The atypically advanced consultation exercise seems to reflect that challenging deadline, and how keen the Government is to be able to point to early action in this area.

⁴ *3i v Decesare & Others* [2025] EWHC 3023 (Ch).

⁵ *British Broadcasting Corporation v BBC Pension Trust Ltd* [2024] EWCA Civ 767.

WASPI row-back

The Secretary of State for Work and Pensions, Pat McFadden, announced in a [Written Statement](#) to Parliament that the Government will reassess the case for compensating those adversely affected by poor communication of the equalisation of women's State pensionable ages (SPA) with those of men. McFadden cautioned that *'retaking this decision should not be taken as an indication that Government will necessarily decide that it should award financial redress.'*

In December 2024, the Government [acknowledged](#) failures in its campaign to inform women born during the 1950s about impending SPA increases. It issued a formal apology, but decided not to pay compensation, in spite of a recommendation from the Parliamentary and Health Services Ombudsman (PHSO) that it do so. In support of that decision, Liz Kendall, McFadden's predecessor, cited evidence about the low effectiveness of unsolicited postal communications from official sources. Representatives of the affected women (Women Against State Pension Inequality, or WASPI) initiated judicial-review proceedings against the Government.

It seems that some new evidence has come to light; or rather, that the Department for Work and Pensions (DWP) has learned in the course of the court proceedings about relevant [research findings](#) that the Secretary of State ought to have taken into account, but didn't. This is more embarrassing than it sounds, because the research in question was commissioned and published by... the DWP.

In [oral evidence](#) to the House of Commons Work and Pensions Committee, McFadden confirmed that the research in question isn't new—it was in the information weighed by the PHSO—but that it was relevant to the question of the effectiveness of printed material, and therefore to Kendall's decision. McFadden also said that he won't consider the overlooked material in isolation, but rather in the context of the evidence previously taken into account, and that he has also asked his team if there's anything else that should have been drawn to the Secretary of State's attention. He again cautioned people not to leap to conclusions about the likely outcome.

HMRC newsletters: November 2025

[Pension Schemes Newsletter 175](#) from His Majesty's Revenue and Customs (HMRC) summarises and adds some details to the pensions announcements in this year's Budget (please see the article in this edition for details).

The Newsletter also notes that—

- the online 'Check your pension protections' service has been slightly re-badged, to 'Check your pension protections and enhancements' (our emphasis); and
- a facility to report transfers to qualifying recognised overseas pension schemes (QROPS) will become available on HMRC's online Managing Pension Schemes service 'later this year', replacing form APSS262.

And Finally...

Within the boring stuff that we include as a pretext for publishing this '*And Finally...*' section, you'll find an article about a court concluding that a company's decision to making unfunded pensions promises seemed driven more by a desire to avoid corporation tax than, as its managing director claimed, by staff recruitment and retention concerns. *AF* noted, additionally, that the director's name was McSkimming, but is confident that nominative-determinism theory had no bearing on the judges' deliberations...

That's the last bit of nominally pensions-related nonsense for this year. On behalf of Hymans Robertson, *AF* wishes *Current Issues* readers a merry Christmas and a happy new year. For those who follow other traditions, we'll echo comedian Dave Allen's sign-off: '*Good night, good luck, and may your god go with you*' (those who remember him can mentally picture the glass of amber liquid genially raised in a hand with conspicuously fewer digits than is standard). Since Allen was, he professed, '*an atheist... Thank God*', we think that probably covers all the angles...

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