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Pensions Commission gives initial views on adequacy

The UK Pensions Commission's [interim report](#) was published on 19 May 2026. It warns that many millions of people, particularly low- and middle-income earners, the self-employed, women and members of some ethnic groups, are facing hardship in retirement, and that changes are needed if the pensions system is to meet expected demographic and economic challenges.

The Commission was set up in July 2025, to explore the reasons behind projections showing lower future retirement incomes compared to today's, and to produce recommendations for change. The interim report is primarily about the first part of that remit.

The main document covers 190 pages, and there's an additional 126-page evidence pack. So, it's rather closer in total length to *1984* than *War and Peace*, but will, nevertheless, take some time to fully digest. The Commissions' conclusions are, however, that

- The changes (most notably the introduction of automatic enrolment, and State pension reform) that were made in response to the findings of the first Pensions Commission, which reported over twenty years ago, have achieved '*huge improvements*', but further changes are needed in light of the population ageing, weak productivity and low wage growth experienced since.
- For sustainability, the revised system will need to find the right mix of State pension, auto-enrolment minima and voluntary saving, requiring a balance Government spending, intergenerational fairness, and affordability for employers and scheme members.
- Reform must be based on a truer understanding of pensioner finances, across the income distribution, and more-suitable definitions of adequacy (the Commission suggests a hybrid adequacy measure that melds target replacement rates for middle earners with a basic standard for lower earners).



- The new State pension is making the sort of income contribution envisaged by the first Commission, whereas private pensions saving has fallen short.
- The interactions of Pension Credit and Housing Benefit need to be revisited, to take account of macroeconomic developments and projections.
- Auto-enrolment eligibility, earnings thresholds and quality standards need to change to produce adequate retirement incomes for lower- and middle-income earners.
- The solution needs to address those who are not saving at all, a problem that is particularly acute among the self-employed (and especially younger, lower-earning self-employed people).
- Wider public-policy changes will be needed to address savings disparities within sectors of the population (women, carers, disabled people and some ethnic groups) that have lower earnings and more gaps in employment.
- The system must support older workers so that people remain in employment longer (and recognize that it won't be feasible for everyone to do so, or fair to expect it).
- The accumulation (accrual and contribution) and decumulation (retirement) phases of retirement saving are equally important for ensuring adequacy, so there must be default solutions and protections during the retirement stage.

Next steps

Comments on the interim report can be submitted using an [online form](#) or by [email](#). Publication of a final report, setting out the Commission's recommendations for reform, is expected in the spring of 2027.

By marshalling the evidence for the looming adequacy crisis, and presenting the problems and challenges in such a clear manner, the Pensions Commission has established a firm foundation for exploration of much-needed reforms to the UK pensions system. We recognize the need to tackle under-saving for retirement, and the desirability of mobilizing long-term pensions capital to increase retirement security and fuel economic growth. Auto-enrolment reforms will help to close various pensions gaps. And we're particularly gratified that the Commission has identified the challenges ahead for the growing number of people who may be faced with the costs of renting homes in retirement.

With the Commission's findings and recommendations in 2027 will come a once-in-a-generation opportunity to help people achieve financial independence and security in later life. The pensions industry must continue to work together with the Government toward a sustainable and inclusive system that supports long-term economic self-sufficiency for all.

DB Annual Funding Statement, 2026 edition

The Pensions Regulator [issued](#) its 2026 [Annual Funding Statement](#) (AFS) for private-sector defined-benefit (DB) schemes. The central theme is an echo of previous AFSs, with funding improvements spurring a shift of attention from deficit reduction to endgame planning.

This year's statement is primarily intended for those who will conduct statutory funding valuations at effective dates in the period from 22 September 2025 to 21 September 2026¹, but may be relevant to others. Indeed, whilst TPR notes that the 'rigour and discipline' of the triennial valuation process remains helpful, it points to a more flexible, dynamic approach to strategic discussions.

The Regulator estimates that the aggregate funding level on 31 December 2025 was a surplus of 124%, with only 10% of schemes in deficit. It thinks that 90% of schemes were in surplus based on their technical provisions (the scheme-specific funding basis), 80% were in the black based on the Regulator's low-dependency funding basis, and 60% were above water on a buy-out basis. It anticipates seeing a similar overall funding picture at the end of March 2026, despite economic turmoil, with reduced liabilities keeping pace with lower asset values.

The Regulator intends to provide some initial thoughts on surplus release to coincide with the Department of Work and Pensions' consultation on draft regulations, with more-detailed guidance to follow in 2027, when those regulations come into force.

Valuations

The Regulator says that, with the improvements in funding, the valuation process is changing from a budgeting exercise to an opportunity for endgame-strategy and journey-planning reviews. The AFS estimates that 80% of schemes could use the Fast-Track (FT) approach to valuations at minimal or no cost to the employer. No immediate changes are being made to the FT parameters set in November 2024, but they will be reviewed and may, if necessary, be amended for T26/27 valuations (those between 22 September 2026 and 21 September 2027). The other FT conditions and submission tests are also under review, and there may be updates to documentation and guidance as a result.

The Regulator wants to see early and ongoing collaboration among trustees, sponsors and advisers. It expects them to start by defining their long-term objective and journey plan, then deciding whether to take the FT or Bespoke approach. The AFS contains signposting to existing guidance on various valuation and covenant related subjects—from cyber risk through to sustainability issues and data quality—as well as appendices covering common questions about the application of the Funding Code and contents of valuation submissions.

Statements of strategy

The AFS highlights the centrality of trustees' long-term objective, as described in their statement of strategy (SoS). It encourages them to treat the SoS as a live document, updating it between valuations and using it as a driver of the valuation process rather than merely a derivative of it. It is reviewing its definition of the 'low-risk' SoS category (which brings reduced information requirements), and particularly how it applies to schemes that are fully 'bought in'.

¹ Under the naming system adopted by the Regulator last year, these are known as Tranche 25/26 (T25/26) schemes; they would have been Tranche 21 according to the old nomenclature.



The Regulator will publish an analysis of T24/25 SoS submissions—the first under the new Funding Code—to show the different approaches taken, and in the longer term use the SoS data to help identify and respond to emerging risks and legislative changes.

Strategy expectations

The Regulator again sets out its expectations of trustees according to schemes' funding positions. This year, however, there's some additional granularity in Group 1 (the most well-funded category), based on how comfortably they sit above their low-dependency (LD) funding targets (and perhaps giving some indication of how TPR will approach the DB surplus guidance).

Group	Funding	Areas of focus
1A	110% or more on LD basis	<ul style="list-style-type: none">• If objective is buy out, minimize funding volatility.• If objective is run on, may take additional risk appropriate to degree of covenant reliance, whilst monitoring covenant, and considering surplus policy.
1B	100 – 110% on LD basis	Endgame, may take limited investment risk to get there, subject to covenant reliance and monitoring.
2	<100% on LD basis, but >100% of technical provisions	Monitor and manage downside risks to reach LD by relevant date.
3	<100% of technical provisions	Recover deficit as quickly as reasonably affordable, align journey plan to LD with risk level appropriate to covenant and scheme maturity.

We welcome recognition of valuations as an opportunity to refine plans and assess progress; we would go further, recommending that trustees and sponsors seize the day regardless of whether a valuation is underway. We note that the Regulator emphasizes an objectives-first approach to the choice between Fast Track and Bespoke, echoing our view that strategy should lead and compliance follow.

FRC settles *Virgin Media* guidance

With the passing of the *Pension Schemes Act 2026*, the Financial Reporting Council (FRC) has [published](#) a finalized version of its guidance for actuaries on the statutory solution to the issues raised by the *Virgin Media* litigation. The FRC has made only minor, clarificatory amendments to the interim guidance published in January 2026.

The guidance is primarily addressed to actuaries who are asked to confirm, under provisions contained in the Act, that historical alterations to the rules of defined-benefits schemes wouldn't have prevented the schemes from continuing to meet the statutory conditions for contracting out of the State additional pension arrangements. The validity of rule alterations for which contemporaneous actuarial confirmation couldn't be located was called into question by the *Virgin Media* judgments of June 2023 and July 2024.

For more details of the *Virgin Media* cases and the FRC's guidance, see [Current Issues February 2026](#).

Pensions IHT: have a potter o'er the deathly workflows

His Majesty's Revenue and Customs (HMRC) published a Technical Note ([Inheritance Tax on pensions](#)) and consultation-draft [Registered Pension Schemes \(Provision of Information\) \(Amendment\) Regulations 2026](#), connected with the significant forthcoming changes to the inheritance tax treatment of pensions on death. The draft Regulations would establish extensive new rules for sharing of information among scheme administrators, deceased persons' personal representatives, and benefit recipients, and new obligations to report matters to HMRC. The Technical Note gives scheme administrators (in the tax world, usually trustees) more details of how HMRC expects the pensions-IHT process to work.

Recap

Changes made by the *Finance Act 2026* will bring 'notional pension property' (broadly, pension death benefits) within the reach of IHT, for deaths on or after 6 April 2027. Certain benefits (dependants' scheme pensions, trivial commutation lump sum death benefits, joint-life annuities, and death-in-service benefits) will be excluded from the scope of IHT, and the familiar exemption for transfers of value between spouses or civil partners will also apply.

Primary responsibility for collating information about unexpended funds and death benefits, and reporting it to HMRC, will lie with the deceased person's personal representatives (PRs). The process that HMRC has mapped out nevertheless relies heavily on scheme administrators (SAs), necessitating numerous changes to the Regulations governing exchanges of information for pensions-taxation purposes.²

Liability for pensions IHT falls similarly on PRs in the first instance, though they will be able to recoup tax paid from beneficiaries. Both PRs and beneficiaries will be able to direct SAs to pay IHT on their behalf, if certain conditions are met (in broad summary, the tax due must be at least £1,000, and mustn't exceed the taxpayer's liability in connection with the scheme or the value of the benefits that the administrator has yet to pay out). In such cases, SAs will be able to make consequential adjustments to benefits.

Personal representatives with reason to believe that they may be liable for IHT on notional pension property will also be able to direct the SA to withhold up to half of the benefit due. If administrators fail to comply with

² The *Registered Pension Schemes (Provision of Information) Regulations 2006* (SI 2006 No. 567).



withholding notices or payment directions (as described in the preceding paragraph), they may become liable for the related IHT.

Technical note

The HMRC Technical Note functions as a reader-friendly guide to the legislation, including the reporting obligations and notification deadlines contained in the draft Amendment Regulations. It also gives some insights into HMRC's interpretation of the new rules and its thoughts about how SAs should act in accordance with them.

It notes, for example, the requirement for SAs to co-operate with PRs and prospective PRs, before they have obtained grant of probate, letters of administration or confirmation to deceased members' estates. Administrators will naturally have to establish correspondents' authenticity, and the Technical Note outlines some basic principles for doing so (whilst indicating that further guidance on this point is to follow). It suggests that in some cases a person's bona fides could be demonstrated by a copy of the will naming them as an executor, with the person's signed declaration that they've accepted the role, alongside proof of identity and a copy of the death certificate. When there is no will, it says that SAs should be prepared to accept alternative evidence, including correspondence from the deceased's solicitors, and implies that they should be aware of the different rules operative in the different UK legal jurisdictions about who is entitled to act as a PR.

The Technical Note suggests that SAs encourage scheme members to create and maintain a list of their pension rights, to assist their PRs.

Info-sharing amendments

The draft Amendment Regulations would create a spider's web of new information-sharing requirements, governing communication from SAs (and insurance companies) to PRs, and to HMRC; and from PRs to HMRC (about lump sum death benefits). For example, the information to be transmitted by SAs to PRs would include scheme details, values of property potentially subject to IHT, to whom benefits are payable and in what amounts, lump-sum-death-benefit payments, excluded benefits, withholding notices, block transfers, and payments of IHT under notice; beneficiaries would have to be given information about withholding notices and payments of IHT under notice. Where benefits are reduced on account of payment of IHT, the draft Regulations create an information-transmission chain, from SAs to PRs, and onward to HMRC. The draft Regulations would also establish a system of quarterly event reporting about payments of death-in-service benefits (which are, as noted previously, excluded from IHT).

The deadlines for provision of information generally allow SAs either 14 or 28 days in which to comply.

The amendments would also require that SAs provide their information to HMRC electronically. That requirement extends to some existing, non-IHT-related obligations, such as those applying to transfers to qualifying recognized overseas pension schemes (QROPS).

Expected timeline

Comments on the draft Amendment Regulations should be submitted by 11 June 2026. They are to be laid before Parliament '*later this year*' and '*spring/summer 2026*'. Work on guidance setting out HMRC's expectations for the evidence to be provided to scheme administrators by personal representatives, and templates and interactive tools for personal representatives, will continue into the autumn, and will be distributed within the industry in draft form in '*autumn/winter 2026/27*'. Over the winter and into the spring of 2027 there is to be a publicity campaign to raise awareness of the changes. The finalized guidance and tools will be published in the spring; the technical note says that HMRC's tax manuals (which include the Pensions Tax Manual, or



PTM) will be updated to provide detailed guidance ‘for April 2027’. The pensions-IHT changes will affect deaths on or after 6 April 2027.

Timeline summary



Scheme administrators will have a significant number of new information-provision requirements to contend with, and some potentially tight deadlines. That being the case, it’s a matter for concern that some details might only be settled on the eve of the obligations coming into force.

LGPS ‘Fit for the Future’ consultations conclude

The Ministry of Housing, Communities and Local Government [announced](#) the [outcome](#) of its consultation exercise on draft secondary legislation to implement the ‘Fit for the Future’ reforms to the Local Government Pension Scheme. On the same day, two [sets](#) of [Regulations](#) were laid in Parliament, and will come into force on 30 June 2026. Guidance will be published ‘in time for the regulations coming into force’.

For details of the Government’s policy conclusions, and a summary of the differences between the draft and finalized Regulations, see our [Policy briefing note: Technical consultation on LGPS Regulations 2026](#).

We welcome the reforms, but question the tenor of some parts of the Government’s press release, which may mislead readers into thinking (a) that the reforms will directly increase members’ benefits, or even that the LGPS is a money-purchase arrangement, and (b) that it wasn’t generally well-governed already.

Was this written by AI?*

The Pensions Regulator published an [AI Plan](#), in which it lays out its expectations for use of artificial intelligence within the workplace-pensions industry. It highlights the need for sound trustee governance, quality-assurance activity, risk management, scam awareness, data quality and protection, and professional advice.

The associated [press release](#) says that detailed guidance is coming later in the year.

*No. No, it wasn’t. But then, that’s just what our new robot overlords would say, isn’t it?



HMRC news: May 2026

[Pension Schemes Newsletter 181](#), from His Majesty's Revenue and Customs (HMRC), contains articles—

- announcing the mothballing of the Pension Schemes Online service, from April 2027 (the exact date of closure is to be decided; any remaining open schemes should be migrated to the successor Managing Pension Schemes service by 31 December 2026);
- advertising the recent publication of an inheritance tax technical note and draft *Provision of Information (Amendment) Regulations* (see our separate article in this issue); and
- giving some updates and reminders for relief-at-source scheme administrators.

And finally...

The Regulator has been busy lately. Elsewhere in this here screed, we cover its latest DB Annual Funding Statement, and note how it plans to react when Skynet finally reveals itself to the world. In other news, it [kicked off](#) a new regulatory initiative on dashboards-value-data preparedness in DB and hybrid schemes, targeting 240 schemes for assessment, and [published](#) some evidence that it has agglomerated on the '*emerging benefits of scale*'. (The last one's about the size of DC funds, not the muck that furs up your kettle and atherosclerosthetizes—not a word, but it should be—the arteries of your washing machine.)

Its Chief Exec, Nausicaa Delfas*, also gave a [speech](#) in which she looked ahead to 2036, and the future of workplace pensions. Gazing into her crystal ball, Delfas foresaw a picture in which DC consolidation is all-but complete, there are still DB schemes but they have mostly turned away from accrual to focus on endgames, and collective DC and guided retirement are well-established. She ends on a somewhat cautionary note about the increasing demands on trustees and administrators.

Which is all just a flimsy pretext for *AF* to say that he learned that 'Nausicaa' is Greek for 'burner of ships'. An appellation worthy of a heroine, and hopefully *not* a Delphic prognostication...

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