Current issues

June 2025

Articles this month:

Government fires starting pistol for pension reforms

On 29 May 2025, the Government laid out plans for extensive pensions reform. They came in the form of the Final Report from the Pensions Investment Review, and the outcomes of three consultation exercises: on unlocking the UK's defined contribution (DC) pensions market for growth, making the Local Government Pension Scheme in England and Wales fit for the future[1], and the options for defined benefit (DB) schemes.

Unlocking DC pensions for growth

The Government will proceed with plans to require that each personal-pension provider and DC master trust has at least one default investment arrangement with £25 billion in assets under management (AUM) by 2030 (plus proportionate investment capabilities). The foundations for the obligation will be laid by the forthcoming Pension Schemes Bill. The detailed definition of such 'main scale default arrangements', as they will be known, is to be set by regulations, following a consultation exercise. The requirement will not apply to schemes established for single employers or corporate groups, nor to collective DC schemes. Neither will it affect Sharia-compliant default arrangements.

A 'transition pathway' will exist for those that can convince the Pensions Regulator that they will have at least £10 billion in AUM by 2030, with plausible proposals for reaching £25 billion by 2035. To allow room for innovation and competition, there will also be a 'new entrant pathway', whereby entities with proposals for original products, and plans for reaching appropriate scale, can seek authorization.

The Government has decided not to limit the number of defaults arrangements in use by any one scheme. However, legislation will generally prohibit the creation of new defaults, unless regulatory approval is obtained. There will be no requirement for standardized pricing by default funds, at least initially; more analysis will be conducted once the current reforms are embedded.

A contractual override will allow personal-pension providers to transfer members out of underperforming and legacy arrangements, where an independent expert certifies that it is in their best interests. If a provider wishes to transfer people to another arrangement within its own stable it will have to be the one representing best value. The Financial Conduct Authority (FCA) will develop and consult upon rules governing the use of the contractual override. Any decision to use it will have to be based on objective standards of measurement, including some from the new Value for Money (VFM) Framework (see following).

The VFM Framework will push underperforming schemes to improve, or transfer members to more-successful arrangements and wind up. Decisions will be based on performance measures that allow comparison between schemes. The Government expects active decisions from trustees and providers on whether to move members into a main scale default arrangement (as discussed in the first paragraph of this section).

In 2029, after the first tranche of VFM assessments, the Government, FCA and Regulator will review how effective the contractual override and VFM Framework were in encouraging use of main scale default arrangements. A 'legislative underpin' (latent intervention power) will enable the Government to act if insufficient consolidation has occurred. The Regulator and FCA are, later in 2025, to launch a market-wide data-collection exercise requesting asset-allocation (split by asset class and sub-class, and UK versus overseas) information from the largest DC pension providers. They will report on their findings in 2026, and are expected to repeat the exercise annually until data obtained via the new VFM Framework emerges.

The Government has for the moment decided against imposing additional obligations on employers and advisers, such as periodic review of auto-enrolment providers. It has concluded that mandatory investment in growth assets is currently unnecessary, but will again give itself power to intervene if initiatives such as the Mansion House Accord do not have the desired effects; use of the latent power will be subject to member-interest safeguards and 'consistent with the principles of fiduciary duty.'

Options for DB Schemes

The Pension Schemes Bill that will shortly be laid before Parliament will remove barriers to surplus extraction, subject to rigorous funding conditions. It will clarify the current requirement for trustees to be satisfied that a payment of surplus to the sponsor is in the interests of members, so that payment must be in accordance with trustees' overarching duties to beneficiaries, allowing them to better balance employers' and members' interests. The Bill will permit rule changes by trustee resolution, where necessary, to facilitate employer surplus payments, and will repeal the requirement for a pre-6 April 2016 resolution. The Government favours specifying the low-dependency-funding-basis (not buy-out) as the minimum threshold for surplus extraction and will consult on draft regulations to make it so. The Regulator will publish surplus-extraction guidance to help trustees decide when it may be appropriate. The 'authorized surplus payments charge' will be kept at 25%, but the Government is reviewing the wider tax regime.

The Bill will not create a 100% PPF underpin option, nor legislate for a government-sponsored consolidator at present. However, the Government is continuing to explore the prospects for a 'small, focused' consolidator, run by the Pension Protection Fund, and aimed at underfunded schemes that are unlikely to be within reach of buy-out or other commercial-consolidation solutions anytime soon. It would operate on the basis that sponsors remain on the hook to support their schemes until deficits are eliminated. The Government is waiting to see how the buy-out and superfund markets develop before deciding whether the public consolidator could be extended to small-but-well-funded schemes.

What next?

The next phase of the Pensions Review will be announced 'in the coming months.' The Government is to publish a 'roadmap' for private-sector pensions, to locate the announced reforms in the context of wider policy. The Pensions Schemes Bill ought to be introduced soon (before Parliament's 22 July summer recess).

These are ambitious plans to release the untapped potential of a more-productive pensions system. We are supportive of the DB surplus-extraction reforms and vision for DC megafunds, and see both as key pillars for UK growth in the private pensions sphere. For more incisive commentary, visit our media centre.

D'accord

The Government announced, on 13 May 2025—to a loud flourish from the Downing Street brass section—the signing of the Mansion House Accord. Seventeen workplace pensions providers, accounting for approximately 90% of active defined contribution (DC) pots, thereby stated their determination to boost investment in private markets, both in general and within the UK in particular, by 2030—subject to the Government meeting its end of the bargain.

The Accord is in addition to, rather than a replacement for, the Mansion House Compact. The latter was unveiled in 2023, and committed eleven providers to investing 5% of their default funds in unlisted equities by 2030.

In the Accord, by contrast, a broader sweep of (17) providers set out their '*ambition*' to invest at least 10% of their default-investment-arrangement portfolios in 'private markets' (infrastructure, property, private equity and credit, as well as venture capital) by 2030, with at least 5% invested in the UK. It's estimated that the funds in question currently hold around £252bn of assets. The efforts to produce the Accord were led by the Association of British Insurers (ABI), City of London Corporation, and the Pensions and Lifetime Savings Association (PLSA). Accordingly (no pun intended), the resulting declaration has been published in duplicate on the ABI's and PLSA's websites.

The text of the declaration emphasizes the voluntary nature of the undertaking, and that the providers' commitment is qualified. It is subject to the need to ensure appropriate asset diversification and to the providers' fiduciary and consumer duties. It's also made contingent on the Government and regulators meeting several conditions:

- the Government's facilitation of a supply of suitable investment opportunities;
- a general shift in emphasis away from pure cost to broader value considerations;
- the Government and regulators aligning on value-for-money issues and the ability to transfer contract-based-scheme members without consent; and
- the measured implementation of the Government's plans to encourage fewer, larger DC default investment arrangements.

The PLSA and ABI are also hosting answers to Frequently Asked Questions that providing extra details of the agreement. They clarify, for example, that—

- the Accord is not legally binding;
- the Government and providers will work together to track progress;
- only open, accumulation-phase, provider-designed defaults are within scope;
- the targets apply at the aggregate level, to the totality of each provider's in-scope funds; and
- individual signatories might exceed the targets.

In its press release, the Government says that the Accord will support the development of clean-energy infrastructure and innovative small businesses. It also says that '*Progress against the commitment will be monitored and… will be reinforced by measures to be announced in the upcoming final report of the Pensions Investment Review.*' However, it doesn't specifically mention any intention to give itself backstop powers to compel more domestic investment, and the examples given are of previously announced plans to take steps to tackle fragmentation and encourage the creation of DC 'megafunds'.

We're pleased and encouraged that it proved possible to reach a voluntary accord that should put billions of pounds put to work in pursuit of the growth agenda, whilst respecting the bulwark of fiduciary duty. We've already seen great examples of UK investment delivering returns for local areas through the Local Government Pension Scheme asset pools, and believe there are good opportunities for DC savers to profit similarly from investment in the UK. The Mansion House Accord should deliver better member outcomes whilst supporting the economy that most UK scheme members will retire into: too often each ambition is viewed in isolation, whereas it's necessary to see the complete picture if they're both to be achieved.

Dashboards news

Toolkit for schemes with multiple administrators

The Pensions Administration and Standards Association (PASA) has released an AVC Toolkit for schemes with multiple administrators that will need to connect to the pensions-dashboards system. It gives the regulators' expectations, and their perspectives on cases in which the different administrators are unable to connect on the same date.

The PASA notes that all parts of a scheme are expected to connect to the dashboards system at the same time, and that problems can occur where additional voluntary contributions (AVCs) are, as is commonly the case, administered separately from main scheme benefits. It acknowledges that there may be cases where, despite everyone's best efforts, there's a compliance failure, and reports that the Pensions Regulator and the Financial Conduct Authority intend to take a pragmatic approach.

The toolkit provides guidance for trustees and scheme managers on the actions to take both where all the scheme administrators will connect simultaneously, and where they do not.

PDP progress update

The Pensions Dashboards Programme (PDP) published a progress update report on 15 May 2025. The report notes that April 2025 marked the start of the Department for Work and Pensions' (DWP's) staged timetable for pension schemes and providers to connect to the dashboards system.

The report also:

- Sets out the work that the PDP is doing to prepare for connection, which includes working with 20 industry volunteer participants, four of which are now ready to connect their schemes in accordance with the DWP timetable (the first provider connected on 17 April 2025).
- Confirms that the standards for pension providers and schemes have been approved by the Secretary of State for Work and Pensions and the Department for Communities (Northern Ireland).
- Provides an update on the development of the publicly funded Moneyhelper dashboard, including plans for consumer testing later this year, and reiterates the Government's commitment to delivering private-sector dashboards.
- Includes updates from the DWP, Pensions Regulator and Financial Conduct Authority.

Due to capacity at PDP, not all of the 20 volunteer participants will be through their connection journey in time to meet the connection dates set out in guidance. The Regulator has confirmed that at present, '*there will be no regulatory intervention for pension providers and schemes who are unable to meet their connect by dates in guidance solely due to their dependence on a volunteer participant who has yet to connect*.'

WPC dashboards questions

The House of Commons Work and Pensions Committee has raised several queries about pensions dashboards with the Pensions Minister. The questions cover (among other things)—

- the status of applications to defer connection;
- the standards of data held by schemes;
- how keen the Government is on private-sector dashboards;
- the weight of the regulatory burden; and
- when additional functionality (initiating transfers, topping up funds) might become available, and whether the MaPS dashboards will ever offer it.

Just dropped in to see what condition my conditions were in

Responding to questions in Parliament, the Pension Minister has confirmed that the Department for Work and Pensions (DWP) is still considering the desirability of amending legislation that, in 2021, imposed new conditions upon the statutory right to transfer. The rules have been criticized for impeding entirely proper transfer attempts.

Background

The *Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021* were introduced under powers brought in by the *Pension Schemes Act 2021*, in response to heightened concern about pension scams. Worry levels had risen when confidence tricksters began using the defined-contribution (DC) flexibilities as a lure for the unwary, and following a court finding that pensions trustees and providers could be obliged to make transfers despite reservations about the bona fides of the receiving scheme.[1]

The Regulations hold a lens up to the circumstances of a transfer request (unless the destination is a public-sector, master-trust or collective-money-purchase scheme). Certain features of requests are designated as 'red flags', which prevent transfers from proceeding; or 'amber flags', which will become red flags if members don't supply additional information to resolve the matter, or take specified guidance from the Money and Pensions Service. The red flags include the application of pressure or incentives to transfer; the amber flags cover such things as a suspicious incidence of requests involving the same receiving scheme or adviser, or a destination scheme that has overseas investments.

Rumblings of discontent were soon heard, and intensified after the Regulations came into force (affecting transfers initiated on or after 30 November 2021). The complaints were that they were preventing or delaying legitimate transfers. The main problems raised were with two of the flags noted in the preceding paragraph: receiving schemes with overseas investments, and transfer incentives. Many if not most genuine pension schemes invest overseas to some extent, and some providers were in the habit of offering relatively low-value rewards to customers that could fairly be described as incentives.

The DWP agreed in 2021 with a Work and Pensions Committee recommendation that it should publish a review of the Regulations, and the suitability of the red and amber flags, within eighteen months of them becoming effective. The resulting (2023) report concluded that, whilst the new transfer conditions were well-intentioned, the DWP would work with the pensions sector and the Pensions Regulator to see what changes could be made that might improve the operation of the legislation without reducing member protections. In the interim, the DWP and Pensions Regulator had issued a joint statement on the new conditions, encouraging trustees to '*take a risk-based approach*' and to consider using discretionary powers to make non-contentious transfers if they felt that the statutory route was blocked. The Regulator updated its transfer guidance to convey a similar message.

Questions in Parliament

In May 2025, in answer to questions from his Opposition shadow (Peter Bedford MP), Pensions Minister Torsten Bell confirmed that 'extensive work' had been done on the issue, and that the DWP intends to announce the results 'as soon as is practical.'[2]

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[1] *Hughes v Royal London* [2016] EWHC 319 (Ch).

[2] UIN 48795 <https://questions-statements.parliament.uk/written-questions/detail/2025-04-28/48795>; UIN 48794 <https://questions-statements.parliament.uk/written-questions/detail/2025-04-28/48794>.

There's a song (clue in the headline) that goes, 'Someone painted 'April Fool!' in big, black letters on a 'Dead End' sign.' It might seem like hyperbole (or bathos) to apply it to pensions, but it will have struck many people as a similarly bad joke that the Conditions for Transfers legislation, designed to serve members' interests, has obstructed legitimate transfer requests, on account of unremarkable scheme features. It's good to see that the issue is still on the DWP's agenda—although, given numerous competing (and doubtless supervening) priorities, it's not clear when we should expect action.

US Trade Policy & Market Volatility

The Pensions Regulator has produced guidance to help trustees respond to uncertainty in the markets, with separate recommendations for defined benefit (DB) and defined contribution (DC) schemes. The gist of the advice is, broadly, that trustees should review their governance and operational resilience arrangements, maintain open communication channels with scheme sponsors and advisers, and be vigilant for fraudsters targeting anxious members.

DB

The Regulator asks that DB trustees consider how they'll meet their expected liquidity and cash-flow needs, and for them to be alert for developments (such as increases in numbers of retirements and transfers, or late payment of deficit-reduction contributions) that might upset those expectations.

They should also consider reviewing their investment strategies and risk management arrangements. The Regulator stresses the need for efficient governance and operational resilience, encouraging trustees to ensure that authorized signatory and subcommittee arrangements are optimal, or whether governance changes would make them better able to respond swiftly to events.

Trustees of DB schemes are also admonished to consider the potential effects of market volatility on the employer covenant. It suggests that the impact upon vital customers and suppliers may need to be monitored, and that expert advice may be required. Instability could also affect the sponsor's financial headroom and refinancing plans. The Regulator notes a particular need for information sharing and access to senior executives if a company is at risk from uncertainty in global trading. It suggests that trustees consider the availability of contingent assets to mitigate any covenant erosion.

The Regulator also advises that trustees be prepared to review their de-risking and risk-transfer decisions in light of improved funding levels. When doing so, they should consider how the expected changes to the surplus-payment rules use might influence their choices, and how they would take advantage of investment opportunities that arise.

DC

For DC schemes, the Regulator stresses the need to equip members to make good decisions. It encourages trustees to keep an eye on member activity as a means of understanding how those in different circumstances might react to the news cycle. They should provide appropriate information and guidance, and encourage members to take advice before making impulsive and potentially imprudent fund changes. It re-advertises guidance and tools designed to help trustees warn members to beware of pension scams.

Trustees of DC schemes should also track emerging risks, and consider reviewing their investment and governance strategies, rebalancing arrangements, and investment-diversification levels. They might need to re-think plans for bulk transfers or fund switches, and formulate contingency plans for the case where volatility persists. They should also be alert for opportunities for value enhancement or preservation.

Research on sacrificing salary sacrifice

His Majesty's Revenue and Customs (HMRC) has published research it commissioned on employer use of salary sacrifice for pensions contributions. The study involved interviews with 51 employers, 41 of which offered pension salary sacrifice arrangements.

The interviews indicated that salary sacrifice for pension contributions is primarily valued for the National Insurance (NI) savings it offers to employers and employees. However, most of the surveyed employers reported that their share of the NI savings is typically allocated to general operational expenses rather than being directed into their workplace pensions arrangements.

The study also looked at employers' responses to three hypothetical changes to the current salary sacrifice rules:

- removing the NIC exemptions for employers and employees;
- removing the employer-and-employee NIC exemptions as well as the income-tax exemption for employees; and
- removing the NI exemption for employer and employees above a threshold of £2,000 of salary sacrificed per annum.

Unsurprisingly, none of the hypothetical scenarios was viewed positively by the employers interviewed. The second of the three would go further than just negating the current advantages of salary sacrifice, and actively punish employees who use it. We should note that the research was commissioned by the previous Government, and that HMRC hasn't indicated any plans to implement any 'hypothetical' amendments to the salary sacrifice rules.

And Finally…

Amid the usual run of Parliamentary barracking and badinage, there is the occasional exchange that provides a glimpse of yesteryear. This, for example, appears in *Hansard* for 20 May 2025, in oral answers to questions posed to Government ministers, under the heading, '*Pension Savings: Investment Returns*':

> **Jim Shannon (Strangford) (DUP)**
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> *I want to ask about 18-year-olds, who are just starting off, being encouraged to take out a pension. Whenever I was 18, my mother took me down to see John Thompson, the pensions man in Ballywalter, and he said, "You're going to take a pension." I asked, "What for, Mum?" She said, "You're taking a pension." So I took the pension. Does the Minister agree that what everybody really needs is somebody like my mother to encourage them to take a pension?*
>
> **Torsten Bell (Pensions Minister and Treasury Secretary)**
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> *I did not know where that was going, but I know that I speak for everybody in the House when I say that the whole country needs someone like the hon. Gentleman's mother.*

AF doesn't want to quibble with the Pensions Minister's assessment, but is unsure quite where the actions of the pensions man from Ballywater and the honourable gentleman's mother would sit in relation to the FCA's advice-guidance boundary…