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Current issues

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Articles this month:

Phase two launch: Commission is a go

On the eve of the House of Commons' summer recess, the UK Government announced (with an unseasonal blizzard of publications) the formation of a new Pensions Commission, tasked with bringing forward proposals for improving outcomes for future pensioners. The Commission's inauguration fulfils the promise of a 'Phase Two' to the Pensions Review, focusing on adequacy of benefits. A review of State pensionable age (SPA) will operate alongside it.

Setting the scene

A sandcastle-shaped-bucket load of Department for Work and Pensions (DWP) research and statistical releases paved the way for the announcement:

- *Analysis of Automatic Enrolment saving levels*;
- *Planning and Preparing for Later Life 2024*;
- *Gender Pensions Gap in Private Pensions: 2020 to 2022*; and
- *Analysis of Future Pension Incomes 2025*.

In a nutshell, the analysis shows there are still large sections of the population under-saving for retirement.

Personnel

The Commissioners are Baroness Jeannie Drake, Sir Ian Cheshire, and Professor Nick Pearce. Baroness Drake was (before her elevation to the House of Lords) part of the Adair Turner-led Pensions Commission that in November 2005 recommended (amongst other things) the system of automatic enrolment. Sir Ian Cheshire's past business roles include Chief Executive Officer of Kingfisher PLC. Nick Pearce is Professor of Public Policy and Director of the Institute for Policy Research at the University of Bath.

The task at hand

The Commission's terms of reference charge it with the job of considering the long-term future of the UK's pensions system, including factors such as—

- the outcomes and risks for future pensioners, to 2050 and beyond;
- ways to improve those outcomes, especially for those at greatest risk of under-saving for retirement;
- the roles played by State and private pensions, and wider savings; and
- the challenges of an ageing population.

The Commission is expected to produce a final report, in 2027, making proposals for changes '*beyond the current Parliament*' (which could last until 2029). The goal is a mid-21st century pensions framework that '*delivers financial security in retirement*' whilst being '*strong, fair and sustainable.*'

SPA review

The Government has also announced a statutory review of the rules underlying SPA. For the purposes of each review, the Secretary of State for Work and Pensions is required to commission two reports: one from an independent reviewer, and the other from the Government Actuary (GA). The independent review for the recently announced review will be Dr Suzy Morrissey, who is Deputy Director of the Pensions Policy Institute, and manages its research programme and policy research and modelling teams. Her role is to advise on certain factors relevant to the review, as specified by the Secretary of State. Dr Morrissey's terms of reference accordingly instruct her to consider—

- the merit of linking SPA to life expectancy, with a view to intergenerational fairness;
- the sustainability of the State pension system; and
- other countries' usage of automatic SPA-adjustment mechanisms

She is tasked with advising the Government with advice on the factors that should inform its decisions on SPA, and their relative weights, with the injunction that they '*should be part of an enduring framework which underpins the… State pension system.*' She is to provide, amongst other things, impact assessments for different groups of people, age cohorts and regions, and report on the views of organisations and experts with an interest in the subject.

The GA's terms of reference instruct her to consider the implications of the current SPA rules for the proportion of people's adult lives that is spent in retirement. The GA is directed, in particular, to assess the provisions made for phasing in an increase to SPA 68, currently scheduled to occur between 2044 and 2046. The terms of reference require her to consider whether the current rules will mean that those reaching SPA from 2030 will spend (on average) 32%, 31% or 30% of their adult lives in retirement, and if not, how the rules might be changes to achieve those target proportions. (Actually, the working assumption is that SPA would increase if at any time the proportion spent in retirement is projected to come within 0.1 per cent of the target proportion in the following two years, so the targets would never be reached.)

The announcement of a Pensions Commission marks a pivotal moment, presenting a real opportunity to forge a sustainable pensions system. We would have preferred to see changes sooner—the Pensions Minister has been quoted as ruling out contribution rises in this Parliament—but recognise the political and economic realities. The SPA review might seem a little premature, given it was last reviewed in 2023, but honours the undertaking given by the previous Government, and makes sense given the importance of SPA to the sustainability of the State pension system.

IHT rethink reprieves administrators

His Majesty's Revenue and Customs (HMRC) has relented on plans to make pension scheme administrators responsible for the application of inheritance tax (IHT) to death benefits. Pension rights are still being brought within the ambit of IHT, but the primary role in the process will be played by the deceased member's personal representatives. There are details yet to be settled and kinks to be worked out of the proposals before they come into effect, on 6 April 2027.

Recap

Pension scheme rights are currently all-but-excluded from IHT calculations. When Rachel Reeves, in her first Budget as Chancellor of the Exchequer, announced in October 2024 that scheme members' residual funds and death benefits would form part of their estates for IHT purposes, the initial response was generally relief that the cash-strapped new Government was not proposing more-radical changes to pensions taxation. However, objections were soon raised over the plan to put scheme administrators in charge of reporting and paying the tax, and the range of death benefits that would seemingly be captured.

The Chancellor said that she was intent upon closing '*the loophole created by the previous government*', a reference to the money purchase 'pension freedoms' introduced in 2014/15 pension, but the IHT changes on which the Government consulted went much further, encompassing defined benefit lump sum death benefits—even those paid under discretion. The six-month deadline (no pun intended) for settling any IHT bill would not have sat well with the level of due diligence expected for the fiduciary decisions required under many schemes' rules.

Back to the drawing board

On 21 July 2025, as Parliament prepared to adjourn for its summer recess, HMRC announced the outcome of the October 2024 consultation exercise, and issued a policy paper. That was also 'L-Day' ('L' for 'legislation'), so it also published draft clauses (with an explanatory note) for next year's Finance Bill, designed to give effect to the changes. The Government still plans to expose most unused funds and death benefits to the IHT system, but has made significant concessions on the classes of benefits that are at risk and who will take the lead role in accounting for any tax due.

What counts?

The IHT changes will apply to '*relevant death benefits*', even if discretionary. Relevant death benefits encompass pension death benefits, lump sum death benefits and payments resulting from any guarantee that the balance of pension instalments due during a set period of retirement will be paid out if the member dies within that period. However, death-in-service benefits and dependants' pensions will not fall within a deceased member's estate for IHT purposes (nor will the survivor's element of a joint-life annuity, though that's for different reasons). The draft legislation defines a death-in-service benefit as a lump sum that is paid only on the death of a member who was still in active service under the scheme.

Who pays?

Liability for pensions IHT will fall primarily on the deceased member's personal representatives. The usual IHT rules, including the thresholds below which no tax is payable, and the exemption of assets inherited by spouses, civil partners, charities and registered clubs, will determine whether tax is in fact due. If the personal representatives cannot recover the IHT paid on a death benefit out of sums payable out of the estate to the same beneficiary, they will be able to recoup the tax from that beneficiary. There will also be an option for beneficiaries to require the scheme administrator pay the IHT due on a death benefit, but only when the tax is £4,000 or more; the scheme administrator will have discretion to pay lower amounts. Where payment of IHT is compulsory, the scheme administrator will have to comply within three weeks of receiving notification from the beneficiary. A statutory override will allow scheme administrators to pay the tax, which will be an authorized member payment.

Who does what, and when?

The HMRC policy paper includes an overview of the process for determining and paying any IHT due on death benefits. The stages may overlap at some points, but are broadly as follows (we have simplified them considerably):

- personal representatives contact the deceased member's scheme administrators to inform them about his or her death, and whether there is a surviving spouse or civil partner;
- the administrators tell the personal representatives, within four weeks, about the amounts of any death benefits payable (they might not know who the beneficiaries will be at this early stage, but can commence the necessary enquiries);
- once they have the necessary information about the estate, the personal representatives determine whether they need to submit an IHT account to HMRC and inform the scheme administrators, passing on the reference number if an account is necessary;
- on completion of the necessary investigations and deliberations, the scheme administrator tell the PRs and beneficiaries to whom death benefits will be paid, explaining to the beneficiaries that they share liability for any IHT due with the PRs, and the options for paying it;
- personal representatives liaise with beneficiaries to decide how any IHT due is to be paid.

There is provision for PRs or beneficiaries to obtain a refund of overpaid IHT. The draft legislation also recognizes the likelihood that beneficiaries will suffer double taxation, and will allow them to recover any income tax on the IHT paid.

Next steps

Comments on the draft legislation may be submitted until 15 September 2025. The HMRC policy paper says that it is working to refine the process, and will produce guidance for PRs, SAs and beneficiaries. There will be a further consultation exercise on changes to legislation to facilitate the necessary exchanges of information between the parties.

Scheme administrators will be relieved by the Government's decision to promote personal representatives to the position of prime responsibility. Although the addition of another 'scheme pays' *process will complicate matters a little at the pension-scheme end, it's a burden with which administrators have become familiar over the years. However, the six-month deadline for settlement of tax is still likely to create strains, even if it's personal representatives who are in the firing line for late-payment interest. The identity of the death-benefit recipients will determine whether tax is due or not, so PRs will want scheme administrators with death-benefit discretions to finish their investigations and deliberations as quickly as possible. That sort of pressure (and potentially the IHT exemption for transfers to, for example, spouses) will have to be resisted where it conflicts with fiduciary responsibilities.*

Targeting support at the advice–guidance boundary

The Financial Conduct Authority (FCA) published proposals for '*targeted support*', a form of regulated financial activity that would be available to help with pensions and retail-investment decisions. The consultation paper also includes the FCA's '*early thinking and direction of travel*' on '*simplified advice*' (a personalized recommendation, but based on lower-level investigation of the client's needs and circumstances than is typically required for regulated financial advice), and clarification of the advice–guidance boundary.

Targeted support

Targeted support would occupy the space between unregulated guidance and comprehensive advice.[1] It would allow an advisory firm to tell a client that a particular pensions or retail investment solution or product has been designed to meet the needs of those in similar circumstances to the customer.

The FCA says that someone with permission to give targeted support could suggest that a client change their contribution rate, access pension savings in a particular way, reduce an unsustainable drawdown rate, or change their investment fund—all of which interventions could currently be made only by those with permission to advise on investments.

A provider of targeted support wouldn't be able to advise that a customer give up safeguarded rights (broadly, defined benefits or money-purchase rights subject to guarantees), or suggest that clients consolidate pensions from or into a particular product. Nor would they be allowed to recommend a particular, named annuity, or to provide annuity quotes; they would be permitted to suggest that customers consider certain annuity *features*, such as indexation or death benefits, that might suit their needs (in which case they would have to direct them towards MoneyHelper's annuities comparison tool and allow sufficient time for them to access it before any follow-up contact).

The FCA asks whether pension scheme trustees might want to make something like targeted support available to members, and how they might go about it (e.g. by partnering with an FCA-authorized firm), and requests examples of the sorts of things they would want to support them to do. The FCA notes the existence of clauses in the Pension Schemes Bill that would oblige occupational pension scheme trustees and contract-based pension providers to offer default pension benefit solutions, aimed at those who are unwilling or unable to take financial advice.

Simplified advice & the boundary between advice and guidance

In the same consultation paper, the FCA announces that it has decided not to establish simplified advice as a separate regulated-advice category with its own rules. Instead, it plans to review and revise the existing conduct-of-business rules and guidance to better explain the flexibility that advisers have to provide more narrowly focused, cost-effective advice.

It also proposes to bring together and streamline various historical policy statements on the advice–guidance boundary, so that advisers can have more confidence that they can support customers without inadvertently crossing the line into the provision of financial advice.

Legislative framework

His Majesty's Treasury subsequently published a policy note on the amendments that it intends to make to the Regulated Activities Order to enable targeted support, along with a draft version of the statutory instrument. It would establish targeted support as a regulated activity, and distinguish it from the activity of '*advising on investments*'.

Under the proposed definition, targeted support would take place when the provider groups a person with others who share characteristics or circumstances (or both), and then makes a recommendation that isn't specific to the person, nor based on comprehensive investigation of their circumstances, but instead involves an investment or action that's presented as being suitable for the members of that group.

Next steps

Comments on the FCA's proposals and the Treasury's draft Amendment Order can be submitted until 29 August 2025. The FCA expects to consult later in 2025 on consequential changes to its Handbook, and hopes to confirm its policy on targeted support by the end of the year.

Targeted support could cut through the noise to help money purchase pension scheme members know how much to save, and how they might want to take their benefits in later life. The FCA's questions on how trustees might respond are especially welcome, with default pension benefit solutions seemingly imminent. The decumulation part of the puzzle for trust-based schemes is particularly troublesome, and would benefit from a more uniform regulatory approach by the Pensions Regulator and FCA.

The data, technology, communication, and engagement techniques needed to make this work at scale are ready to go. Easing the regulatory regime can unlock the gates to the type of support needed by those workplace pension scheme members not currently accessing financial advice.

Annual report season

The Pensions Regulator, Pensions Ombudsman and Pension Protection Fund (PPF) have published their annual reports for 2024/25.

Pensions Regulator

The Pensions Regulator's annual report says that it successfully met the majority of its corporate priority outcomes, narrowly missing its target in three cases and by a significant margin in the area of cyber risks and technology in the pensions sector (though no detail is provided as to what caused the target to be missed).

An update on the Regulator's three-year corporate plan has also been published, with focal points this year including good governance, productive investment, and making the best use of technology.

Pensions Ombudsman

The Pensions Ombudsman's annual report shows a significant increase in productivity and demand. The Ombudsman resolved a record 9,435 pension complaints, a 42% increase from the previous year, despite an increase in new cases of 39% over the year, and its historical backlog.

The implementation of an Operating Model Review (OMR) programme (which aims to improve efficiencies by, among other things, requiring scheme internal dispute resolution procedures to be exhausted before complaints are brought and by using expedited determinations) played a crucial role in these achievements. Though the report notes that there is still work to be done to reduce waiting times for complainants. The report underscores the Ombudsman's commitment to improving service delivery and outlines strategic plans for the next three years.

The Ombudsman notes that it only met half of its 14 key performance indicators this year—likely due to the continuing increase in demand for its services.

Pension Protection Fund

In its annual report, the PPF reports strong financial performance as the organisation marks its 20th anniversary. At the end of March 2025, the PPF had assets under management of £31.2 billion and total liabilities of £17 billion. The report notes that the PPF's growth portfolio delivered a 6% return, increasing its reserves from £13 billion to £14 billion. The PPF also set its lowest ever levy at £45 million for the year 2025/26.

Dashboards update

Gaining traction

The Pensions Dashboards Programme has announced the '*technical connection*' of the State pension—plus '*Hundreds of pensions providers and schemes and 20 million pension records*'—to the dashboards system.

The Money and Pensions Service (MaPS) also:

- Sets out the approach to consumer testing the state-provided MaPS dashboard, stating that testing is due to start from this summer.
- Reiterated the Government's intention to allow private organisations to build and operate their own dashboards – but with priority being given right now to launching the MaPS dashboard.
- Confirmed that the Department for Work and Pensions will give six months' notice before the launch of the MaPS dashboard.

Voluntary connection

The Pensions Dashboards Programme (PDP) has published a blog and guidance on voluntary connection (by schemes with 2–99 members), in advance of accepting applications.

The guidance is for those schemes who are not required to connect with the pensions dashboard system, but can choose to do so. It sets out what voluntary connection involves, who can apply and how it might benefit schemes.

The PDP is also seeking industry feedback on voluntary connection to help inform the application process and its timeframe and asks those interested to read the guidance and complete a feedback form.

PPF admin levy—back after break

Following a two-year break, the Pensions Regulator (on behalf of the Secretary of State for Work and Pensions) has started invoicing schemes eligible for the Pension Protection Fund (PPF) for the PPF administration levy. The levy recoups any Government grants to the PPF Board to cover the expenses of running the PPF and Fraud Compensation Fund.

The administration levy was suspended for 2023/24 and 2024/25 because it had generated a surplus. An independent review of the PPF in 2022 found that the levy '*appears to be an unnecessary complication for both the PPF and its stakeholders*' and recommended its abolition, once the surplus in the fund was expended. The PPF has been in discussion with the Department for Work and Pensions with the aim of stopping the grants and becoming self-financing (in light of the healthy reserves in its main fund arising from the pension-protection levies and funds taken over from rescued schemes).

Although there was no announcement about resumption of the levy, there is some information on the Regulator's website which confirms that the administration levy surplus has now reduced and that, after a two-year hiatus, its collection was restarted from 1 April 2025.

Pensioner hardship recommendations

The House of Commons Work and Pensions Committee has published a report on *Pensioner Poverty: Challenges & Mitigations*. It recommends, amongst other things, that—

- the Government commit to reporting on the gender pensions gap at least every two years;
- Phase Two of the Pensions Review, dealing with pensions adequacy, should look at inequality between groups, and how to address it;
- the Department for Work and Pensions devotes more resources to processing pensions credit claims, and consider changes to the rules for that benefit;
- the Review should look at State pension adequacy, sustainability and fairness, working on the principle that it should provide the minimum needed for an acceptable standard of living; and
- the Government reports on the implications of increasing State pensionable age to 67, by income decile and protected characteristic, and the potential mitigations.

The Committee's report has been overtaken to some extent by the announcement of the new Pensions Commission, which will perform the role expected for the second phase of the Review.

HMRC newsletters: July 2025

Pension Schemes Newsletter 171, from His Majesty's Revenue and Customs, contains articles on—

- the Government's plans to bring pensions death benefits within the scope of inheritance tax, from 2027;
- the lifetime allowance look-up service that lets registered scheme administrators and practitioners check members' protections and enhancements, and which is moving across from Pension Schemes Online (PSO) to Managing Pension Schemes (MPS) later in the year;
- the passing of the deadline for relief-at-source scheme administrators' annual returns and declarations;
- the need for scheme administrator and practitioners to migrate from PSO to MPS to use certain online services (like the aforementioned lifetime allowance look-up service, once it transfers, and reporting wind ups); and
- the latest statistics on tax refunds associated with members' use of the money-purchase 'pensions flexibilities', and transfers to qualifying recognized overseas pension schemes.

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