

PENSIONS UPDATE

Introduction

In this Bulletin we are issuing a further update on pension issues that we feel members need to know about. You will see that some of these matters build on items that appeared in the January 2025 report (Reps Bulletin PEN/049/Jan2025¹)

The Pensions Schemes Bill

On 5th June 2025 the UK Government introduced into the House of Commons its Pension Schemes Bill.

In general, the Bill contains a wide range of measures that are intended to tackle specific issues in the pension system. It will also enable a move towards a system where fewer, but bigger pension funds will provide better value for members, and do more to support the UK economy.²

Specific aspects that we wish to highlight are:

- DC Value for Money: The Bill intends to introduce a value for money (VfM) framework for Defined Contribution (DC) schemes with the intention to set standards for charges, investments and service levels.

This is particularly important because many workers have

been (and continue to be) auto-enrolled into DC schemes.

Many of these people rely heavily on default arrangements, meaning that members do not make active decisions over who their pension provider is or how they invest their money. It is, therefore, vital that all members get good value from their pension provider without being required to make informed decisions.

- Default retirement options: Members in DC schemes are faced with a series of decisions when they come to retire which many, especially if they have not engaged with their scheme, can find complex and difficult to navigate when

¹ Available at: <https://www.tssa.org.uk/get-involved/reps-area/reps-bulletins>

² TUC Pension Schemes Bill Second Reading briefing to MPs.

all they may want is a regular retirement income.

For those workers in trust based DC schemes, the Pension Schemes Bill will introduce measures that require the scheme to provide a default option for members to convert their pension pot into a regular retirement income without requiring them to make active choices.

- Small Pot Consolidation: The Bill proposes to automatically consolidate members' small pension pots.

The effects of auto-enrolment has been to get many more people saving for their retirement, however, it has also led to a proliferation of small pots of pension savings, with as many as 20 million worth less than £10,000. The Department of Work and Pensions (DWP) has estimated that 12.1 million of these pots are valued at less than £1,000.

Many workers have multiple small pots and stand the real chance of losing access to at least one of them, denying an extra element of their retirement saving.

In recognition of this issue, the Government are proposing through the Bill to introduce a system of automatically consolidating pots of under £1,000 into one of a number of default consolidators.

- Scale and allocation: The Bill proposes to accelerate consolidation of DC pension schemes by requiring them to operate a default fund of at least £25bn by 2030. This is intended to help schemes to give better value for members through improved governance and economies of scale, and through investing in a wider range of assets.

The government expects this ability to invest in a wide range of assets to allow DC schemes to play a bigger role in spurring economic growth by allocating more to UK infrastructure and fast-growing areas of the economy.

- DB surplus sharing: Chapter 2 of the Bill includes measures to make it easier for trustees to agree to release pension surpluses to sponsoring employers in DB (Defined Benefit) schemes³, including a statutory override to allow all schemes to do this and a lowering of the funding threshold at which this can take place.

The reason behind these measures is to unlock the £160 billion of pension surpluses (calculated on a low dependency basis) locked in pension schemes

³ Like the Railways Pension Scheme and the TfL Pension Fund

so that it can be released to enhance economic investment.

There are some safeguards proposed and the regulations that are to be made under the Bill will set “prescribed conditions” that have to be met but those details are not yet available.

The TUC has expressed concern at this proposal because of the potential for a lack of member trustee oversight, especially where a single corporate trustee has replaced a board of trustees with the latter appointed by the sponsoring employer! Another reason is because DB scheme Valuations can reveal surpluses (as did the Railways Pension Scheme and TfL Pension Fund at their latest valuations) but they can also find deficits meaning that caution should be exercised in releasing surpluses.

Similarly, pensions are regarded as deferred wages and members have contributed to them which means they should get a chance to share in the surplus extraction, perhaps by improved benefits, including reversal of previous benefit cuts caused by a scheme deficit.

- Pension Protection Fund: Some TSSA members have seen their pension moved into the Pension Protection Fund (PPF) because their employer has become insolvent and does not have sufficient money to buy pension benefits from an insurance company. When this happens, the DB pension is transferred to the PPF.
All DB pension schemes pay a levy to the PPF to fund its operations.

The PPF has reached a surplus of £13 billion and the Bill before Parliament is changing the law to allow it the flexibility to reduce to zero the levy it charges on open schemes.

The trade unions are also calling for the law to be changed to so that the surplus can also be used to enhance PPF benefits. This is because members whose pension benefits are in the PPF find that:

- any accrual (build up) of pension benefits before April 1997 is not increased by annual indexation (inflationary increase) meaning the pension does not increase in value
- accrual after that date has restricted indexation (max 2.5%)
- members who have yet to claim their pension lose 10% when their pension goes into the PPF.

TUC research indicates 80,000 people are affected by the pre April 1997 issue alone, with a disproportionate number of women in that group.

Inheritance Tax (IHT) on death in service benefits

On 21st July 2025 HMRC published its response to the technical consultation on Inheritance Tax (IHT).

The consultation had suggested that death in service benefits would be considered as part of the probate assessment (for IHT) on a deceased person's estate. Currently, they are not considered.

Members may recall that this issue featured in TSSA's January Pensions Briefing and the good news is that the latest announcement from the HMRC confirms that:

"From 6 April 2027 all death in service benefits payable from registered pension schemes will be out of scope of Inheritance Tax, regardless of whether the scheme is discretionary or non-discretionary."⁴

Progress with Pensions Dashboard Programme

Members might like to know that the Pensions Dashboard Programme that we highlighted in the last Pensions Briefing is progressing steadily.

The Pensions Regulator (TPR) has recently published its Annual Dashboard Readiness Survey which found that 80% of schemes are on track to connect to the pension dashboard by or before their connect by date.

Information on the connection dates is based on the size of the scheme.⁵

The survey also found that one in four schemes hold some data in a non-digital form and half of schemes offering DB benefits do not hold recent DB value data for all members.

The Pension Dashboard Project is designed to go live on 31st October 2026 and is intended to mean that pension scheme members can have all of their pension information, including on the State Pension, in one place. It is also designed to help members track down pensions that they have contributed to in the past but lost track of.

Pension Commission re-established

The UK Labour Government has announced the re-establishment of the Pension Commission.

The Commission was previously in existence between 2002 and 2006 under the Blair Labour Government and led to the creation of the new State Pension in 2016 and the introduction of Auto Enrolment (AE) from 2012 that today means 22 million people are contributing to a workplace pension.

⁴ See: <https://www.gov.uk/government/consultations/inheritance-tax-on-pensions-liability-reporting-and-payment/outcome/inheritance-tax-on-pensions-liability-reporting-and-payment-summary-of-responses>

⁵ <https://www.gov.uk/government/publications/pensions-dashboards-guidance-on-connection-the-staged-timetable/pensions-dashboards-guidance-on-connection-the-staged-timetable>

The re-established Commission has been set terms of reference⁶ that will consider the long-term future of the UK pensions system, including looking at:

- outcomes and risks for future pensioners through to 2050 and beyond
- how to improve retirement outcomes, especially for those on the lowest incomes and at the greatest risk of poverty or undersaving
- the role of private pension provision and wider savings, building on the foundation of the State Pension, in delivering financial security in retirement and supporting those approaching retirement
- proposals for change beyond the current Parliament.

TSSA will be issuing a further briefing on the Pension Commission.

Pensions and Lifetime Savings Association rebranded

The Pensions and Lifetime Savings Association (PLSA) has been re-branded and, since 1st July 2025, is now known as Pensions UK.

Retirement Living Standards (RLS)

Pensions UK has updated its Retirement Living Standards' website.

Members thinking about, or actively planning for, retirement – whether that is forty years away or rushing towards you in the next few years – are recommended to take a look at the website.⁷

It suggests the sort of outgoings and income required in retirement based on research carried out by Loughborough University. Findings are presented as three lifestyle categories of retirement:

- Comfortable
- Moderate
- Minimum

Information for each category is based on either a single person living by themselves or a couple living together.

Pensions UK describes the RLS as indicative only and acknowledges that the figures presented do not include provision for payments of rent or mortgage. With that caveat in mind, it is a very useful tool that can lead members to think about the practical aspects of their retirement.

Reps' Action

Reps and requested to share this Bulletin with members.

⁶ <https://www.gov.uk/government/publications/pensions-commission-terms-of-reference/pensions-commission-terms-of-reference>

⁷ <https://www.retirementlivingstandards.org.uk/library/2025-rls-update>

Acknowledgements and further reading

In producing this Reps Bulletin, we wish to acknowledge the use of the online material that appears in the footnotes.