

Pension Schemes Act receives Royal Assent

Described as a “game changer” for the UK pensions landscape, the Pension Schemes Bill was designed to deliver better outcomes for pensions savers and to support the Government’s growth agenda. We explore whether the final Act lives up to these claims.

The term ‘game-changer’ shouldn’t be used lightly. In sporting terms, a common example relates to Dick Fosbury introducing a high jump technique that was head-first and backwards, which quite literally raised the bar and changed the sport. The Act certainly brings in significant structural changes for both DB and DC schemes, but are they going to change the future of the industry?

Surplus flexibilities

One of the most talked about aspects of the Act are the new surplus flexibilities for DB schemes. Historically, it has not generally been possible for surplus to be released other than on a wind-up. Indeed, until a few years ago the very concept of surplus was an unfamiliar one to many schemes. The Act introduces a power to modify scheme rules to enable surplus to be paid out on an ongoing basis. Further regulation is due shortly to clarify the threshold above which surplus can be released, currently expected to be at a low dependency level. With surplus release potentially benefiting scheme sponsors and members, the concept of running on and sharing surplus could be an attractive option. At the very least, it has changed strategic decision-making for schemes, opening up a number of potential pathways to consider. This arguably has changed the game, noting that the new surplus regime is not expected to come into force until 2027.

Investment mandation

In the DC space, the topic that has generated the most debate is investment mandation. This relates to the reserve power in the original draft that would allow the Government to set asset allocation targets for DC master trusts and group personal pension providers. The House of Lords rejected this proposal, arguing that forcing schemes to invest in specified asset classes could cut across trustees’ fiduciary duty, and undermine carefully constructed investment strategies. In the end the Act includes a diluted version of the original proposal, with limits and controls on the potential mandation. The idea of the Government dictating how schemes should invest would undoubtedly have been game-changing, but in its reined back form, the changes feel more like an evolution in line with the Mansion House Accord.

Key themes	DB	DC
Surplus flexibilities	✓	
Superfund framework	✓	
Scale requirements and mandation		✓*
Value for members		✓
Default retirement option		✓

* Specific large schemes only

DC landscape

As significant in the DC space are the new Value for Money framework and the requirement for schemes to offer default retirement options. These changes aim for better outcomes for members, with higher returns and greater support, especially at retirement. However, the changes make running a DC scheme more challenging, fitting with the Government’s ongoing push for consolidation into larger schemes where it believes that better outcomes can be delivered. Whether the Pensions Commission will seek to take these changes further in its efforts to tackle retirement adequacy remains to be seen, when it reports in 2027.

Overall, the Act certainly introduces several structural shifts in both the DB and DC landscapes, with trustees and employers facing key strategic decisions about the future of their schemes. However, with further regulations and guidance needed for many of the key provisions, this perhaps represents the pieces being set on the board, with the rules of the game yet to be completely finalised.

The Pension Schemes Act 2026 - In brief

After debate between the Commons and the Lords, particularly around the contentious issue of mandation, the Pension Schemes Act 2026 has now received Royal Assent. The key provisions of the Act are set out below.

Area	What does the Act introduce?
DB surplus extraction	Well-funded DB schemes will be able to release money back to employers and members subject to appropriate safeguards being in place. This surplus could be used to improve member outcomes, as well as providing a boost for scheme sponsors. The Act lays the power for the trustees to modify scheme rules to allow ongoing surplus release, but key details will follow shortly in further regulation, including the funding threshold above which surplus release will be permitted.
Superfunds	The Act establishes a provision for the regulation of DB superfunds, which offers an alternative endgame for schemes that are unable to buyout with an insurer, increasing the security of member benefits. A consultation on draft regulations is expected in the first half of 2026.
Pension Protected Fund (PPF)	The PPF has flexibility to decide whether to impose a levy each year, rather than the previous restrictions on how much the levy could vary by from year-to-year. The PPF has already acted on the likelihood that this flexibility would come into force, by not charging levies in 2025 or 2026. The Act also introduces provisions for increases to pre 1997 benefits paid by the PPF and Financial Assistance Scheme where the original scheme provided such increases.
Virgin Media fix	In broad terms, schemes now have the ability to retrospectively seek actuarial confirmation that historic benefit changes met the necessary standards. This is welcome news for schemes that were contracted-out on a salary related basis after 1997 who were concerned that the Virgin Media decision could have led to past scheme amendments being deemed void.
DC scale requirements	The Act introduces minimum asset size requirements for the main scale default arrangement of certain DC master trusts and group personal pension providers where used for auto-enrolment. Broadly these funds must hold at least £25bn by 2030 (or for those with £10bn by this date, they must have a credible transition plan to get to £25bn by 2035).
Value for Money (VFM) framework	The new VFM framework for most DC schemes will require assessment against comparator schemes in terms of investment performance, cost and service quality. There will be a standardised grading system with schemes not meeting the standards required to take action or even close and consolidate.
Default retirement option	Most workplace DC schemes must provide a default retirement solution to members from 2027 (for master trusts) and 2028 for other arrangements.
Mandation	The Act includes a reserve power to enable the Government to mandate that certain large DC schemes hold a prescribed percentage of certain assets in their default funds. This provision was hotly debated between the Commons and the Lords, ending up with limits imposed on the original proposed power. These include a 10% cap on the mandated allocation as well as the ability for schemes to request a suspension of the requirement if it's concluded likely not to be in members' interests.
Other	The Act also contains provisions for the reform of Local Government Pension Schemes and a framework for the automatic consolidation of small deferred DC pension pots is also introduced.

Find out more

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