

Pension Schemes Bill puts value under the spotlight



What you need to know

- The Pension Schemes Bill (the Bill) has been introduced before Parliament, setting out the necessary legislative framework for significant reforms to pension arrangements in the UK.
- Within the defined benefit (DB) sector, the Bill provides for well-funded schemes to access surplus, as well as creating a framework for the regulation of superfunds. It also removes some of the restrictions on the Pension Protection Fund (PPF) when setting levies.
- For defined contribution (DC) arrangements, the Bill introduces the Value for Money (VfM) framework and places a duty on trustees to implement guided retirement options. It also introduces automatic small pot consolidation, as well as further driving the consolidation of multi-employer DC funds by requiring a minimum level of assets.
- The Bill continues with some further miscellaneous provisions including further support for the rollout of pensions dashboards, re-establishing The Pensions Ombudsman (TPO) as a competent court, and permitting compensation schemes to pay terminally ill members at an earlier stage of their illness.
- The Bill is not expected to receive Royal Assent until mid-2026 at the earliest.



Actions you can take

- **Consider** whether accessing surplus is suitable for your scheme, in line with its long-term strategy
- **Review** DC pension arrangements and plan for the new Value for Money framework or consider consolidation options
- **Prepare** for the new DC guided retirement requirements by reviewing the current support trustees provide to their members and beginning to plan for the required changes
- **Continue to monitor** upcoming developments, including the start of the second phase of the Government's pensions review

The key announcements from the Pension Schemes Bill

	Item	Impact of change
DB	Release of surplus	More flexibility in release of surplus, potentially benefiting member and employers
	Superfunds	Statutory framework for superfunds offers protection to DB schemes where buy-out is not an option
	Flexibility for PPF levies	Enables the PPF Board to set its own levies without restrictions from legislation, which may save large costs for some schemes
	Pooling of assets	LGPS will consolidate assets into smaller number of pooled funds that will meet certain statutory requirements and improve economies of scale
DC	Megafunds	DC megafunds plan for multi-employer DC arrangements to have a minimum default fund size of £25bn to bring scale and cost savings
	Value for Money framework	Greater regulation on schemes focussing on adding value to members rather than focussing on costs
	Guided retirement options (decumulation)	Offers additional support for members at retirement via a default retirement benefit
	Small pot consolidation	Offers better value for money on small pension pots being consolidated into the member's largest pension pot

The finer detail: New announcements in more detail

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. There may be new alternatives for using surplus where the long-term objective of buyout may no longer be a priority for schemes. However, strategic and operational discipline will still be paramount for schemes.
Superfunds	The Bill establishes provision for the regulation of DB superfunds, which offer an alternative endgame for schemes that are unable to buyout with an insurer, increasing the security of member benefits.
Megafunds	The Bill seeks to progress the consolidation of DC default arrangements by requiring multi-employer DC schemes to hold a minimum level of assets of £25bn in their default arrangement by 2030 or be on the pathway to completion by 2035 for smaller schemes defined as having least £10bn in a single default arrangement.
Value for Money framework	This measure will implement a framework to assess and compare, and ultimately improve, the value delivered by all workplace DC schemes. Schemes will be required to publicly publish data and assess a range of metrics against industry benchmarks or comparator schemes and then determine whether the scheme is delivering on value for money.
Guided retirement options (decumulation)	Trustees will be required to implement guided retirement options within DC arrangements, ensuring that a default decumulation product is offered to members. Savers will still retain the freedom to make their own decisions, but the default option is aimed to provide an additional level of support for savers.
Small pot consolidation	Under proposed plans, small pension pots with a value of less than £1,000 will be automatically consolidated into providers acting as consolidator schemes, or the member can opt out of this. Small pots will be transferred to members' largest pots, with the intention of building scale and consolidating into a small number of larger, better value schemes, reducing inefficiencies in the current system. This will require operational changes for schemes.
Pension Protection Fund levies	The Bill makes provision to give more flexibility to the PPF when setting the annual conventional levy imposed for DB pension schemes. The new flexibilities will allow the PPF Board to reduce levies, potentially to zero if further PPF funding is not required.
Pensions dashboards	The Government continues to support the introduction of pensions dashboards which should provide savers with a summary of all their pensions savings. This will also include information that the PPF and Financial Assistance Scheme (FAS) holds on members to be displayed on a government-backed pensions dashboard service.
LGPS consolidation	The Bill creates an opportunity for LGPS to pool assets together which will include greater expertise, offer better value for money and greater resilience.
Virgin Media	Whilst not included in the Bill, the Government has also confirmed that legislation will be introduced to enable affected pension schemes to retrospectively obtain actuarial confirmation that historic benefit changes met the necessary requirements.

Find out more

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