Pension Schemes Bill 2025: what does it mean for you?

TLT For what comes next

Getting ready for what comes next

Designed both ‘to build scale in the pensions industry and stimulate UK investment’ and ‘to ensure better outcomes for savers’, the Pension Schemes Bill:

DB

DB Surplus

Relaxes surplus-extraction legislation, to allow trustees of well-funded DB schemes to release money back to employers and members, ‘when safe to do so’, potentially unlocking some of the £160bn surplus funds to be reinvested across the UK economy. Regulations and guidance will come into force by the end of 2027.

ACTION: Start thinking about how your scheme might approach the issue of surplus, and take steps towards ensuring your governance is up to date.

Trustees are placed front and centre of the refreshed legislation, and will need to take careful advice on many aspects. Read TPR’s latest guidance, and look out for further guidance in due course.

DB Superfunds

Legislates for an authorised DB Superfund framework, to encourage growth of the superfund market and ‘underpin the security of members' benefits’, and giving a further option for those schemes not funded to buyout level.

ACTION: Consider whether a Superfund might be right for your scheme, and review TPR’s guidance. Watch out for a consultation on Superfund regulations in 2026.

See overleaf for DC developments, and useful sources

Public Sector

LGPS pooling

Confirms requirements for Local Government Pension Scheme (LGPS) funds to accelerate the consolidation of assets and reduce the number of pools to six, by March 2026, ‘enabling investment in local areas, infrastructure, housing and clean energy’.

In addition, reforms to ‘enhance the governance framework’ of the LGPS will be enacted, including through triennial reviews.

ACTION: It’s a very tight timeframe for the LGPS, so authorities should take advice and steps as soon as possible.

Miscellaneous

PPF levy

Removes (from 2027) the restrictions that currently prevent the Board of the Pension Protection Fund (PPF) from reducing the annual levy it collects, when it is not required - without compromising its ability to raise more from the industry in future.

Dashboards

Allows data from the PPF and Financial Assistance Scheme (FAS) to be displayed on the government-backed pensions dashboard provided by the Money and Pensions Service.

ACTION: Ensure you are well underway with your own scheme’s progress toward dashboard-readiness.as the deadlines near.

Terminal Illness

Extends the definition of ‘terminal illness’ in PPF and FAS legislation, so that eligible members who are diagnosed as terminally ill can receive payments at an earlier stage of their illness.

Pensions Ombudsman

Re-establishes the legal standing of The Pensions Ombudsman (TPO) as a ‘competent court’, able to make enforceable determinations in overpayment recoupment cases without requiring a County Court order.

ACTION: Await updated guidance in due course; until then, TPO’s current guidance factsheet must be followed.

Get in touch with TLT’s Pensions team to discuss the implications for your schemes in more detail.

We will keep you informed of all further updates and publications, and would be happy to work with you on any advice or changes needed in relation to these developments. Please contact us for more details.

DC

DC ‘megafunds’

Requires multi-employer DC schemes (unless of an exempted type) used for automatic enrolment to have at least £25bn of assets in their main default arrangement by 2030 – or be working towards achieving that scale by 2035. The test will be applied at arrangement level (not across the whole scheme). Schemes are expected to take proactive steps to assess whether members should be moved into a larger default arrangement. The Bill includes measures to ease transfer of members and therefore consolidation.

Creation of new default arrangements will be restricted, and require regulatory approval.

ACTION: Taking steps towards the desired ‘fewer, bigger, better’ will require careful thought and planning on all sides. Speak to us for advice.

Value for Money Framework

Introduces a Value for Money (VfM) framework by 2028, to ‘enable a shift in focus from cost towards value’ and ‘protect savers from becoming stuck in underperforming arrangements’.

DC trustees and IGCs will be required to assess in detail, compare and disclose (including to members and employers) the value that their scheme provides. Where they are not providing VfM, they are expected to consolidate. The Bill contains an underpin to enable the government to tackle any remaining fragmentation in the future if required.

ACTION: Schemes should ensure they are aware of the push towards value, and prepared to act.

‘Guided’ retirement solutions

Requires DC schemes to offer ‘default pension benefit solutions’ at retirement, to simplify choices and to ensure members are supported in taking their pensions. Members will still be able to access the ‘pensions freedoms’, but must also be enrolled into default solution(s) – which could include CDC provision – which they can then take, or make their own choices. The rules are likely to apply from 2027 onwards.

ACTION: Consider how you will comply with this duty, taking into account your membership profile. Review any existing decumulation arrangements to ensure they are appropriate.

Small pots

Authorises providers to act as consolidator schemes, and will see small pots (worth £1,000 or less) consolidated into a smaller number of larger, better value, schemes, from 2030. Members’ dormant pots will be automatically transferred to their largest pot (unless trustees determine this is not in a member’s best interests).

Understanding the options, and communicating with members, will be key.

Mandating UK investment?

Grabbing many headlines, while the government concluded that it was not necessary currently, it has included a reserve power in the Bill ‘to set binding asset allocation targets’ for certain schemes (with safeguards, and only to be exercised following ‘thorough assessment’).

Although any requirements imposed under the power ‘would be consistent with the principles of fiduciary duty’, such a move would mark a significant shift.

ACTION: One to keep a very careful eye on…

What next?

- As the ‘roadmap’ (link below) sets out, most of the reforms will not come into force for some years – with Royal Assent for the Bill itself only expected in 2026.
- But with much to consider, trustees and employers need to start planning and developing their own ‘roadmap’ in terms of the changes likely to affect them, and new opportunities they may be able to take advantage of.
- Schemes should keep an eye on developments, including the further underlying regulations, consultations and guidance due.
- It’s a long road ahead, and schemes will need resource, good governance, and advice.
- And that’s not all:
  - Phase 2 of the Pensions Review, which will look at retirement adequacy, is now due be launched imminently
  - TPR has announced that it will launch a ‘new strategy to drive up standards of trusteeship’, working with industry ‘to bring trusteeship into line with other professions and corporate governance standards’ (while ‘maintaining a representation of member voice, and, crucially, preserving the unique powers of fiduciary duty’)

  Watch this space…

Useful sources

- The Pension Schemes Bill
- Workplace pensions: a roadmap

Consultation responses:

- Pensions Investment Review: Final Report
- DC- Pensions Investment Review: Unlocking the UK pensions market for growth
- Options for Defined Benefit schemes