STEPHENSON HARWOOD

PENSIONS QUARTERLY UPDATE

August 2026

IN THIS QUARTERLY UPDATE WE COVER...

IHT AND PENSIONS - INFORMATION SHARING

We recently sent out an update about how scheme administrators' provision of information duties will change as a result of the April 2027 changes which will bring some pension scheme death benefits into scope for inheritance tax (**IHT**) for the first time.

Paying the right amount of IHT on the right pension benefits at the right time will require a smooth exchange of information between personal representatives (**PRs**) and pension scheme administrators (**PSAs**).

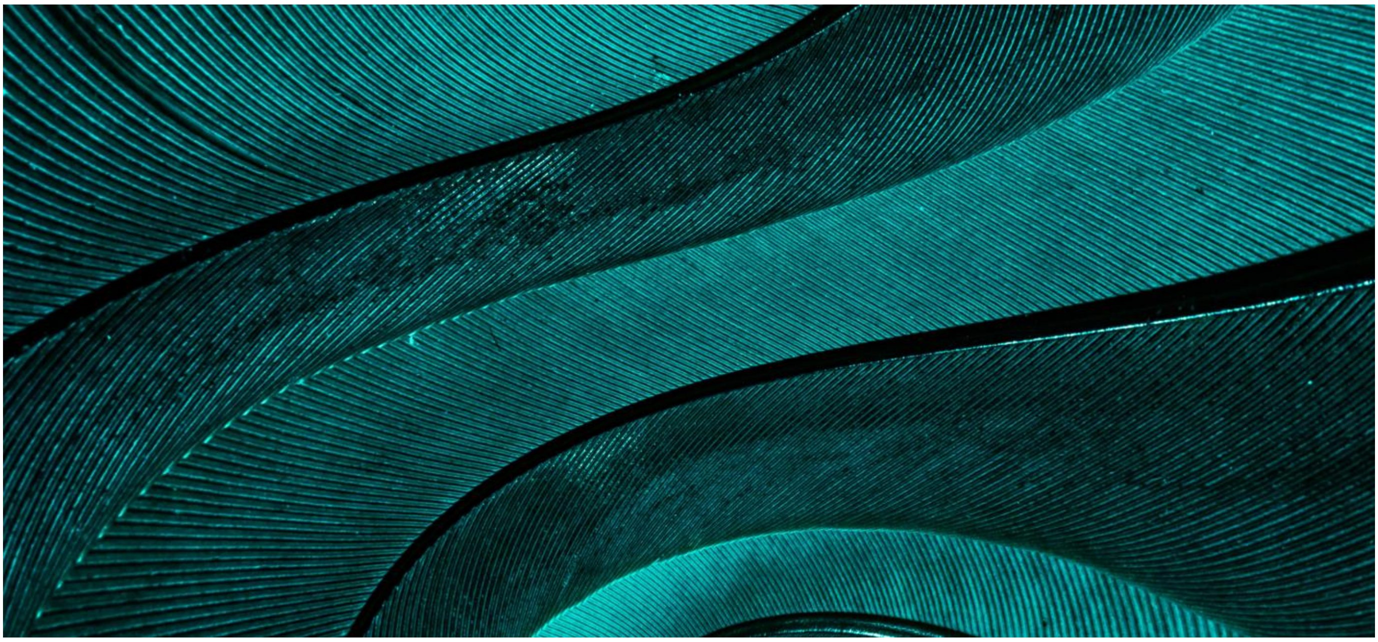
New Regulations, amending the 2006 Provision of Information Regulations include requirements for:

+ PSAs to tell PRs about the death benefits due from a pension scheme, the value of those benefits and who they will be paid to
+ various pieces of information to be provided by PSAs to PRs or beneficiaries where a withholding notice has been issued and accepted, and
+ PSAs to notify PRs and beneficiaries when IHT (and interest too if applicable) has been paid on their behalf.

Some concerns about the legislation have been addressed but other concerns about possible operational challenges remain - not least, the substantial amount of back-and-forth communication which will make it hard to meet the six-month deadline for paying any IHT due.

Concerns have also been raised about the Spring 2027 timeline for issuing guidance, particularly since various measures will need to be taken by PSAs and trustees for the requirements to work in practice.

For now, we are recommending to all clients that they start with a full audit of the death benefits payable from their schemes with a view to understanding which benefits will be excluded from IHT and which will be in scope. From that understanding, trustees can then update their governance and scheme administration processes, ensure trustees and administrators have received the necessary training to understand and comply with the new obligations, engage meaningfully with their administrators on changes required at an administration level, and review and amend their member communications.



SURPLUS PAYMENTS TO MEMBERS

The DWP has published a policy paper seeking views on draft Finance Bill wording concerning the ability of schemes to make surplus payments to members (available from April 2027).

The Bill contemplates surplus being paid to members who have reached Normal Pension Age or are in ill health immediately before the payment, or to their surviving dependants.

Currently, surplus payments to members do not feature on the list of authorised member payments under the Finance Act 2004. The proposed amendments therefore add '*authorised member surplus payments*' to that list, along with details of the requirements for the payment to qualify as authorised.

Those requirements are that:

+ the decision to distribute the scheme surplus is made by the trustees,
+ the scheme is an occupational pension scheme, not in wind-up, and
+ the payment would have been an authorised employer surplus payment if the employer (rather than the member) had had the right to receive it.

Regarding the last bullet point, the Government expects trustees who meet the new conditions for paying surplus to the employer (again, operational from April 2027) to consider how members might also benefit from any surplus release*.

The forthcoming surplus extraction flexibilities were a key factor in the Stagecoach/Aberdeen deal and are likely to be highly influential in future pension innovation involving the commercial run-on of DB schemes. A consultation on detailed Pensions Regulator surplus release guidance is expected in late autumn.

*(as outlined in their recent consultation on employer surplus payments)

DWP policy paper on scheme surplus payments to members (closing 7 September)

VALUE FOR MONEY CONSULTATION

The Government is consulting on its plans to require DC schemes (including the DC elements of hybrid schemes) to assess and publish their Value for Money status every year.

The proposals anticipate that the requirements will apply to different types of scheme on a phased basis. Master Trusts (non-bespoke), single employer trusts with at least 50,000 members, and contract based (non-bespoke) multi-employer arrangements open to new employers are facing full publication obligations in 2028. Other in-scope arrangements would need to submit data initially to the regulators alone, with full publication obligations kicking in from 2029. CDC schemes will (initially) be exempt (along with executive plans, SSASs, and AVCs).

It is proposed that there will be a traffic light approach, under which DC schemes will be required to compare themselves against a benchmark (set by the Pensions Regulator). Schemes will be assessed on their investment performance, costs and charges, and quality of service. The scheme's asset allocation will also have to be disclosed.

Quality of service data will relate to record-keeping accuracy, promptness of core financial transactions, complaints, and member engagement (ie, the percentage of members who have nominated a beneficiary as at 31 December of the VFM period).

Ratings will range from red (for poor value) to dark green (outperforming on value). There are numerous references in the consultation, however, to schemes' ability to contextualise their performance when deciding on their rating. If the Pensions Regulator thinks that the rating is wrong, it can issue a directions notice to replace it.

Under the draft regulations, trustees will need to upload the VFM report to the Pensions Regulator's database by 31 October following the end of the VFM period, publish a link to it on the scheme's website on the same date, and tell TPR about the report's publication. They will also have to send out VFM satisfaction surveys to members as and when TPR directs them to.

There are a number of actions that trustees will need to take if the scheme is rated amber or red, such as considering whether members would be better off (in terms of VFM) if they were to be transferred out (in the case of red schemes, TPR would have the final say on this), and ensuring that no new employers join the scheme. Red scheme trustees will also be able to tell the employer about any actions they think it should take.

TPR will be able to issue compliance notices, as well as penalty notices where the compliance notice hasn't been followed, or where a VFM provision has been contravened. The maximum penalty will be £100,000, or £10,000 for an individual.

The DWP plans to publish its response and final regulations by January 2027. TPR expects to consult on a Code of Practice in the first half of 2027.

Trustees should assess the extent to which their administration agreements require updating in light of VFM obligations, to ensure that the administrator keeps them informed of the scheme's performance against the various VFM metrics so that the trustees can create and publish their VFM reports.

Trustees may also wish to consider whether any actions can be taken now to improve potential gaps on the quality of service front (such as making sure as many members as possible have nominated a beneficiary, dealing with complaints swiftly, and checking record-keeping standards).

The Value for Money Framework: Consultation (closing 15 September)

PENSIONS REGULATOR TO EMAIL DC TRUSTEES

DC scheme trustees should expect to hear from the Pensions Regulator (**TPR**) about various Pension Schemes Act 2026 requirements. TPR has published a blog post announcing its intention to email trustees regularly about preparing for the new requirements, chiefly:

+ comparing performance against the market annually (Value For Money),
+ providing a default decumulation pathway (Guided Retirement),
+ DC Master Trusts and GPPs holding at least £25bn from 2030, with a transition pathway for schemes that need longer (Scale policy), and
+ auto enrolment schemes facilitating transfers of pots worth £1,000 or less (after 12 months without contributions) to an authorised consolidator.

To read more about the first three of these developments, please see page 5 of this update and below.

The post includes a link to a new TPR Pension Schemes Act 2026 web page (covering both DC and DB schemes), which may prove useful if updated as promised. The web page promises further clarification on implementation timings, expected shortly. We will keep a watching brief on that page, which currently says that TPR plans to consult on detailed surplus release guidance in late autumn 2026.

PASA DASHBOARDS GUIDANCE

The final Dashboard connection deadline for schemes is 31 October 2026. The Government-backed first Dashboard (MoneyHelper) is expected to launch in the 2027/28 financial year, and the Government plans to give the pensions industry 6 months' notice ahead of the launch date.

PASA has issued guidance on how to monitor compliance with the Dashboards requirements. The aim is to encourage early engagement between those involved in the various processes, namely:

+ trustees, public service scheme managers, and FCA regulated service providers, (described as Duty Holders),
+ scheme administrators, and
+ connection providers.

The four key legal duties are:

1. Connect to the Dashboard,
2. Match savers to pensions after receiving a Find Request,
3. Provide information in response to a View Request, and
4. Comply with MaPS requirements and standards, and maintain Dashboard connection.

PASA points out that the legislation was made before the Dashboards ecosystem was completed, leaving trustees with the prospect of having to exercise judgement when assessing operational impact, materiality, and breach reporting obligations. PASA also asks "Are you meeting the fundamental requirements and the spirit of the legislation?" As with every major set of obligations there are going to be some grey areas where a tick-box approach won't be enough.

Compliance reporting will be the responsibility of trustees, so Dashboard duties will no doubt feature as a running item for each trustee meeting agenda. Beyond the operational reporting, there is also the legislative requirement to monitor contact from members in the shape of queries, feedback, or complaints.

The guidance covers in some detail the practical repercussions of the legislative requirement that pension values data should be based on either a statement provided to the member in the last 13 months, or a calculation performed in the last 12 months. We're assisting our clients with considering questions such as what constitutes a statement, and does the clock start ticking when it was posted (paper), or when made available online, or when the member was told it was available online?

On a general note, PASA acknowledges that other approaches to compliance monitoring could be used (although the Pensions Regulator lends a certain amount of weight to PASA guidance by cross referring to it in its own guidance on Dashboards).

LIMITATIONS ON THE USE OF FLEXIBLE APPORTIONMENT ARRANGEMENTS?

A Flexible Apportionment Arrangement (**FAA**) is a legal mechanism to transfer pension scheme liabilities from one employer to another. It is frequently deployed during corporate restructurings but has also been used recently in more novel ways.

Pensions Minister Torsten Bell has announced that a consultation on FAAs will be launched in due course. The Statement focuses on last December's unusual use of the FAA legislation whereby an asset manager (an entity that was not otherwise connected to the scheme or its employers) took on the liabilities and assets of the Stagecoach scheme. We expect the intended scope of changes will be wide enough to limit any other unanticipated use of the FAA route.

In the meantime, the Pensions Regulator is considering an interim approach to transactions involving FAAs that present similar characteristics to the Stagecoach transaction. TPR's blog post (about the evolution of DB scheme endgame solutions) repeatedly asserts its support for innovation, while pointing out that trustees, employers, and their advisers are expected to engage with TPR "early to clearly define how any proposal under consideration delivers a good outcome for members".

GUIDED RETIREMENT

Scheme administrators will need to implement Guided Retirement requirements in 2028 (or in 2027 if their scheme is a Master Trust). Guided Retirement involves offering members a default pension for money purchase benefits, the aim being to reduce the risks and complexity currently faced by members when making decisions at retirement.

The DWP has now published its Principles for Guided Retirement, following up on the requirements set out in the Pension Schemes Act 2026.

The DWP's message is that the design flexibility of Guided Retirement is an inherent bonus - for example, schemes may decide to deal with longevity risk by adopting different phases for provision, such as flex then fix. Equally, the Principles also refer to members' freedom to reject their scheme's default pension offering.

Where a default pension includes different phases then members would have to be kept informed of the points at which their ability to make a different choice would become restricted "*but schemes will not be expected to seek consent multiple times*".

The Guided Retirement requirements will impose a significant layer of administrative challenge for DC schemes, not least in relation to member communications.

While the DWP paper extols the virtues of design flexibility, schemes planning to adopt a complex approach to Guided Retirement will need to be sure that their design will work in practice and is communicated as clearly as possible.

DWP Guided Retirement Principles

NEW VAT GUIDANCE

Historically, HMRC's policy was that employers could recover input tax they incurred on costs relating to the administration of occupational pension schemes, but not those in relation to the asset management of investments made by the scheme.

What happened last year

HMRC simplified the VAT rules for pension investment costs in June 2025 so that, (subject to the normal deduction rules):

+ employers have been able to treat VAT incurred on occupational pension scheme investment management services as their own input tax provided the employer can show it contracted for and paid for the services, and
+ trustees providing fund management services to the employer and charging for that can deduct input VAT in relation to those services if the trustees are VAT-registered.

Our update published at that time suggested actions that trustees and employers could take, including to: review current arrangements, check Partial Exemption Special Methods, and consider whether to reclaim VAT on historic costs in the last 4 years.

What the new HMRC guidance says

One year on from last year's VAT change, HMRC has issued revised guidance.

The new guidance is clear that input tax incurred by an employer on services provided in relation to a funded occupational pension scheme will be the employer's input tax and recoverable in full, regardless of whether the costs incurred relate to administration or investment services.

However, the guidance outlines just two routes for an employer to evidence that it incurred the costs of running the scheme:

1. where the employer contracts directly with the service provider and invoices for services are issued to the employer directly and paid by the employer, or
2. where the trustees contract with the service provider and incur all of the costs, if the Trustees are VAT-registered they can raise a taxable charge to the employer for managing the scheme, thereby providing the employer with a valid invoice, or the trustees and employer can rely on "VAT grouping".

The new guidance blurs the previously clear distinction in VAT treatment between scheme administration and investment management costs. Further, HMRC's historic approach to administration services was that the employer could seek to reclaim VAT if it received the tax invoice, even if the trustees settled the invoice (under the old VIT44700). Last year's announcement did not alter that approach, but the revised guidance does not appear to contemplate that scenario and indicates that HMRC will no longer accept VAT reclaims in that situation.

Unhelpfully, although HMRC has altered its internal guidance on this point, the external guidance to employers remains (see VAT Notice 700/17) which clearly permits VAT recovery on administration expenses incurred by trustees. We anticipate HMRC will resolve this inconsistency and in doing so we'll get clarification on whether removal of this concession was intended.

In the meantime, we can help trustees and employers establish whether the particular arrangements in play for their scheme will still facilitate VAT recovery if the new guidance remains as drafted, and if not what can be done about it.

VIT44600 onwards - HMRC internal manual

GENERAL LEVY CONSULTATION

The DWP plans to increase the General Levy rates from April 2027 until March 2030. The Levy covers the Pensions Ombudsman, the Pensions Regulator, and the pensions functions of MaPS.

The aim is to equalise, on a gradual basis, rates paid by DC, Master Trust, and personal pension schemes with those paid by DB and hybrid schemes.

The proposed baseline increases mean annual increases of:

+ 5% for DB and hybrid schemes,
+ 6.2% for DC schemes, and
+ 9% for Master Trusts and personal pension schemes.

In addition, there would be "*modest and predictable annual increases*".

DWP's consultation explains that the levy needs to raise more money because of the regulatory costs that will accompany reforms in the Pension Schemes Act 2026 and the expansion of Collective Defined Contribution schemes.

The structure of the levy was changed in 2021 by introducing 4 separate rate categories for DB and hybrid schemes, DC schemes, Master Trusts, and personal pension schemes. The DWP has used this year's consultation to announce its intention to "*undertake a broader review of the levy over the coming years*". It would appear that changes to the levy rates could not be held off until the outcome of such a review.

The Occupational and Personal Pension Schemes (General Levy) Regulations review 2026 (closing 8 September)

£25BN BY 2030 - DISCUSSION PAPER

The DWP has issued a discussion paper on the Pension Schemes Act 2026 scale requirements, which will apply to authorised Master Trusts and GPPs used for auto enrolment obligations.

Affected schemes must have at least £25bn in a single main scale default arrangement by April 2030, with a transition pathway for schemes of £10bn if they are on track to meet the £25bn requirement by 2035. Affected schemes which don't comply will not be allowed to receive any further auto enrolment contributions.

The DWP's discussion paper covers the following:

+ **The Main Scale Default Arrangement (MSDA)** – The DWP thinks that schemes have too many default arrangements and expects auto enrolment contributions to be invested in the MSDA, unless there is a reason to use a different default arrangement.
+ **The Common Investment Strategy** – The DWP wants the assets within an MSDA to be invested in a sufficiently common way, by allocating assets relating to each member in the same proportion to the same investments. Lifestyling would be allowed, however, as member contributions could be invested in different proportions because of age.
+ **Connected schemes sharing a MSDA** – The Act allows connected schemes to share an MSDA if they use the same Common Investment Strategy and are "*connected*" (to be defined in regulations). The DWP's paper anticipates that schemes will be connected if they are operated by providers sitting in the same corporate group.

The DWP also plans to review all existing non-scale default arrangements in 2029. It is keen to reduce the number of default arrangements in schemes affected by the scale requirements, for efficiency reasons. Presumably, the DWP will take a similar approach in relation to non-scale schemes.

Discussion paper on key elements of the Scale Policy (closing 7 September)

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TERMINAL ILLNESS AND PENSIONS REVIEW

The Government plans to look into the current requirements for accessing private pension savings where an individual has a terminal illness. It is concerned about individuals experiencing varying hurdles to access depending on their scheme and wants to ensure a "fair and compassionate approach". The Government plans to examine access options across schemes and consider any necessary changes to enable "appropriate access while safeguarding against the risk of financial hardship later in life".

Current legislation on serious ill-health lump sums is based around a life expectancy of less than 12 months. The Lords debate acknowledged the fact that modern medicine may enable people to live with a terminal illness for many years without the ability to access their pensions savings. We may therefore see future changes to address the rigidity of the current life expectancy requirement.

Pension Access Rules: Impact on Terminally Ill - Hansard

DATES FOR YOUR DIARY:

2026 (NO SPECIFIC DATES KNOWN YET)	The Verity judgment
LATE AUTUMN 2026	Surplus extraction guidance consultation expected from the Pensions Regulator
FIRST HALF 2027	VFM Code of Practice consultation expected from the Pensions Regulator
SPRING 2027	HMRC guidance on IHT and pensions change
FROM APRIL 2027	Surplus extraction legislation and guidance expected to be in force
BY 6 APRIL 2029	HMRC guidance on salary sacrifice changes

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