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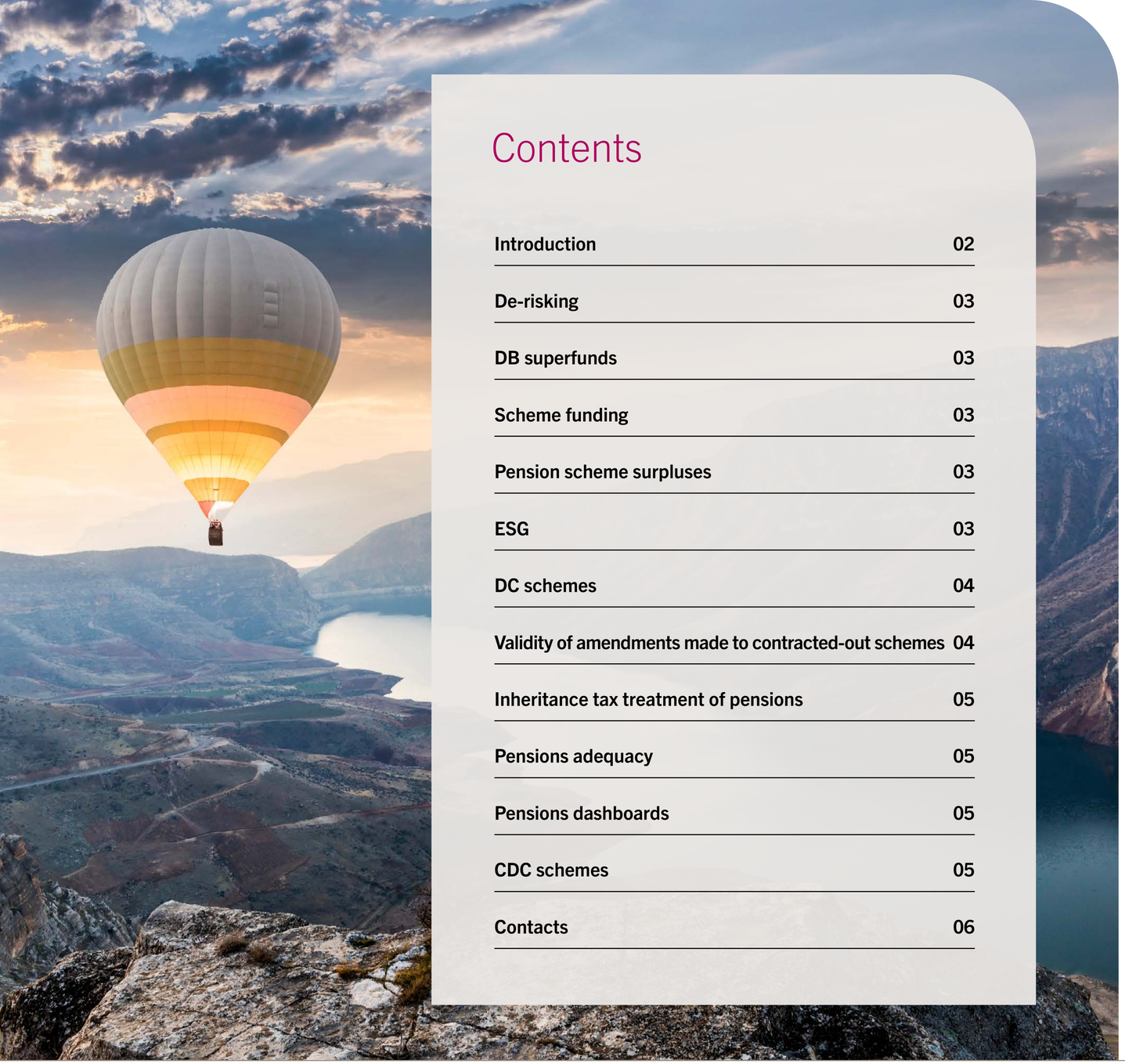
Pensions Legal Outlook 2025





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Introduction

In our Pensions Legal Outlook, we predict the key issues for occupational pension scheme trustees and sponsoring employers in 2025.

Following the change of Government in 2024, there has been a small but noticeable shift in the direction of pensions policy, although many of the broad themes remain the same as last year. Consolidation, increasing investment in UK markets and improving pension outcomes top the Government agenda and will therefore be areas of focus for pension scheme trustees and employers as well. Other developments looming large next year include the new DB scheme funding regime, the coming of age of pensions dashboards and future inheritance tax changes.

De-risking

2024 was another busy year for de-risking transactions and, whilst not as busy as some predicted, it still shows a buoyant market for buy-ins and buy-outs. New entrants entered the market in 2024 with more expected in 2025. Trustees and employers should continue to be well prepared ahead of approaching the busy market, including preparing the benefit specification early on and liaising with the scheme administrator on their needs for any transaction.

DB superfunds

The Government has confirmed that the Pension Schemes Bill, expected to be published in 2025, will include a legislative framework for the regulation of defined benefit (DB) "superfund" consolidation schemes. In the meantime, the Pensions Regulator has established an interim process for assessing DB superfunds. However, to date, only one DB superfund (Clara-Pensions) has been assessed by the Regulator as meeting its expectations and only two schemes have transferred into a superfund. Once a legislative framework is in place, we expect that more trustees and employers will give serious consideration to superfunds as a long-term objective.

Scheme funding

The new scheme funding regime finally came into force on 6 April 2024 and applies to actuarial valuations with effective dates on or after 22 September 2024. The first tranche of schemes with valuations under the new regime will therefore need to get up to speed on the details in 2025. In a nutshell, the new regime requires schemes to target full funding on a low dependency funding basis by the time they are significantly mature. Trustees will have to set out their strategy for achieving this in a "funding and investment strategy" and report this to the Regulator (together with lots of detailed information) in a "statement of strategy".

Pension scheme surpluses

As funding levels across the UK's DB pension schemes improve, with many schemes now in surplus, trustees and employers are increasingly likely to face decisions on how to manage surpluses. Indeed, running on the scheme may now be a more attractive option for some. The previous government consulted on proposals aimed at making it easier for trustees to make payments from surplus to sponsoring employers and scheme members. It also explored the design of, and eligibility for entry into, a public sector consolidator. It remains to be seen whether this will be taken forward by the new government, but trustees and employers should watch this space.

ESG

ESG remains a hot topic for trustees. While in-scope schemes will now be familiar with the requirement to align their governance processes and disclosures with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, the Regulator has been keen to emphasise that trustees should go beyond minimum compliance and seek continuous improvement. The Regulator has also recommended that trustees should familiarise themselves with wider ESG developments, such as the UK Transition Plan Taskforce (TPT), the Taskforce on Nature-related Financial Disclosures (TNFD) and the Taskforce for Social Factors (TFS). Further mandatory requirements are likely in due course, with the Labour manifesto promising that UK-regulated financial institutions (including pension funds) will be required to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement. We await an announcement on how and when such a requirement will be implemented.





DC schemes

The Government is consulting on proposals for fundamental changes to the defined contribution (DC) pension scheme market. Most significantly, the Government is planning to legislate for a maximum number and minimum size of DC default funds for authorised master trusts and contract-based workplace pension schemes used for auto-enrolment. The aim is to accelerate a shift to fewer, larger funds in each arrangement and therefore the overall DC market. The Government is also considering imposing new duties on employers in relation to scheme selection and outcomes for members. Following the outcome of the consultation, the Government will decide whether to include the proposed measures in next year's Pension Schemes Bill. Although the Government says that the new requirements would not apply before 2030 at the earliest, the significance of the proposals means that affected master trusts will want to prioritise considering their impact in 2025. Meanwhile, the Government has confirmed that several other reforms to DC schemes will be included in the Pension Schemes Bill. These include a new value for money framework, a consolidation solution for individual deferred small pots and a requirement to offer retirement income solutions to members.

Validity of amendments made to contracted-out schemes

The High Court and Court of Appeal decisions in the *Virgin Media* case confirmed that actuarial confirmation was required for amendments made by schemes contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. Schemes have been considering the implications of this case for past amendments, and whether there is any action they need to take in response. We are aware of another case coming to Court early in 2025 which is expected to clarify certain related aspects, such as the type of amendments which required actuarial confirmation and whether subsequent actuarial confirmations that the scheme continued to satisfy the statutory standard have the effect of validating earlier changes. It also remains possible that the Government could legislate to regularise the position. Trustees and employers should continue to keep an eye on developments.

> "The Government is consulting on proposals for fundamental changes to the defined contribution pension scheme market."

Inheritance tax treatment of pensions

The Autumn Budget 2024 included the announcement that most unused pension funds and death benefits payable from a pension will be brought into a person's estate for inheritance tax purposes from 6 April 2027. Currently, most lump sum death benefits are not chargeable to inheritance tax. The Government has published a technical consultation on the processes required to implement this change and has said it will carry out a further technical consultation on draft legislation in 2025. Trustees will become liable for reporting and paying any inheritance tax due on unused pension funds and death benefits, so it will be important to become familiar with the proposed new processes. Meanwhile, employers are likely to focus on the impact of the changes on benefit provision.

Pensions adequacy

The second phase of the Government's pensions review is expected to consider further steps to improve pension outcomes, including assessing retirement adequacy. The exact scope of the review is yet to be confirmed, but it could include bringing forward regulations to implement already existing auto-enrolment legislation. This would reduce the lower age limit at which otherwise eligible workers must be automatically enrolled and re-enrolled into a pension scheme by their employers from 22 to 18, and remove the lower earnings limit from the qualifying earnings band so that contributions are calculated from the first pound earned. Reforms to auto-enrolment could be taken a step further, with increases to minimum employer contributions potentially under consideration. Employers and trustees should monitor developments in this area during 2025.

Pensions dashboards

The Government has confirmed that it remains committed to the existing published timetable for the connection of schemes and providers to the pensions dashboards ecosystem. The timetable runs from April 2025 to September 2026, with "connect by" dates set according to the size and type of scheme. Many schemes will therefore need to connect with dashboards in 2025. Their preparations should already be well advanced, but trustees should ensure their administrator and other relevant providers remain on track to deliver. Any work needed to improve the quality and completeness of scheme data should also be in the final stages. However, it should be noted that a launch date for public use of dashboards has not yet been confirmed.

CDC schemes

The Government has published a consultation on draft regulations which will extend collective defined contribution (CDC) provision beyond single or connected employer schemes to accommodate unconnected multi-employer schemes. The Government plans to lay the regulations in 2025 and, subject to Parliamentary approval, intends to bring the regulations and an updated code of practice into force as soon as practicable after that. The Government is also continuing to explore with the pensions industry and regulators what would be needed to provide trust-based decumulation-only CDC options. We are starting to see some schemes and employers explore this option, and it is likely that these developments will encourage this growing interest.



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