Linklaters

Pensions Legal Outlook 2026





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Introduction

In our Pensions Legal Outlook, we predict the key issues for occupational pension scheme trustees and sponsoring employers in 2026.

The big news in 2025 was the publication of the Pension Schemes Bill. We expect the Bill will receive Royal Assent early in 2026, setting the agenda for the next few years of pensions reform. The changes have the potential to be genuinely transformative, particularly for the defined contribution (DC) market, where the key themes of consolidation, increasing investment in UK markets and improving outcomes for members continue to drive Government policy. We are also seeing an exciting period of innovation in pensions, with developments such as collective defined contribution (CDC) schemes and defined benefit (DB) superfunds opening up new opportunities.

Many of the changes will, however, take some time to come to fruition, with the Government's roadmap for reform currently envisaging a timetable that runs through to 2030. For many schemes and employers, 2026 will therefore be a year of monitoring developments and preparing for the future.

Long-term strategies: de-risking and surpluses in DB schemes

The new scheme funding regime has sharpened the focus on long-term strategies, with many schemes continuing to target buy-ins and buy-outs. Trustees and employers looking to transact in 2026 should ensure they are well prepared ahead of approaching the busy market, including by preparing the benefit specification early and liaising with the scheme administrator on their requirements for any transaction.

With many schemes now in surplus, the option of running on the scheme is receiving more attention. Employers may wish to explore whether trustees have an existing power to make surplus payments to employers and, if so, in what circumstances. The Pension Schemes Bill includes changes to the rules governing release of surplus from ongoing schemes. Once these provisions come into force, likely in 2027, trustees will be able to modify scheme rules to provide for surplus payments to be made to employers, or to remove or relax any restrictions on existing powers. The current buy-out threshold for releasing surplus is also expected to change to a threshold set at full funding on the low dependency funding basis. Employers should factor these changes into their long-term strategies.

The Pension Schemes Bill also includes a legislative framework for the regulation of DB superfund consolidation schemes. We expect this will lead to more trustees and employers giving serious consideration to superfunds as a long-term objective.

> “We’re seeing many trustees and sponsors consider their long-term strategy, whether that’s buy-out, run-on, or a flexible solution in-between.”

Bigger is better: scale and asset allocation in the DC master trust market

Major changes are afoot for the master trust market, with the Government focussed on accelerating the shift to fewer, larger funds. The Pension Schemes Bill will require master trusts to have at least £25 billion of assets in their main default arrangement by 2030. A certain degree of aggregation will be possible, for example, where the scheme funder or scheme strategist of the master trust is also the provider of a group personal pension scheme. Exemptions will also be available for new entrants to the market, as well as those master trusts able to reach £10 billion of assets in their main default arrangement by 2030 and with realistic plans to increase scale. Nonetheless, these requirements will lead to significant consolidation in the master trust market in 2026 as schemes race to meet the £25 billion target by 2030.

As part of their strategy for reaching scale, some master trusts may wish to explore the possibility of applying to the Pensions Regulator for authorisation to act as a consolidator scheme under the new small pots consolidation regime. Although the application process is unlikely to open until 2028, early planning will be key.

Master trusts should also be aware of the asset allocation provisions in the Pension Schemes Bill. These will enable the Government to require that at least a “prescribed percentage” of scheme assets held in master trusts’ default funds must be “qualifying assets”. “Prescribed percentage” and “qualifying assets” will be defined in regulations. Qualifying assets may, for example, include private equity, private debt, venture capital and interests in land. They may also relate to whether an asset is located in the UK or linked to economic activity in the UK. The Government has said it does not anticipate exercising this power unless it considers that the industry has not delivered the change itself. However, master trusts will want to monitor developments closely.

> “We expect to see continued consolidation of the master trust market as providers target the requirement to have at least £25 billion of assets in their main default arrangement by 2030.”



The future is bright: improving outcomes for future generations of retirees

Looking beyond master trusts, the Pension Schemes Bill includes several other reforms that will have a significant impact on DC schemes more generally. These include a requirement to offer default pension benefit solutions and a new value for money framework, as well as the small pots consolidation regime mentioned above. With the first of these expected to start applying from as soon as 2027, there will be plenty for DC schemes to get to grips with in 2026.

The overall theme of these reforms is to improve pension outcomes for future generations of retirees, and there are several other developments in the pipeline with the same high level objective. The pensions dashboard promises to revolutionise how individuals manage their retirement savings by providing a single platform for viewing all their pensions information. Many schemes have already connected and the final connection deadline for all schemes in scope is 31 October 2026. All schemes should be aware of their ongoing obligations in relation to dashboards. As recently highlighted by the Pensions Regulator, many schemes still need to improve the quality and completeness of their data, particularly value data used to calculate benefits. It should be noted, however, that a launch date for public use of the dashboard has not yet been confirmed.

In an important next step in the development of CDC, the Government has recently confirmed that regulations extending CDC provision to unconnected multi-employer schemes (UMES) will come into force in July 2026. More significantly, the Government has also published a consultation on retirement-only CDC schemes. There is growing interest in the possibilities these schemes might offer members. The Government press release cites research suggesting CDC schemes could potentially boost retirement incomes by up to 60% compared to purchasing an annuity.

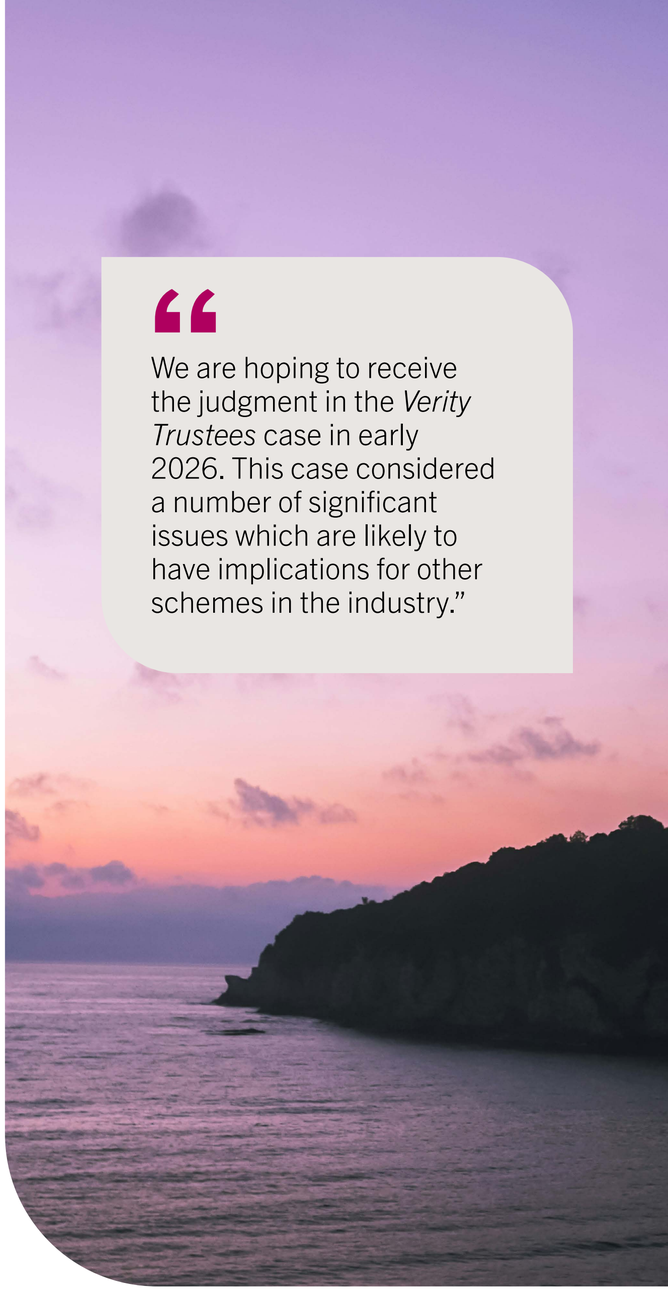
Finally, we are expecting an interim report from the Pensions Commission in spring 2026. The Commission is considering the long-term future of the pensions system. This includes outcomes and risks for future cohorts of pensioners, how to improve retirement outcomes, and the role of private pension provision and wider savings. Final recommendations are not expected until 2027 and proposals for change are likely to extend beyond the current Parliament, but employers and trustees should monitor developments.

> “The CDC market continues to develop and we’re expecting regulations to come into force in July 2026, extending CDC provision to unconnected multi-employer schemes.”

Benefit changes: validity of amendments made to contracted-out schemes and implications of the *Verity Trustees* case

Many pension schemes were affected by the High Court and Court of Appeal decisions in the *Virgin Media* case. These confirmed that actuarial confirmation was required for amendments made by schemes contracted-out on a salary-related basis between 6 April 1997 and 5 April 2016. The Pension Schemes Bill includes provisions which will allow affected schemes retrospectively to obtain written actuarial confirmation that historic benefit changes met the necessary standards. These provisions are expected to come into force immediately on the Bill receiving Royal Assent, which is likely to be early in 2026. Trustees and employers should be aware that there are important qualifications and process requirements which will need careful consideration.

We are also hoping to receive the judgment in the *Verity Trustees* case in early 2026. The case considered a number of significant issues which are likely to have implications for other schemes in the industry. These include whether a restriction in the amendment power relating to “rights” protects future service as well as past service; whether proportionate increases can be applied even where not expressly stated in the rules; and how severance should be applied to save the “good” from the “bad” where a benefit change would otherwise be invalid. Given the wide ranging nature of the questions considered in the case, it may be relevant for different schemes in different ways, so is one to watch out for once the judgment is published.



> “We are hoping to receive the judgment in the *Verity Trustees* case in early 2026. This case considered a number of significant issues which are likely to have implications for other schemes in the industry.”

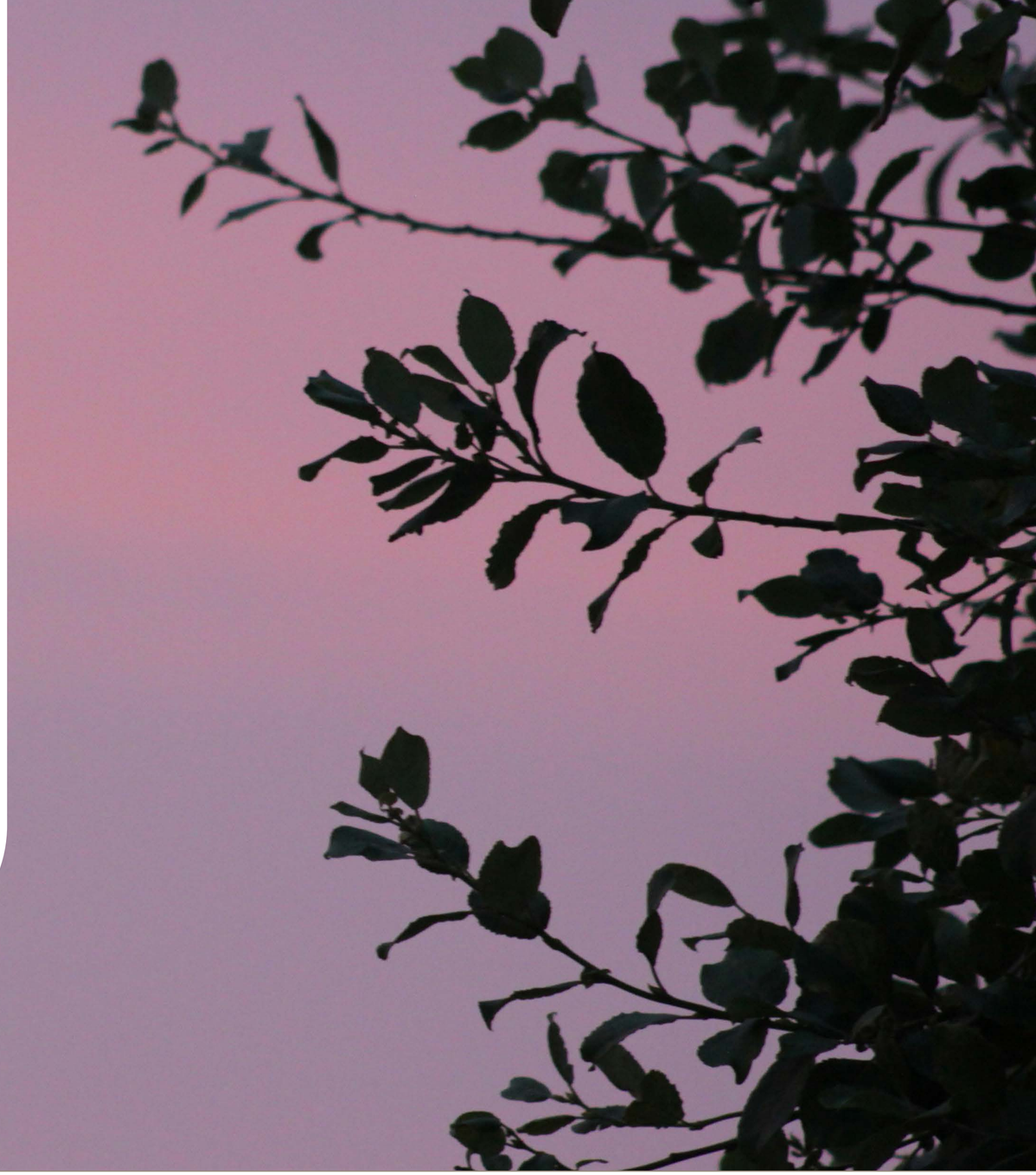
Taxing times: changes to the tax treatment of pensions

Successive Budgets have continued to change the landscape for the taxation of pension benefits. 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 (IHT) purposes from April 2027. These proposals have continued to evolve since then. It is now expected that personal representatives will be able to direct pension scheme administrators to withhold 50% of taxable benefits for up to 15 months and pay IHT due in certain circumstances. This will be legislated for in the Finance Bill.

More recently, the Autumn Budget 2025 included the announcement that, from April 2029, the amount exempt from national insurance contributions (NICs) will be capped at £2,000 a year for employee contributions made to pension schemes via salary sacrifice. This will be legislated for in the National Insurance Contributions (Employer Pensions Contributions) Bill.

In both cases, trustees will need to become familiar with new processes, while employers are likely to focus on the impact of the changes on benefit provision.

> “Successive Budgets have continued to change the landscape for the taxation of pension benefits, with plenty of food for thought for both trustees and employers.”



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