

### Stop Press!

The Pension Schemes Bill has received royal assent and is now the Pension Schemes Act 2026 (Act). While the Act covers a diverse variety of topics, it mainly constitutes a framework that grants powers to make regulations. The detail of the measures included in the Act will be set out in those regulations.

In this bulletin, we highlight some of the key measures of the Act. Watch out for our more detailed publication coming shortly.

### Local Government Pension Scheme (LGPS)

In August 2024, the government launched its pensions investment review, which included the LGPS. Following further consultation on LGPS measures, the government [announced](#) that it would take forward measures in relation to pooling of assets, local investment and strengthening fund governance.

These measures are included in the Act, including the power to make regulations to instruct a scheme manager to participate, or cease to participate, in a specific asset pool. This fits with the government’s policy to reduce the number of asset pools from eight to six.

The Act also facilitates the compulsory merger of LGPS funds.

### Release of Defined Benefit (DB) Surplus

- The Pensions Act 2004 (PA04) was brought into law at a time when many defined benefit (DB) schemes were in deficit. The PA04 introduced a requirement for trustees of DB schemes to pass a resolution before April 2011 (which was subsequently extended to April 2016) to have the power to make payments from the scheme to the sponsoring employer. Since then, scheme funding positions have, on the whole, improved.
- The Act introduces a statutory power to allow trustees to modify scheme rules to permit surplus extraction. The use of the power is at the discretion of the trustees. There is no statutory override to make payments if the scheme rules do not allow this.
- Amendments are made to remove restrictive provisions of the PA04 and Pensions Act 1995 (PA95).
- The new power cannot be used if the scheme is already being wound up, nor can the trustees pass a resolution to confer such a power to be used during future scheme windup.
- Further detail will be set out in draft regulations that will be the subject of consultation.
- Regulations are expected to be in place during the course of 2027, along with guidance from The Pensions Regulator (TPR).

### Virgin Media Remedy

- The Act includes what has been colloquially referred to as the “Virgin Media remedy”. The remedy applies to schemes in England, Wales, Scotland and Northern Ireland, and addresses the situation where a scheme that was formerly contracted out on the reference scheme test basis does not have evidence that the proper process was followed when the scheme was amended.
- Broadly, the Act provides that certain types of amendments can be treated as having always been valid, provided certain conditions are met. Those conditions include obtaining written confirmation from the scheme actuary that it would be reasonable to conclude that, on the assumption that it was validly made, the alteration would not have prevented the scheme from continuing to satisfy the statutory standard.
- Certain types of amendment are excluded from the remedy; for example, where the trustees have already treated the amendment as void, or where legal proceedings were commenced in relation to an amendment on or before 5 June 2025.
- The remedy is now in force (effective from 29 April 2026). Additional information will be contained in our detailed publication.



## Superfunds

- The Act sets out a framework for the authorisation and regulation of DB commercial consolidators, referred to as “superfunds” in the Act.
- TPR’s approval will be required before a transfer may be made to a superfund. Regulations will set out the conditions for approval. Regulations will also contain details of the capital buffer that a superfund must maintain, along with details of the procedures that will apply if a superfund falls into financial difficulties or breaches regulatory requirements.
- The Act makes it a criminal offence to make or receive a transfer to a superfund that has not been approved by TPR.
- Regulations, along with new TPR guidance, are expected to be in force during 2028.

## Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS)

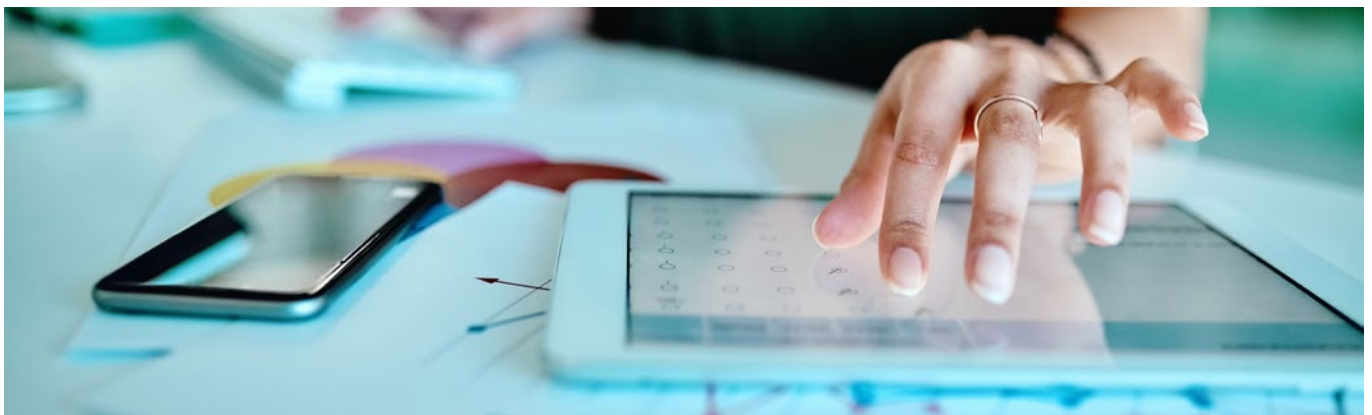
- As at 31 March 2025, the PPF had assets under management of £31 billion and liabilities of £17 billion, resulting in reserves of £14 billion. This has prompted the government and PPF to rethink the ways in which it is funded, and the level of benefits paid by the PPF and FAS.
- The Act introduces indexation of PPF and FAS compensation in relation to pre-1997 accrual where a scheme’s rules provided for indexation or where it is unclear whether a scheme’s rules provided for this. The indexation measures provide for Consumer Price Index (CPI) capped at 2.5%, and are prospective only. We understand it is the intention that the measures will be in force from 1 January 2027.
- Current legislation prevents the PPF from increasing the PPF levy amount year on year by more than 25%, which has restricted the amount by which the PPF has considered it prudent to reduce the levy in case of a need to significantly raise the levy in future years. In particular, the PPF could not set the levy at zero because it would mean that it could never again raise a levy. The Act introduces measures to address this limitation. In anticipation of this, the PPF has set the levy for 2026 to 2027 at zero.
- The Act also amends existing legislation to provide that administration and other costs of the PPF and PPF Ombudsman will be met out of PPF funds, instead of out of a general levy collected by TPR. These measures came into force with retrospective effect on 1 April 2026.

## The Pensions Ombudsman (TPO)

Current legislation provides that where there is any dispute as to the amount to be recouped from a beneficiary following the overpayment of pension, pension trustees must obtain an enforcement order from a “competent court” before they can offset the overpayment against future pension payments. Case law has determined that TPO does not constitute a “competent court” for these purposes, and a county court order for enforcement is required. The Act addresses this. From 29 June 2026, trustees will no longer need to obtain a county court enforcement order to offset overpaid pension against future pension payments if they have a TPO determination regarding the overpayments.

## Value for Money

- The Act gives wide regulation-making powers to the secretary of state to implement a new value for money (VFM) framework.
- Regulations will include which schemes and arrangements are in scope, and new duties for trustees to carry out VFM assessments, to assign a rating, to make certain information public, and to give notifications to TPR and other prescribed persons. Regulations will contain more details on VFM data metrics, assessments and how comparisons should be made with other schemes or benchmarks. Scheme trustees or managers may be required to carry out member satisfaction surveys. Regulations will cover the consequences of a scheme not fully delivering VFM.
- The Financial Conduct Authority’s (FCA) [consultation](#) (issued 8 January 2026) proposed that VFM requirements would initially apply to the default arrangements of schemes used for auto-enrolment (and the quasi-default arrangements of schemes established before auto-enrolment). The consultation also proposed how VFM assessments would be carried out, the four ratings that could be assigned and the consequences of VFM failures. TPR’s [overview of the VFM framework](#) issued in January 2026 is a useful short background read for trustees.
- Regulations are expected in 2026/27, with the first VFM assessments due in 2028. This is a very challenging timescale.



## Consolidation of Small Dormant Pension Pots

- The Act establishes a framework for the automatic consolidation of defined contribution (DC) pension pots with a value of up to £1,000 where a member has not made any contributions or investment decisions for at least 12 months. The legislation will apply to schemes used for automatic enrolment.
- Trustees will have new duties relating to eligible small DC pots, including issuing member notices and implementing solutions. A new central platform will match dormant pots with consolidator schemes. Members can elect that no action is taken to consolidate their small pot.
- Detailed requirements will be set out in regulations, which are expected in 2027/28. Regulations will allow exemptions where prescribed conditions are met and trustees decide it is not in a member's best interests to consolidate.
- Master trusts and contract-based arrangements can apply for authorisation to act as a small pot consolidator if the scheme meets criteria set out in regulations. The government anticipates that there will be a number of authorised consolidator schemes.
- The small pots transfer duties are expected to come into force in 2030.

## Scaling up DC Funds

- The Act introduces a requirement for UK authorised master trusts, and group personal pension schemes (GPPs), to have at least £25 billion of assets under management (AUM) in their main scale default arrangement by 2030. The main scale default arrangement represents the default investment proposition for members who have not made an active investment choice.
- Transitional arrangements may apply for schemes with AUM of £10 billion by 2030 that have a credible plan to scale up to £25 billion, along with new entrants to the market provided they offer a genuinely innovative proposition. Regulations will provide the detail.
- The scaling requirement is implemented by amendments to the Pensions Act 2008. Once in force, a relevant master trust (i.e. an authorised master trust with its main administration in the UK) and a GPP must obtain approval from TPR or the FCA respectively to satisfy the quality requirement to operate as an automatic enrolment scheme.
- Regulations may exempt certain types of master trust from the scaling requirement (for example, default arrangements that serve protected characteristics, such as religion). They will also be required to have regard to competition among providers, and innovation of design and operation (such that certain small schemes may be effectively exempted from the scaling requirements). Additionally, the government has said that collective defined contribution (CDC) schemes will be exempt from the scaling requirement.
- Where schemes operated by the same provider use a common investment strategy and meet relevant legislative conditions, the Act permits them to hold a combined main scale default arrangement for meeting the scale requirements. The detail will be contained in regulations.



## Asset Allocation (Also Referred to as Mandation)

- The asset allocation provisions proved to be the most controversial measures contained in the Act. These are measures that give the government power to mandate that a certain proportion of DC main default funds of a relevant master trust or GPP must be invested in certain types of assets.
- Assets that might qualify for the asset allocation requirement are what the government has been classifying as “productive finance”, i.e. private equity, private credit, venture capital, infrastructure, interests in land and other unlisted securities. A late amendment to the Act (while it was a bill) means that an asset class may be held directly or indirectly, in order to be considered qualifying assets.
- If the power to mandate is used, it will give the government power to set the asset allocation of up to 10% of funds in a DC main default fund, with at least 5% of the total being allocated to UK productive finance.
- The power to mandate must be used before 2032 and may only be used once by the government, and the entire regime (whether or not the power is used) will fall away at the end of 2035.
- The asset allocation provisions override any provision of the trust deed or rules of a scheme if there is a conflict. Note, however, that the asset allocation requirement does not override the fiduciary duties of trustees and providers – if there is a conflict between the two, trustees and providers will have to find a way to manage that conflict.
- In recognition of the fact that fiduciary duties prevail, an easement was incorporated into the Act at a very late stage. This will allow trustees or managers of a relevant master trust or GPP to make an application to TPR or the FCA (as applicable) stating they have concluded that meeting the asset allocation requirement is likely not to be in the best interests of members of the scheme, and setting out the basis on which they have reached that conclusion. If the application complies with the necessary requirements, and TPR/FCA (as applicable) is of the view that it is reasonable for the applicant to have reached that conclusion, TPR/FCA will be required to grant an exemption from the asset allocation provisions.
- All details will be set out in regulations.

## Default Arrangements and FCA Contractual Override

- In Phase 1 of its [pensions investment review](#), the government said it remained committed to addressing fragmentation within the DC workplace market so that the benefits of scale can be realised.
- The Act sets out the framework for regulations that will prevent providers from operating a new nonscale default arrangement unless certain criteria are met, and will require the consolidation of existing nonscale default arrangements into an approved main scale default arrangement, subject to certain exemptions.
- The Act also introduces a contractual override regime for FCA-regulated pension schemes in relation to underperforming and legacy arrangements. This allows the provider to amend the terms of a scheme or transfer a pension pot to a better performing arrangement without member consent. The detailed rules on the use of the regime will be developed by the FCA in consultation with the industry.



## Guided Retirement

- The Act sets out new duties for trustees or managers to design and make available one or more default pension benefit solutions (“default solutions”) for eligible members of DC schemes. The default solutions must be designed to provide regular retirement income (but other benefits may also be provided) and must take account of the needs and interests of members.
- If it is not reasonably practicable for trustees to provide default solutions within their own scheme, or if trustees determine that a better member outcome can be achieved by transferring members to another scheme, trustees can partner with another scheme to provide default solutions and transfer members (with their consent) to the partner scheme.
- Regulations will include which schemes and members are in scope of the requirements, trustee assessment of member needs and interests, transfer conditions, and member communications. Regulations may also require master trusts or small pot consolidator schemes to agree to accept transfers where trustees have been unable to partner with another scheme for a default solution.
- Trustees or managers will be required to prepare, publish and review a pension benefits strategy, which covers identifying and implementing steps to understand member requirements, designing or identifying default solutions and communicating effectively with members.
- The Act also requires the FCA to make corresponding rules for eligible FCA-regulated schemes.
- According to current government plans, regulations are expected to be laid in 2026-27. Master trusts would be required to comply in 2027, and this would be extended to single employer trusts and contract-based GPPs in 2028.

If you would like to discuss any of the above, please get in touch with your usual firm contact, or Matthew Giles, head of pensions. Watch out for our more detailed publication, which includes next steps and a timeline of when measures introduced by the Pension Schemes Act 2026 are expected to come into force.