Broadstone

Pensions Schemes Bill and section 37 update

June 2025

Will the new measures transform the pensions landscape?

Various plans to evolve and improve the UK pensions system took a step forward on 5 June with DWP announcing the long-promised Pension Schemes Bill. In a busy day of announcements, there was also an important development suggesting a possible solution to the Virgin Media (section 37) case and a workplace pensions roadmap setting out how the various measures might come into force in the years ahead.

Most of the measures had been raised previously, by this or the previous government, but nevertheless the number and scale of the changes was striking in its ambition. The DWP headlines focused on how 20 million workers might be better off but focus within the industry has been on the practicalities associated with each of the various changes and the amount of work involved to implement all of the proposals.

A lot of the developments are focused on defined contribution (DC) arrangements, but there are also significant changes for defined benefit (DB) schemes and nods to potential innovation and evolution of alternative retirement solutions.

Key points

Defined Contribution Schemes

- Integral to the way the Government sees defined contribution schemes operating is being able to identify a 'good' scheme and this requires a standardised way for pension schemes to assess how they provide Value For Members or VFM.

Any scheme, be that contract-based or trust-based, should assess costs and charges, performance of investments and services to members in a consistent manner. A key goal is to identify if members find themselves in an underperforming pension scheme.

The FCA provided their outline last year and it is likely that the framework will be similar to this. First assessments under the new framework are expected in 2028.

- The next phase is scale and the Bill outlines plans to require DC providers and master-trusts to have £25bn under management in their default funds by 2030 – the so called "Megafund". Schemes not quite at this scale but with at least £10bn will be given some extra time to reach the required size.

  Contract-based schemes have often encountered issued consolidating within providers without member consent and an override (with suitable protections) will be legislated for. Consolidation is expected to begin in 2028.

- As previously announced, small pots will be automatically consolidated into consolidator schemes. This will mean fund values of less than £1,000 where no contribution has been paid in during the past 12 months will be consolidated.

  This will require a lot of further regulation and work from the industry to make it possible. However, we currently expect further regulations in 2027, with consolidators identified in 2029 and then the transfers to begin in 2030.

- Default retirement solutions will also be required so that members (unless they opt out) will be defaulted into a retirement pathway. Trust based schemes will be required to do this first, with contract-based schemes to follow. Schemes will be able to partner with other schemes to help provide the solution.

  These rules are to be agreed in 2026 and 2027 with the duty to begin in 2027.

Defined Benefit Schemes

- Changes to facilitate the release of Scheme surplus (as discussed in Briefing Note 274 https://broadstone.co.uk/briefing-notes/government-response-on-db-options/) with regulations to come into force by the end of 2027.
- Changes to PPF levy rules which would allow the PPF to reduce their annual levies to zero given the current strong surplus position.
- Recognising the Pensions Ombudsman as a "competent court", reinstating their ability to make enforceable determinations in pensions overpayment cases.

- Legislation for pension scheme superfunds, which will hopefully facilitate growth in this market.

Section 37 / Virgin Media

Whilst we still await news of the Court case heard earlier this year looking at various matters linked to the Virgin Media case, the new DWP announcement offers a promise of a simpler and more pragmatic solution.

The details and timings are yet to be confirmed, but it was announced that the Government will "introduce legislation to give affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards."

For schemes that have put buy-in and buyout plans on hold due to the uncertainties of this issue, there may now be the opportunity to move forward once more.

Mandation for investments

There has been a lot of attention on the controversial power for the Government to mandate investments for pension schemes. There is a reserve power in the Bill although it is possible this power will develop as it is considered by the industry.

- It will apply to DC master-trusts and GPP providers, but not to single-employer DC trusts nor DB schemes. There may be other exemptions and some scheme types could lobby for this.
- The investment duty will override any conflict with scheme rules and the mandation would apply for default funds.
- The definition of what asset could be mandated is broad and while some asset classes are referred to (e.g. private equity, debt and assets with links to the UK) it is possible that this list could be added to within the Bill or future regulations.
- The Bill leaves space for further regulations to specify the exact percentage of assets and how schemes will be required to demonstrate compliance.
- Failure to comply could compromise status to act as a qualifying arrangement for auto-enrolment.

While the Government does not believe it will use this power, its very existence could give cause for some concern. This imposition on the fiduciary duties of trustees will be one that will continue to be discussed.

Broadstone comment

Given the extensive coverage already given to most of these initiatives, there were not any particular surprises contained within the Bill. However, it is great to see that progress is being pursued on a number of fronts rather than limiting the scope to a much narrower brief, not least given the lead in times associated with some of the more complex elements.

There may be changes to come as the Bill works its way through the parliamentary process, and some key areas of pensions policy (such as adequacy and contribution levels) are yet to be considered under the next stage of the Government's Pensions Review. However, the potential for progress on areas with clear cross-party support holds undoubted promise.

Despite the headlines, it will be many years before some of these aspects become reality – for example the much-touted ability for sponsors to release surplus from the pension schemes would appear to still be two and a half years away if all runs to plan. We must therefore avoid getting too carried away.

Nevertheless, the PPF levy changes appear to provide a more immediate benefit to sponsors whilst the announcement of legislation to deal with the Section 37 problem should be a huge relief to employers, trustees and advisers alike. The path to retrospective confirmation may not be straightforward, particularly where reliant on salary data from almost 30 years ago, but many schemes should be breathing a sigh of relief.

In terms of the DC developments, this represents a dramatic shift in the way that defined contribution schemes will operate for many years. Two key drivers are central to the Government's thinking. Firstly, size/scale and the belief that this will result in better pensions for savers. Secondly, homogeny of the pensions system. For too long FCA and TPR regulatory systems have diverged and the idea is that from a member's perspective it should not matter what type of scheme you are in (trust-based, contract-based or GPP), your experience should be comparable.

Of course, many of the catalysts for the change has been the desire for an increase in productive finance, perhaps none more so than the mandation power for investments.

We will of course continue to keep you updated as the Bill proceeds and will be engaging with the various consultations to try and ensure positive and effective long-term solutions are put in place.

Find out more

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