

SPENCE

Your Quarterly Pensions Update Quarter Four 2024



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Welcome to your Quarterly Pensions Update

The purpose of this report is to update sponsors and trustees with recent pensions industry changes in the quarter.

For your convenience, Spence has summarised the key developments and highlighted the necessary actions sponsors and trustees may need to take.

The report combines brief written comment with links to any further relevant information and any deadlines you should be aware of. We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please get in touch with alan_collins@spenceandpartners.co.uk or your usual Spence contact.



Investment update

Q4-24 Market Commentary

Global Bonds generated a negative return of -5.1%*, with each region experiencing its own idiosyncratic headwinds which weighed on bond valuations. Global Equities generated a positive return of 5.9% over the quarter mainly driven by the US (65% of the Global Equity benchmark), which rallied following Donald Trump's victory in the US Presidential Election.

Growth Assets

Emerging Market ("EM") and Asia Ex-Japan equities generated the worst returns of all equity markets over the quarter at -7.8%* and -7.4%* respectively. Trump's victory caused EM Equities to fall in value reflecting investors' concerns around the potential impact of Trump's proposed tariffs, particularly in relation to China. European equities (ex-UK) also produced a negative return over the quarter at -3.8%, which was driven by political instability across a number of European countries as well as weak economic data. UK Equities were marginally negative for the quarter at -0.4%, mainly due to increases in long-term bond yields and concerns around the forward-looking growth trajectory of the UK. In stark contrast to the rest of the world, US and Japanese equities rose by 10.0% and 2.8% respectively. In the US, Trump's victory and the potential policies he could implement around lower taxes and regulation were welcomed by investors, whilst in Japan the weakening of the Japanese Yen, in the face of a strong US Dollar, was positive for a number of large-cap exporters who were the main drivers of the rally in Japanese equities.

Commodities generated strong returns over the quarter at 6.6%. This was mainly driven by energy and livestock, whilst industrial and precious metals declined. Within energy, natural gas generated strong returns as some supply-chain constraints in the US caused prices to rise during the period. The potential negative impact on Trump's proposed tariffs weighed on copper and nickel prices during the quarter, whilst gold and silver also decreased in value following the appreciation of the US Dollar.

UK Property generated a positive return of 1.9% for the quarter as improving fundamentals within the sector were conducive for property values.

Hedge Funds, which typically perform well during periods of heightened market volatility and uncertainty, posted a return of 2.5% for the period when the US election and the increase in geopolitical risks served to create an opportune environment for them to outperform.

Bonds

Within Fixed-Income, Global Inflation-Linked Bonds declined the most at -6.7%* followed by Global Investment Grade at -4.0%* and US Treasuries at -3.1%*. Concerns around the potential inflationary impact of Trump's policies negatively impacted the more interest-rate sensitive names within Fixed Income. Conversely, High Yield bonds generated positive returns at 1.7%* in Europe and 0.2%* in the US, as the potential for more pro-business policies under Trump caused credit spreads to tighten which was positive for the asset class.

Within the UK, the Labour government's new budget saw Gilt yields rise and UK Bonds consequently fall by -3.5%* over the quarter, due to concerns over the proposed increases in both taxes and borrowing costs. Despite the Bank of England ("BoE") cutting interest rates to 4.75%, concerns around elevated inflation and wage growth has reduced the chance of further interest rate cuts going forward.

EM Bonds posted a negative return of -2.1%* during the quarter due to two main factors, firstly the strong appreciation of the US Dollar and secondly the potential inflationary impact of Trump's policies which threatens to keep global interest rates at elevated levels going forward.

Within the UK, long-term UK gilt yields increased by 0.5% to 5.0% following the Labour government's new budget which put upward pressure on rates due to concerns around the significant rise in borrowing costs highlighted in the budget. All else being equal, the move will have acted to decrease the value placed on pension schemes' liabilities.

Real yields increased by 0.5% to 1.8%. All else being equal, the move will have acted to decrease the value placed on inflation sensitive pension scheme liabilities.

Long-term inflation remained the same at 3.2%.

All returns shown are shown in GBP terms unless stated otherwise, sourced: FTSE, Markit iBoxx
*Local currency, except for EM and global indices, which are in US dollar, sourced: JPM and MSCI
Past performance is not a reliable indicator of current and future results.
Data as of 31st December 2024.

New Defined Benefit Code of Practice: Evolution, not Revolution?

The Pensions Regulator's (TPR's) new defined benefit (DB) scheme funding code came into force on 12 November 2024. It sets out guidance and expectations of how schemes with actuarial valuations with an effective date on or after 22 September 2024 should comply with the new requirements.

Evolution rather than Revolution

The key theme is evolution rather than revolution and a lot of what is in the code is intended to embed existing good practice into existing frameworks. For example, while there is more detail around long-term planning, many schemes will have already started these discussions. Similarly, the code emphasises the importance of collaboration between trustees and sponsors, encouraging early engagement and the provision of information, which is already a feature of many pension schemes.

Key points are that under the new DB Funding Code, trustees must determine the following:

- Their long-term objective (which explains how they intend to provide benefits over the long-term, e.g. run-on, buyout, transfer to a consolidator).
- Their low dependency funding target, which will include the funding level they intend the scheme to have reached on a low dependency funding basis essentially no later than when their scheme reaches the point of "significant maturity".
- The investments they intend to hold at that time.
- Where relevant, details of the journey plan setting out how the scheme will progress from its current funding position to its low dependency target.

While for most schemes the code largely clarifies existing expectations, there will inevitably be additional work required as a result. For example, more information needs to be submitted to TPR. Notably, this will be the case for those schemes which do not meet specific funding criteria and will need to go down the "Bespoke" (as opposed to "Fast Track") regulatory assessment route. However, TPR believes that some 62% of schemes already meet the Fast Track criteria and another 19% could meet them with little change from what they're currently doing.

Covenant

On 4 December 2024, representing the final piece of the new DB funding regime framework jigsaw, TPR published updated covenant guidance.

The new guidance is lengthy, covering how to identify and assess each sponsor's legal obligations to the scheme; assessment of the sponsor's cash flows; guidance on newly introduced aspects such as the "reliability period" (during which the employer can be reasonably depended upon to support the scheme) and "covenant longevity"; how to factor covenant into scheme recovery plans; as well as monitoring covenant going forward.

TPR expects employer support to align with the scheme's risk profile, and for trustees to use the guidance to assess whether their existing covenant analysis is proportionate and focused in the right areas. While for some schemes, the guidance will represent business as usual, others will need to update their approach.

What next?

Trustees and sponsors should:

- Start discussions on an appropriate long-term journey plan if one is not already in place, being mindful that future changes will need to be justified. Note that discussions could be more challenging where sponsors are concerned that a journey plan targeting anything stronger than run off could be restrictive.
- Engage with the Scheme Actuary to consider whether their Scheme falls within or, with a few minor changes could fall within, the Fast Track criteria. Spence can provide a helpful "Temperature Check" document that

looks at how your Scheme measures up against Funding Code and Fast Track requirements.

- Note that as valuations can be signed off at any point up to 15 months after their effective date, even a scheme with a 30 September 2024 valuation date will have until the end of December 2025 to comply with the regulations.
- Familiarise themselves with the covenant guidance and ensure that their covenant assessment and monitoring processes are updated appropriately. Be aware that TPR expects to see views on covenant backed by evidence.
- Appreciate that agreeing a Recovery Plan could be challenging for some schemes where trustees agree to available monies being used for the purposes of investment in the sponsor, rather than scheme funding. In this event, trustees will need to have clear and persuasive evidence as to how such an arrangement will produce benefits to both the scheme and sponsor.

Risk transfer market developments

As we move into 2025, there are two high profile developments with regards to the pension risk transfer market worthy of closer scrutiny:

1. New entrants and increasing supply

Over the course of 2024, two established insurers entered the bulk annuity marketplace – Royal London and Utmost plc. This increased the number of insurers in the market from 8 to 10 (a 25% increase) and brought to the market two insurers with healthy appetites for writing bulk annuity transactions at the smaller end of the market (ie sub £100m transactions).

This trend is set to continue into 2025 with Brookfield, an insurer established in the USA and Canadian bulk annuity markets, set to receive regulatory approvals to write bulk annuity business in the UK in the first half of 2025. We understand that Brookfield will also look to participate in small to mid-sized transactions (at least initially).

We expect these new entrants in their first few years to complete a modest number of smaller transactions as they embed their processes, teams and systems and look to safely and securely scale up their operations – ensuring they deliver (and even outperform) against their commitments to their early clients. Importantly, this surge in new entrants has the potential to add material capacity to the UK bulk annuity market, although it is worth bearing in mind that they are subject to many of the same constraints that existing bulk annuity insurers have been facing (competing within the same talent pool, sourcing attractive assets with which to back their pricing, accessing capacity in reinsurance markets etc).

Watch this space as 2025 unfolds for further updates – the market opportunities for smaller pension schemes only seems to be improving, so ensure you optimise how you access the market to ensure you achieve the best outcome in terms of price, insurer etc.

2. The Prudential Regulation Authority (“PRA”) “Dear CEO” letter of 9th January 2025 to the CEOs of the UK insurance sector

On 9th January 2025, the PRA published its insurance supervision priorities for 2025 in a letter to the CEOs of UK life insurers. Within the letter was commentary on how the PRA expects UK life insurers to manage their material growth and the additional complexities emerging in the bulk annuity marketplace, including the use and risk management of funded reinsurance arrangements.

A substantial part of the 2025 PRA supervision priorities focuses on the UK bulk annuity insurers given the rapid growth in buy-in volumes over the last few years (with no indication of this increased volume of business declining in the short term). The PRA is seeking to strike a balance between the need for increased new business capacity to meet current high levels of demand, without compromising the risk management of these liabilities on insurers balance sheets in a way that weakens the protection for their current and future policyholders.

One particular continued area of focus is on bulk annuity insurers’ use of funded reinsurance (“FundedRe”), where the PRA believes the current growth trajectory has potential to lead to the development of systemic risks if it is not properly controlled.

In July 2024, the PRA set out its expectations for the use of FundedRe and now within its January 2025 letter, notes that bulk annuity insurers are, not unsurprisingly, not yet fully meeting these expectations.

It is likely that it will take time for the bulk annuity insurers to meet the full expectations of the PRA, and the PRA anticipates rapid progress will be made during 2025 to address remaining gaps. A FundedRe stress test is to be included in the 2025 Life Insurance Stress Test (“LIST 2025”) exercise that is due to be published at the end of the year. This will help the PRA to assess and compare exposures across the market.

The focus we see from the PRA on ensuring the bulk annuity marketplace continues to grow in a robust and secure way is reassuring. It must be ensured that the oversight and governance from the PRA does not present barriers for bulk annuity insurers but maintains and enhances the security enjoyed by members of pension schemes secured with UK bulk annuity insurers.

Corporate accounting: Defined Benefit (DB) schemes pensions update

Companies with 31 December year ends will have recently worked through their annual DB pensions disclosures. Here's an overview of the key issues and the likely impact of market conditions on disclosed positions.

Improved funding positions

Many companies will have disclosed an improved funding position on their DB pension scheme, with surpluses larger than last year end, all else being equal. The table below shows some key market indicators for DB pension accounting, and how they have moved between 31 December 2023 and 31 December 2024. The rise in corporate bonds yields and strong performance of most asset classes means that companies should expect to see an improvement in the FRS102 funding position since last year end, although highly hedged schemes may have seen a slight deterioration in funding position.

Metric	31 Dec 2023	31 Dec 2024	Comments
Liability side:			
AA 15+ corporate bond yield	4.5%	5.5%	Reduces liabilities by 15% for a 15 year duration
15 year market implied RPI	3.4%	3.5%	Small increase (c. 1%) in liabilities
Asset side:			
Equities		Up over 10%	Most asset classes up other than bonds that are down reflecting the rise in yields.
Multi Asset Credit		Up over 5%	
15+ index linked gilts		Down 15%	

Key considerations for employers

The key considerations for employers this year end are generally:

Assess the impact of the Virgin Media Court Case on your scheme. This case means that benefit changes made between 1997 and 2016 could be ineffective if the required actuarial confirmation for "contracted out" schemes is not available for your scheme, leading to an increase in liabilities. It remains the case that future Court cases or DWP intervention could change the position, so it is too early to fully cost the exposure or put a past service cost on balance sheet. However, many auditors are expecting an initial assessment to be completed, for example checking if a scheme is in scope by virtue of being contracted out on a final salary basis, and if benefit changes were made during the relevant period. A narrative of the possible exposure may be required in company accounts. We recommend early engagement with your auditors on this point.

If risk transfer activity has taken place over the year (e.g. a buy-in or a buy-out), be clear on the accounting implications. Auditors can have different opinions on when risk transfer becomes a settlement item rather than an investment decision. Generally, a buy-in is considered an investment decision, and a buy-out is a settlement. If a settlement is expected next year, consider carefully the assumptions used at this year end, and the value placed on the liabilities, as this will drive the size of the settlement loss next year.

Take actions to minimise the level of auditor queries and streamline your pensions accounting process. If corporate accounting deadlines were tight, consider engaging with your actuary and auditor in advance of the year end in future to agree the principles for setting the assumptions and tackle any initial auditor queries. The improvement in funding positions and shrinking of DB schemes in recent years means pensions disclosures are less material than previously. There is less value in looking to 'stretch' assumptions, possibly unless looking to manage the size of a settlement loss on risk transfer. Instead, consider taking a standardised approach that will be sufficient to meet your auditor's requirements.

Scams

National Spotlight on Scam Awareness

The National Spotlight on Scam Awareness is a critical initiative in the United Kingdom, aimed at tackling the growing issue of pension scams. With an increasing number of individuals falling victim to fraudulent schemes that promise lucrative returns or early access to pension funds, the government and various regulatory bodies have taken steps to raise awareness and educate the public. The focus of the campaign is to protect people's hard-earned savings and ensure that they are not tricked into making decisions that could jeopardise their financial future.

Action Fraud, the UK's national fraud and cybercrime reporting service launched this campaign in response to the 559 reports of pension fraud in 2023, totalling £17,750,635, which averages out at as an average loss of £46,959 per person.

A UK wide campaign, National Spotlight on Scam Awareness has been designed to inform the public about the risks associated with pension scams. These scams often involve fraudulent companies or individuals who attempt to convince pension holders to transfer their pension funds into unregulated or high-risk investments. The victims of these scams may face substantial financial losses and, in some cases, have no means of recovering their funds. The campaign aims to educate individuals about how to identify scams, the warning signs to look out for, and how to protect themselves.

Pension scams have been a growing problem in the UK for several years, with an increasing number of people nearing retirement falling prey to fraudulent schemes. According to the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR), individuals aged between 55 and 65 are particularly vulnerable, as they may be more likely to access their pensions and make important financial decisions. This is backed up by research conducted by both bodies;

FCA ScamSmart – A campaign which provides information to help consumers avoid these scams.

Pensions Scams – TPR Report – The Pensions Regulator generated a 2021 report on pension scams, highlighting the age groups most susceptible to pension scams.

The National Spotlight on Scam Awareness focuses on preventing pension transfers to fraudulent schemes and highlighting the dangers of "too good to be true" investment opportunities that promise high returns with little risk.

The implementation of the National Spotlight on Scam Awareness campaign has been led by several key regulatory bodies such as the FCA and the TPR, working in conjunction with pension providers, consumer protection bodies and financial advisors, and the aim of the campaign is to ensure that the message reaches as wide an audience as possible, particularly those who are close to retirement age.

One of the main components of the campaign is public education, presented via a series of resources such as leaflets, videos and online articles, providing advice to individuals as to how they can protect their pensions. In addition to this, the campaign also aims to engage professionals and financial advisers. Many people rely on financial advisers to help guide their pension decisions, so it is vital that advisers are well-equipped to recognise potential scams and offer sound advice to their clients. As part of the National Spotlight on Scam Awareness, financial advisers and pension providers are encouraged to take a proactive role in educating their clients about the risks of scams, as well as providing them with resources to check the legitimacy of pension schemes and investment opportunities.

The key messages of the National Spotlight on Scam Awareness for pensions are centred around prevention, vigilance, and education, encouraging people to;

- Be wary of unsolicited pension offers – One of the primary ways that a pension scammer operates is by contacting individuals directly via phone, email and, in some instances, social media. The campaign advises people to be cautious about unsolicited approaches, particularly those that offer an opportunity to access their pension funds early, or investment into high return schemes.

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- Check whether the company is regulated - Pension schemes should be provided by companies that are regulated by the FCA or other relevant authorities. The campaign highlights the importance of verifying the credentials of any firm offering pension services and the FCA provide an online register where people can check whether a company or adviser is authorised to provide pension-related services.
 - Avoid high-pressure sales tactics - Scammers often use high-pressure tactics to get individuals to make quick decisions about their pension funds. The campaign urges people to take their time, seek independent financial advice, and avoid rushing into any decisions. This is particularly important because pension scams often involve time-limited offers that are designed to encourage hasty, emotional decision-making.
 - Recognise red flags - The National Spotlight campaign educates people about common red flags that indicate a potential scam, such as promises of guaranteed high returns with little or no risk, unrealistic offers of early pension access, or investments that are not registered with the Financial Services Register. By recognising these warning signs, individuals are better equipped to avoid falling victim to scams.
 - Seek independent advice – The campaign strongly encourages people to seek independent, regulated, financial advice before making any significant decisions about their pension funds. An independent financial adviser can also help individuals assess the legitimacy of offers and providers.

A vital initiative within the UK, the National Spotlight on Scam Awareness for pensions is aiming to combat the rise of pension scams that threaten the financial security of millions. By focusing on educating and empowering individuals to make informed decisions about their pensions, it is up to administrators, such as Spence to ensure we do our part to help people feel safe regarding their pension.

Spence ensure, when processing transfers out of Schemes that;

- We provide a disclosure letter before commencing the transfer quote which directs the member to the ScamSmart website.
- We recommend all transfer request members seek independent financial advice and will not process any transfers of more than £30,000 without this (in line with law).
- Members must complete a transfer out questionnaire in line with the new scams pledge.
- The receiving Scheme is approved by HMRC.
- We receive ID verification of the member
- Checks of the members independent financial advisor are conducted against the FCA Register to ensure they are FCA compliant.
- Due diligence is complete by referring the case to our Irregular Team to complete checks against the receiving Scheme. This is to identify any concerns regarding an improper transfer/pension scam. This check is documented on the member's record.

If there are any concerns raised whilst conducting our checks/checking the paperwork, we contact the member to understand the following;

- The nature of the member contact, e.g. by 'cold call', or whether there have been offers of a 'free pension review' or 'early access'.
- If unregulated introducers and individuals of concern have been involved.
- The nature of the investments, if they are high risk or unregulated, and the member's understanding of how the funds will be invested on their behalf.
- The level of fees being charges, what the member understands of these charges and whether any variable guarantees will be lost on transfer.

Any concerns must be addressed before we continue, and any serious concerns will be reported to the relevant authorities and communicated to the member by;

- Encouraging the member to report the scam or suspected scam to Action Fraud or 101 in Scotland
- Directing members to the FCA's website to report suspicions about a pension transfer
- Reporting any intelligence or concerns to TPR

As the campaign continues to evolve, it will be crucial to keep raising awareness and adapting strategies to address the ever-changing tactics used by fraudsters. Spence will continue to be at the forefront of ensuring members of our Schemes are safe from potential scams.

Inheritance Tax on Pensions: Taxing times ahead

The government is currently consulting on the administration required due to introducing Inheritance Tax (IHT) on pensions from 6 April 2027.

As this is still a couple of years away, let's start with a brief look at the current position.

Pension assets

Pension scheme assets are excluded from the definition of relevant property and so are exempt from IHT. However, pension contributions, pension transfers and pension payments could be in scope.

Pension Contributions

Employer pension contributions are IHT exempt.

Employee, personal and third-party contributions are only exempt from IHT if it is an arm's length transaction not intended to confer a gratuitous benefit on any person. Broadly speaking, this means that if a non-employer contribution is made with the intention of increasing pension death benefits, rather than retirement benefits, then the contribution is potentially IHT liable.

HMRC currently assume if contributions were made more than two years before death, then the member is in normal health, unless there is evidence to suggest otherwise. Such contributions are then considered to be for retirement rather than to increase death benefits

A member being advised to make a pension contribution as part of IHT planning is one example of a contribution which is potentially liable for IHT. A large death bed pension contribution could be another.

Death Benefits

Non-discretionary pension death benefits are treated as part of the member's estate and so are potentially liable to IHT.

Pension transfers

If a member transfers from a pension scheme where there is an existing irrevocable death benefit nomination, the irrevocable nomination falls away. Unless the member then directs death benefits to be paid to their own estate, the change in death benefits could be liable to IHT.

The value of the death benefits will mainly depend on the member's health when they transfer. If the member was in normal health then the value of the death benefits will be negligible. However, if they were in serious ill health then the death benefits could be worth as much as the transfer value.

April 2027 onwards

The current proposal is that from 6 April 2027 most unused pension funds and death benefits will be included within the estate value for IHT purposes. We don't yet have draft legislation to show exactly how this will be achieved or whether there will be any consequential considerations.

We do know that pension schemes administrators will become responsible for paying IHT on pensions and also reporting to HMRC and Personal Representatives.

Following a death notification, the pension scheme will follow current processes to determine beneficiaries, how benefits will be paid, and, where applicable, whether the benefits are within the member's remaining Lump Sum Allowance and Lump Sum And Death Benefit Allowance. The pension scheme will then share this information with Personal Representatives.

Once the Personal Representatives have received this information from all the pension schemes of the deceased,

they will use a new HMRC calculator to determine the proportion of the nil rate band applicable to each pension scheme. The pension scheme will then calculate, report and pay the IHT on the pension benefits, including any late payment interest.

This high level process is still under consultation. There are numerous issues to resolve, mainly around timing, liability and dependencies. HMRC will be responding to the consultation later this year and there will also be a technical consultation on the draft legislation.

So what should schemes do now?

Although these changes aren't due to come in until April 2027 you may have members who are making decisions based on what they think will happen. You may also have members who will be asking for more information.

It's likely to be a while before pension schemes are in a position to make system changes, although any changes will need to be in place by April 2027. In the meantime, we recommend that trustees review the information they currently provide on death benefits to ensure that it accurately reflects the current position and notes that this could change from April 2027.

Helpful Links

[Technical consultation - Inheritance Tax on pensions: liability, reporting and payment - GOV.UK](#)

[Inheritance Tax Act 1984](#)

Virgin Media case update

Background

In June 2023, the High Court handed down a ruling in the Virgin Media Ltd v NTL Pension Trustees II Ltd and Others case ("the Virgin Media case"). Broadly speaking the ruling means that, some historic pension scheme benefit changes could be invalid if the Scheme Actuary had not first provided a specific written confirmation. The High Court decision has since been upheld by the Court of Appeal in July 2024.

The outcome of the Virgin Media case could have a wide-reaching impact on other pension schemes. Specifically, pension schemes which were contracted out between 6 April 1997 and 5 April 2016 could find that previous benefit changes are ineffective, potentially increasing scheme liabilities - in some situations these impacts could be significant.

The technical details

Under legislation, pension schemes which were contracted out between 6 April 1997 and 5 April 2016, such as the National Transcommunications Limited Pension Plan in the Virgin Media case, enjoyed lower National Insurance contributions in exchange for providing a minimum level of benefits. To ensure that at least these minimum benefits were provided, these schemes had to pass a test known as the "Reference Scheme Test" in relation to contracted out rights (also known as Section 9(2B) rights).

One of the legislative requirements was that, in order to amend benefits, the pension scheme trustees had to obtain written confirmation from the Scheme Actuary that the pension scheme still passed the Reference Scheme Test. This was known as a "Section 37 Confirmation".

In the Virgin Media case, their 1999 Trust Deed and Rules set out a reduction to the rate of revaluation of deferred benefits. However, no Section 37 Confirmation could be located, and the courts gave their ruling on the basis it was not obtained and therefore the amendment was void.

What should trustees and scheme sponsors do?

This ruling is creating a lot of uncertainty for pension scheme trustees, sponsors and advisers alike. A number of industry bodies have been in discussions with the Department for Work and Pensions (DWP) who may consider putting in place overriding legislation to mitigate the effect of the ruling. However, these discussions remain ongoing, and their outcome is uncertain. There is also another court case expected to be heard in February 2025 on similar matters but related to a different pension scheme.

While trustees and sponsors may wish to wait to see if the DWP provide overriding legislation and / or wait for the outcome of the other court case expected in February 2025, we believe it would be prudent for you to undertake an initial assessment to establish what changes, if any, were made to your scheme's benefits during the contracting out period. Depending on the outcome of this initial assessment it may be appropriate for you to seek some formal legal advice. Scheme sponsors may also face pressure from company auditors to investigate and disclose information on this matter in your next set of company accounts.

Next steps

We recommend discussing this matter at your next trustees' meeting. Your Actuary or Scheme Consultant can also provide further details on how this might affect your scheme and how we may be able to assist you.

Coming up next: Summarising 2025 pension expectations

Although there may be many unexpected surprises ahead, we also know that several pension related initiatives are due to progress further this year.

January to March

The **Pensions Investment Review** call for evidence closed on 16 January. Several measures were proposed which are designed to accelerate consolidation and to move the focus from cost to value. These include a cap on the number of defaults which can be provided by a Master Trust or Group Personal Pension Provider, a minimum size for default funds, permitting non-consent transfers of contract based pensions, requiring employers to regularly review the value provided by their pension scheme and making the advice to employers on pension scheme selection an FCA regulated activity.

The HMRC consultation on how to administer **Inheritance Tax on Pensions** will close on 22 January. The response and a technical consultation on draft legislation will follow later this year, ahead of the 6 April 2027 implementation date.

While DWP are currently considering whether to use secondary legislation to resolve potential issues arising from **Virgin Media v NTL Trustees**, a further case is expected to be heard in February which could cover related issues. It could then be several months before the judgement is published.

By 15 February the Financial Reporting Council (FRC) will have published their response and finalised guidance following their consultation and annual review of **AS TM1**, the Statutory Guidance for Statutory Money Purchase Illustrations. Although this will be effective from 6 April 2025, FRC have proposed that no changes are made.

The FRC consultation on the **UK Stewardship Code** will close on 19 February with final rules expected in the first half of this year. The code applies to asset owners, such as pension schemes, and service providers who support asset owners in exercising their stewardship responsibilities.

The outcome of the **PPF Levy Consultation 2025/25** was expected in December 2024. This may result in a consultation on the legislation which currently restricts year on year levy increases to 25% and so prevents the levy being substantially reduced or removed. Any future reduction, or even removal, of the PPF levy will be welcomed by many solvent pension schemes.

Over the coming months we're expecting the government response to **Options for Defined Benefit Schemes: Open Consultation**. This proposed to make it easier for scheme trustees to extract scheme surpluses which can then be passed to employers and members. A surplus could only be extracted if member benefits are safe and surplus extraction will be conditional on how that surplus is used. We could also have further details on a **Public Sector Consolidator** as well as primary legislation providing for a new compulsory framework applicable to **Defined Benefit Superfunds** and other relevant consolidation models

Winter could also bring a legislative response to **Helping savers understand their pension choices: Supporting individuals at the point of access**. This would require trustees of occupational pension schemes to offer a decumulation service with products at an appropriate quality and price. Schemes would be required to devise a backstop decumulation solution, based on the general profile of their members. A member would be placed into this backstop solution if they access their pension assets without making an active choice.

The FRC consultation on **Technical Actuarial Standard 300: Pensions (TAS 300)** will close on 10 March with the response expected in Quarter 3, to be effective a month after publication. There are several proposed revisions relating to the new DB funding regime, including requiring those undertaking actuarial work on scheme funding to consider what prudence is appropriate given the material risk exposure of the pension scheme.

Spring

Trustees must submit their **Statement of Strategy** to TPR as soon as is reasonably practicable once they've prepared or revised their Funding and Investing strategy. This is generally considered to be ten working days. For this year, TPR will not expect these to be submitted until the new digital service is live in the Spring. As TPR do not

expect trustees to delay the valuation there could be a relatively short window during which recently completed Statements of Strategy should be submitted.

Also in Spring, the Information Commissioner's Office (ICO) will be updating their guidance on **Handling Cyber incidents**.

It's possible that spring could also be when DWP propose amendments to **The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021**. It is hoped that this will address some of the unintended consequences of removing, or modifying, the statutory transfer right when specified scam warning flags have been identified. **The Pension Scams Industry Group (PSIG)** is also due to bring forward proposals for PSIGs future direction in the first half of this year.

It wouldn't be spring without a **Spring Statement** and a forecast from the Office for Budget Responsibility (OBR) and this is due on 26 March. The Chancellor has previously confirmed there will only be one major fiscal event a year, so this won't be a Budget Statement. However, pension related announcements are always possible.

April to June

On 6 April HMRC's **Digitisation of Relief at Source (DigiRAS)** should be implemented, replacing the existing way in which Relief at Source pension schemes operate, with HMRC using individual level data to more accurately calculate member tax relief.

6 April is also the date from which HMRC will start making top-up payments to members of Occupational Pension schemes using Net Pay if member's total taxable income is below the personal allowance. This solution to the **Low Pay Anomaly** will apply to pension contributions paid in 2024/25 onwards.

Just over eight years after it was first announced in the March 2016 Budget, the first schemes will be connecting to the **Pensions Dashboard** by 30 April, starting with Master Trusts with over 20,000 members and FCA regulated pension scheme with over 5,000 members. When enough schemes have connected there should be a further DWP consultation on when pension scheme members will have access to Dashboards.

July to December...or earlier.

The joint FCA/DWP/TPR consultation on the **Value for Money Framework** closed in October 2024 and a response is expected this year. This will then be followed by primary legislation, and then consultation on secondary legislation and FCA Rules. Trustees and IGCs of DC pensions will assess various metrics including investment performance, service and costs to determine a Value for Money RAG rating for their scheme. Pension arrangements rated as not Value for Money will be unable to accept business from new employers. Arrangement rated as not Value for Money and unable to achieve Value for Money within a reasonable time will need to consider transferring members to another arrangement.

We can also expect further details on **Automatic Consolidation** of defined contribution deferred small pension pots. The government intends that a central clearing house will be used to consolidate Automatic Enrolment pensions worth £1,000 or less which haven't received a contribution in the previous year. Employees could also be given the option to choose the pension scheme to which their employer contributes.

The **Extension of Automatic Enrolment** to those aged 18 and the removal, or lowering, of the lower limit of the qualifying earnings band has long been promised for the mid 2020's. A consultation on how this could be phased in is possible.

Last, but certainly not least, we are due a **Pension Schemes Bill**. This should include several of the above initiatives as well as ensuring that The Pensions Ombudsman decisions on overpayment are enforceable without a court order and allowing the Pension Protection Fund (PPF) and Financial Assistance Scheme to make terminal illness payments to those with a life expectancy of 12 months, instead of only up to 6 months.

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