

Dear Colleagues

Pension Fund Surpluses

The Options for Defined Benefit (DB) Schemes consultation commenced in February 2024 against a backdrop of improved DB funding levels but with a legislative environment that made it difficult for trustees to use surpluses for the benefit of either members or employers.

GMB's main concern is that robust safeguards are needed to protect member benefits.

The key government responses to the consultation are:

- A statutory power to allow trustees to modify scheme rules to allow surplus sharing
- Further clarity that trustees must act in accordance with their overarching duty to beneficiaries
- The Pensions Regulator (TPR) to provide guidance to trustees on surplus extraction
- To extract surplus, schemes will need to be at least 100% funded with actuarial certification that this funding test is met
- Surplus returned to employers will be taxed at the current rate of 25%

The changes are unlikely to come fully into force until the end of 2027 once further regulations are approved.

TPR has already issued some guidance stating that

- Trustees and employers should work collaboratively and not put trustees under undue pressure, for example by looking to replace trustees with individuals more likely to agree to return surplus to the employer
- Trustees might develop a policy on surplus extraction, including details of how members and sponsors are likely to benefit, and also reach agreement with the employer as to how they expect surpluses to be distributed. Such an agreement might include:
 - How they anticipate the surplus payment would be spent
 - When and under what circumstances surplus could be distributed
 - What the governance and sign-off processes around surplus distribution would look like.

Surplus flexibilities may have a large impact on both trustees and employers. Trustees must tread carefully, ensuring that any surplus extraction is underpinned by robust funding, clear governance and a transparent rationale. **It's time to start planning!**

New Pensions Commission

The UK government has announced the formation of a new Pensions Commission, tasked with bringing forward proposals for improving outcomes for future pensioners. A review of State Pensionable Age (SPA) will operate alongside it.

Current research shows there are still large sections of the population under-saving for retirement and the Commission will consider the long-term future of the UK's pensions system, including factors such as:

- The outcomes and risks for future pensioners, to 2050 and beyond
- Ways to improve those outcomes, especially for those at greatest risk of under-saving for retirement
- The roles played by state and private pensions, and wider savings
- The challenges of an ageing population

The Commission is expected to produce a final report, in 2027, making proposals for changes 'beyond the current Parliament' (which could last until 2029). The goal is a mid-21st century pensions framework that 'delivers financial security in retirement' whilst being 'strong, fair and sustainable.'

SPA review

The government has also announced a statutory review of the rules underlying SPA and has asked an independent reviewer (Dr Suzy Morrissey, Deputy Director of the Pensions Policy Institute) to advise on:

- The merit of linking SPA to life expectancy with a view to intergenerational fairness
- The sustainability of the state pension system
- Usage of automatic SPA adjustment mechanisms

She must provide, amongst other things, impact assessments for different groups of people, age cohorts and regions, and report on the views of organisations and experts with an interest in the subject.

Inheritance Tax on Pensions

In the Autumn Budget the government announced that for deaths after 5 April 2027:

- Most unused pension funds and death benefits will be included in the value of a person's estate for IHT purposes
- Pension scheme administrators (PSA) will be responsible for reporting and paying any IHT due on pensions to HMRC.

HMT consulted on these proposed changes and following significant concerns raised by the pensions industry, HMT has amended its proposals.

The key changes are:

- All death-in-service benefits from registered pension schemes will be excluded from the value of an individual's estate for IHT purposes
- Personal representatives (PR) and not PSAs, will be responsible for reporting and paying any IHT due on pension benefits
- PSAs will have new duties to support PRs in paying IHT on pension benefits
- To support PRs and beneficiaries who may struggle to pay IHT on pensions, the government will offer multiple payment options. These include allowing pension beneficiaries to instruct

- PSAs to pay IHT in respect of pensions on their behalf – though the pension beneficiaries remain liable for the IHT.

Investment Trustee Training

Our actuaries, First Actuarial, have advised that there are spaces available at their online *Investment trustee training*. This is a half-day interactive webinar, which runs on Thursday 11 September 2025, from 13:30pm to 16:30pm. There will be some videos to watch beforehand.

[Find out more and book your place.](#)

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