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Pensions Bulletin

The Drake Review

The Government relaunched the Pensions Commission in July 2025, chaired by Baroness Drake, to undertake a long-term review of pension adequacy and retirement outcomes in the UK. The review was launched against evidence that around 15 million working-age people are not on track for an adequate retirement income The Commission is expected to make final recommendations in 2027.

The Commission's core task is to determine how the UK can deliver adequate retirement incomes for future pensioners, particularly those at risk of under-saving or poverty in retirement. It is examining:

- Whether current pension saving levels are sufficient.
- How retirement outcomes can be improved for low earners.
- The role of private pensions and wider savings alongside the State Pension.
- How risks associated with Defined Contribution (DC) pensions can be managed more effectively.
- Whether automatic enrolment remains fit for purpose in a changing labour market.

Although the Commission has not yet published final recommendations, several themes have emerged:

1. Expansion of Automatic Enrolment (AE) - there is growing discussion around implementing legislation passed to

    - Lower the enrolment age
    - Remove the lower earnings threshold
    - Phase in increased Contribution Rates (from a combined 8% to a combined 12-15%)

2. Increase coverage of the Self-Employed

3. Consider how savers can convert pension pots into sustainable retirement incomes and manage longevity and investment risks more effectively

4. Address Pension Inequalities

Particular attention is being paid to:

- Women with interrupted careers.
- Carers.
- Lower earners.

- Private renters approaching retirement with housing costs still to meet.

The GMB and other Trade Unions recently met with Baroness Drake and her team. In addition to the above she advised that

- There is currently no case for an in increase in the State Retirement Age given the fall in average mortality rates (mainly caused by increased poverty under austerity)
- A set age for retirement does not take into account socio-economic, class, occupational and other factors, so need to build in mitigations
- There are many economic, demographic and fairness issues to consider e.g. economic growth, productivity, ageing population, youth poverty etc
- She is happy to consider [enhanced] AE for particular sectors (e.g. CARE)
- Collective Defined Contribution Schemes (CDCs) are performing [much] better than expected and legislation has now been enacted to facilitate expansion

Don't Put All Your Eggs into One (AI) Basket

The Pensions Regulator (TPR) has published guidance aimed at helping trustees identify and manage hidden exposure to AI-related investments in pension scheme assets.

TPR notes that AI-related investment is increasing in world markets and warns that there might be hidden exposure to AI-related risks even if a portfolio is diversified because AI is *increasingly embedded across sectors*.

All schemes are expected to *maintain high standards of investment governance and manage risk over the short, medium, and long term*.

The Budget

In the budget John Healey, Chancellor of the Exchequer, announced a new pension tax allowance for low-income pensioners whereby, from 6 April 2027 until (at least) 5 April 2030 there will be a new 'pension tax allowance' for low-income pensioners. Those with incomes up to the level of the full New State Pension, regardless of source, will not pay income tax. The allowance will be withdrawn for those with incomes above the full New State Pension, at a rate of £1 for every £3 over. The allowance will be applied automatically without the need to make a claim and will be increased annually in line with the New State Pension for the remainder of the current Parliament.

Other measures include:

Removal of the two-year rule for the taxation of lump sum death benefits – recipients will no longer be taxed solely because lump sum death benefits are paid after the two-year period. The change applies to payments made on or after 28 October 2026.

A change to HMRC's definition of terminal illness for pensions access – the Government will amend the definition of terminal illness to make it easier for terminally ill individuals to access their pensions savings and allow for overseas registered medical practitioners to provide medical evidence.

These changes will be introduced through the Finance Bill 2026-27.

Local Government Pension Scheme

The Ministry for Housing, Communities and Local Government (MHCLG) published the LGPS statistics for England & Wales 2025 to 2026

Highlights in the report include:

- total expenditure of £20 billion, an increase of 4.6 per cent on 2024/25
- total income of £22.9 billion, an increase of 5.2 per cent on 2024/25, mainly due to an increase in employer contributions
- employer contributions of £10.6 billion, an increase of 4.6 per cent on 2024/25
- employee contributions of £3.4 billion, an increase of 5.9 per cent on 2024/25
- the market value of LGPS funds on 31 March 2026 was £437.9 billion, an 8.8 per cent increase compared to 31 March 2025
- 116,115 retirements in 2025/26, an increase of 4.8 per cent on the number of retirements in 2024/25.

Local Government Pension Scheme – Scotland

The LGPS – Scotland recently published its Annual Report which can be found here

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