# First Briefing, August 2026
# Pension Schemes Act 2026: Key changes for DB schemes

The Pension Schemes Act 2026 has arrived. After much back and forth between the Commons and the Lords, the Pension Schemes Bill finally received royal assent on 29 April 2026, bringing in a range of pension reforms.

While the Act affects Defined Benefit (DB), Defined Contribution (DC) and Local Government Pension Scheme (LGPS) arrangements, several of its most significant provisions are aimed at DB schemes.

This briefing highlights the key provisions trustees and employers should have on their radar.

## Surplus payments

### *Distributing surplus to employers*

Under current legislation, it's hard for DB schemes to distribute surplus to employers except when a scheme is winding up. Nor is it generally possible to distribute surplus to members in the form of a lump sum.

At present, schemes can only return surplus to employers if they are fully funded on a buy-out basis. Some ongoing schemes may be completely barred from paying surplus due to wording in their rules.

Trustees must also be satisfied that any surplus payment is in the interests of members, making the question when payments can be made more uncertain.

The Act will make it easier for ongoing schemes to make surplus payments, containing provisions that will:

- Allow trustees to modify scheme rules by resolution, in order that surplus payments can be made from an ongoing scheme, or in order that existing restrictions can be removed or relaxed
- Repeal section 251 of Pensions Act 2004, which required trustees of certain schemes to pass a resolution by 6 April 2016 to continue to be able to pay surplus to the employer
- Remove the existing *interest of members* requirement.

However, the new flexibility will be accompanied by safeguards. Before any surplus can be released, schemes will need to satisfy conditions set out in regulations, including actuarial certification that the scheme's funding level meets the required threshold.

A consultation on draft regulations launched in June 2026 sets the bar at 100% funded on a low-dependency basis, subject to a three-year forward-looking test. The employer is also required to agree to any surplus payment.

The consultation closes on **2 September 2026**. TPR is then expected to consult on supporting guidance later this year, ahead of the new surplus regime coming into force in 2027.

For more detail on the consultation on regulations, **read our briefing – Surplus flexibilities for Defined Benefit schemes**.

### *Distributing surplus as a lump sum to members*

Following the announcement in last year's Autumn Budget, draft legislation was published in July 2026, setting out how DB schemes will be able to pay surplus to members and beneficiaries as an authorised lump sum, where scheme rules permit it and the trustees agree. The scheme would have to be in surplus on the same basis as required for surplus distributions to employers.

These lump sums would be taxed at the recipient's marginal rate, and the member would have to have reached their Normal Minimum Pension Age (currently 55 but due to rise to 57 in 2028). This new lump sum is expected to be introduced from 6 April 2027.

## Virgin Media remedy

The Act delivers a practical solution for schemes affected by the Virgin Media judgment. The legislative remedy took effect immediately after royal

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assent, providing a potential route through what has been a complex and challenging issue for many schemes.

Trustees can ask their Scheme Actuary to confirm that amendments would not have breached the contracting-out requirements. Whether that confirmation can be given will depend on the Scheme Actuary's professional judgement and the scheme's individual circumstances.

Trustees may wish to discuss with their advisers whether the remedy is available and appropriate for their scheme.

For more detail, **read our briefing – Virgin Media remedy goes live**.

## DB superfunds

A DB superfund is a vehicle that can be used to consolidate DB schemes. When a scheme transfers to a superfund, the link with the original sponsoring employer is broken, meaning there is no substantive employer covenant.

Instead, the protection for members is supported by a separate *capital buffer*: ring-fenced assets that are available to the scheme in certain situations and, in effect, replace the employer covenant.

The Pensions Regulator (TPR) currently regulates superfunds through an interim regulatory regime. To date, there is only one authorised superfund, namely Clara Pensions. The Act introduces a new statutory authorisation and supervision regime for DB superfunds, which will be overseen by TPR. The Regulator must authorise a scheme before it can be a superfund, as well as approve transfers to a superfund.

Superfunds must have policies and procedures to ensure they are:

- Effectively managed and administered in members' interests
- Compliant with relevant legislation.

A consultation on regulations is expected in early 2027, with the new statutory regime expected to take effect in 2028.

## Pension Protection Fund levy

At present, the Pensions Act 2004 requires the Pension Protection Fund (PPF) to set an annual levy collection target with a maximum 25% increase over the previous year's estimated levy.

This creates a practical constraint. If the PPF ever sets the levy to zero, it can never raise a levy again. Similarly, if it sets a low levy, but needs to increase it materially in the following year, it will not be able to.

Changes introduced by the Act came into force on 29 June 2026, giving the PPF significantly greater flexibility in setting future levies:

- It will be able to set a nil levy in one year but still raise a levy in future years.
- There will be greater flexibility in the amount the levy can increase from year to year.

The PPF had already announced that for 2026/27 it would set a nil levy estimate for conventional schemes, but would charge a risk-based levy for alternative covenant schemes (ACS). An ACS is a scheme where there is no substantial employer covenant, such as a DB superfund.

According to the Government, these changes are expected to come into force in 2027.

## Pension increases in the PPF

Currently, PPF compensation for pensions built up before April 1997 generally does not receive annual increases.

The Act enables the PPF to increase compensation it pays in respect of pre-April 1997 (pre-97) pensions, but only where the original scheme provided for such increases. This will include schemes that only gave pre-97 increases to post 88 Guaranteed Minimum Pensions (GMP). The Act allows compensation in respect of pre-97 pensions to increase in line with inflation capped at 2.5% per annum.

The PPF intends to give the first pre-97 increase in January 2027. However, where the original scheme only gave increases to post 88 GMPs, the intention is to give the first increase in January 2028. The new pre-97 increases will not, in general, be backdated.

## What happens next?

- **2 September 2026** – DB surplus regulations consultation closes
- **7 September 2026** – deadline for comments on draft legislation for member surplus payments
- **Later in 2026** – TPR consultation on surplus guidance
- **2027** – new surplus regime takes effect
- **2028** – new statutory superfund regime expected to become operational