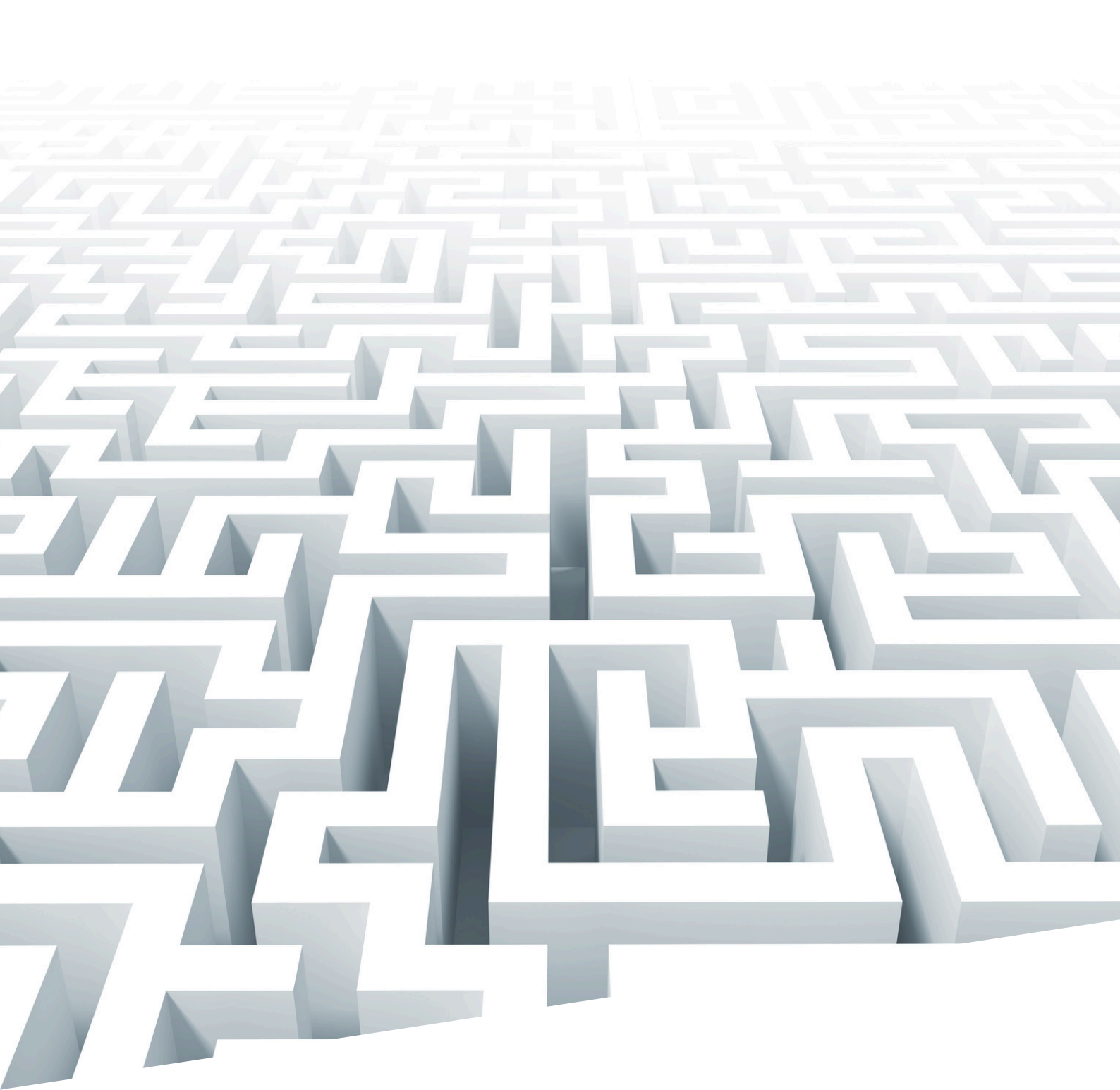




INSIGHT

DEVELOPMENTS IN OCCUPATIONAL PENSIONS

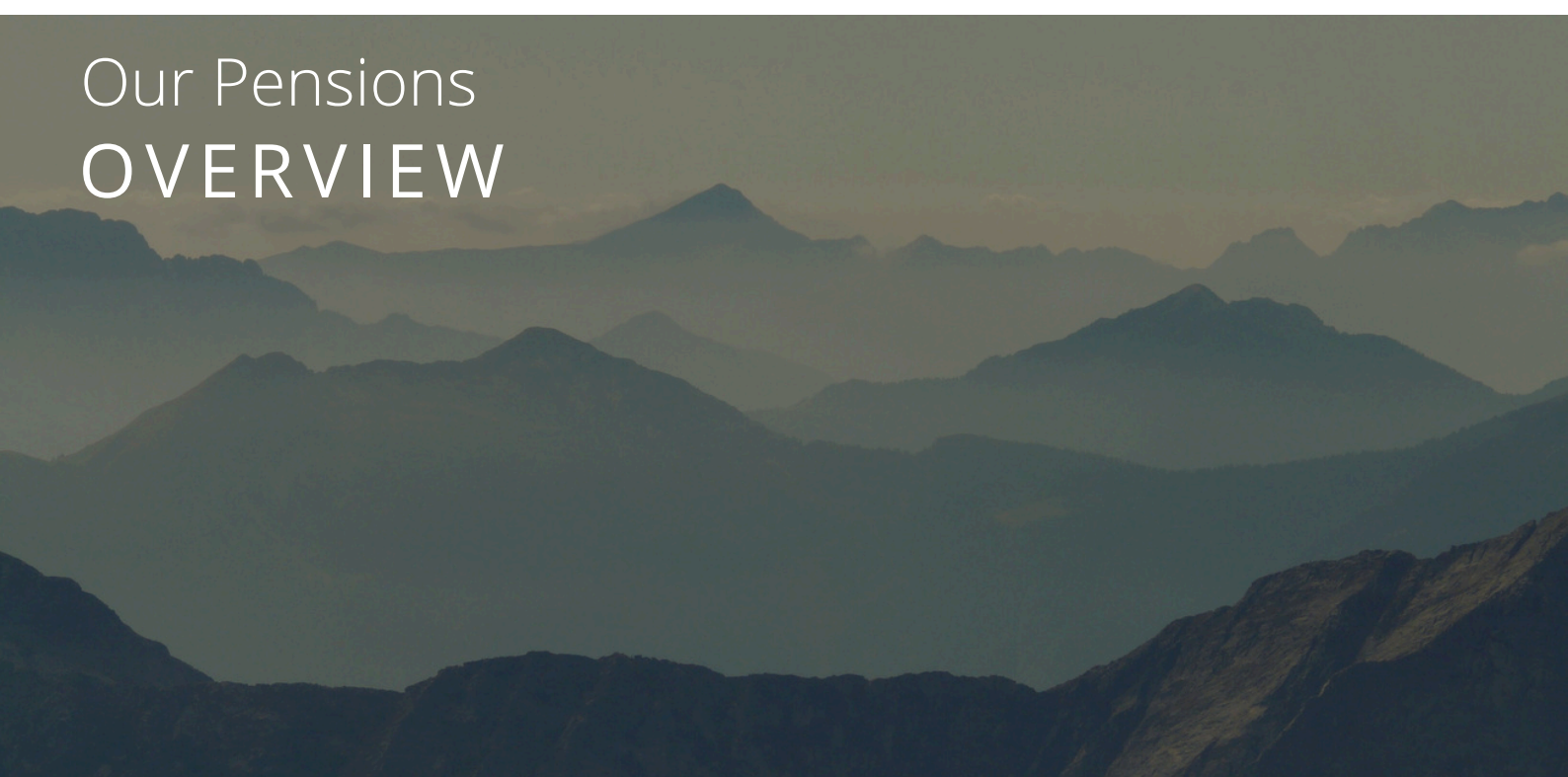
OCTOBER 2026

hughespricewalker

CONTENT

- 4- VAT treatment of pension scheme fees: Latest HMRC position
- 7- Inheritance tax on pensions - what happens?
- 9- DWP publishes updated pensions roadmap
- 10- Pensions Dashboards - what happens next
- 12- Adapting scheme governance for AI
- 14- Proposed changes to GMP conversion regulations
- 15- Key items to add to your agenda
- 16- News

Our Pensions
OVERVIEW



SUMMARY

Q4 2026 HEADLINES IN A NUTSHELL

VAT treatment of pension scheme fees: Latest HMRC position (all in scope schemes)

HMRC's revised VAT guidance may allow sponsoring employers to recover more VAT on pension scheme investment management costs. However, VAT recovery remains dependent on the contractual, invoicing and payment arrangements, and some uncertainty remains in relation to administration costs. **Action:** Trustees should review existing VAT recovery arrangements with the sponsoring employer and the scheme's VAT adviser and ensure contracts, invoices and payment records support the current treatment before making any changes. More on page 4.

Inheritance tax on pensions – what happens? (all schemes)

From 6 April 2027, most unused pension funds and pension death benefits will be brought within a deceased member's estate for Inheritance Tax purposes. The changes will also introduce new information-sharing, withholding and administration requirements, which may make some death benefit cases more complex. **Action:** Trustees should review death benefit processes and communications with the administrator. More on page 7.

DWP publishes updated pensions roadmap (all schemes)

The updated pensions roadmap sets out the phased timetable for reforms affecting DB, DC and collective DC schemes, structured around enable, implement, and embed and scale. Timings remain indicative and may change. **Action:** Trustees should review the roadmap and plan ahead for reforms relevant to the Scheme. More on page 9.

Pensions Dashboards – what happens next (all in scope schemes)

Following connection, trustees must maintain data quality, oversight and ongoing dashboards compliance. **Action:** Keep dashboards on meeting agendas and monitor ongoing compliance. More on page 10.

Adapting scheme governance for AI (all schemes)

AI use in pensions is increasing rapidly, creating new risks around governance, data protection, fraud, member communications and decision-making. Trustees are expected to understand how AI is being used by their advisers and administrators and ensure appropriate controls and oversight are in place. **Action:** Trustees should review AI use and ensure proportionate governance and controls are in place. More on page 12.

Proposed changes to GMP conversion regulations (DB schemes with GMPs)

DWP is consulting on changes intended to simplify GMP conversion, including actuarial certification of the conversion process, clarification of survivor benefits and simpler employer consent requirements. **Action:** Trustees considering GMP conversion should review the proposals and their impact on current plans. More on page 14.

Key items for trustee agendas (all schemes)

Trustees should keep key developments on their agendas, including the Pension Schemes Act 2026, dashboards, cyber resilience and integrated risk management, with DB schemes also considering endgame planning and Virgin Media implications. **Action:** Review the agenda and identify priorities relevant to your scheme. More on page 15.

General News

Recent pensions news has covered the PPF's zero levy for 2027/28, TPR's warning on AI-related investment risks and the latest Budget announcements affecting pension taxation, retirement planning and the wider pensions sector. More on page 16.

VAT TREATMENT OF PENSION SCHEME FEES: LATEST HMRC POSITION



Summary

HMRC has significantly revised its approach to VAT recovery on occupational pension scheme costs. From 18 June 2025, HMRC no longer regards pension scheme investment management costs as having "dual use" by both the employer and pension trustees. Instead, where the employer incurs the costs, the related VAT is generally recoverable by the employer, subject to the normal VAT recovery rules applicable to that employer.

This is a helpful change for sponsoring employers of defined benefit pension schemes and may increase VAT recovery. However, HMRC's June 2026 VAT Input Tax Manual update means recovery still depends on the underlying contractual, invoicing and payment arrangements, particularly where services are contracted for by the trustees.

Employers and trustees should review existing VAT recovery arrangements and consult a VAT expert. In particular, they should distinguish between investment management costs, where HMRC's policy change is generally favourable, and administration costs, where there is a credible industry concern that HMRC has created an inconsistency between the VAT Input Tax Manual and VAT Notice 700/17 (HMRC guidance on how to claim input tax on funded pension scheme expenditure, which was first issued in 2012 and last updated on 9 July 2026).

For administration costs under established arrangements, it may be preferable to gather the relevant contracts, invoices and payment records and wait for HMRC clarification before making structural changes solely to preserve VAT recovery, unless advisers identify a clear and immediate compliance risk.

Background

Historically, HMRC distinguished between:

- **Administration costs** (for example, actuarial, legal and audit services), where VAT recovery by the sponsoring employer was generally permitted; and
- **Investment management costs**, where VAT recovery was more restricted and often required apportionment because HMRC considered the services to be used by both the employer and the pension trustees.

Following the CJEU decision in PPG Holdings (C-26/12), HMRC allowed greater recovery of VAT on investment costs where the employer contracted for and paid for the services. However, in many arrangements HMRC continued to require a "fair and reasonable" apportionment of VAT between the employer and trustees because of perceived dual use.

New HMRC Policy

In Revenue & Customs Brief 4 (2025), HMRC announced a further policy change effective from 18 June 2025. Under the revised approach:

- Investment management costs are no longer regarded as being subject to dual use.
- Associated input tax is treated as the employer's input tax where the employer incurs the cost.
- The employer may recover VAT in full, subject to its normal partial exemption and business/non-business recovery restrictions.

HMRC subsequently updated its VAT Input Tax Manual on 4 June 2026. The updated guidance states that input tax incurred by an employer on services provided in relation to its funded occupational pension scheme will be the employer's input tax and will be treated as an overhead of the employer's business. However, it also places greater emphasis on the employer being the contractual recipient of the relevant services, holding suitable evidence such as an invoice in its name, or relying on a trustee-onward-supply structure where the trustees contract for the services.

There is also a wider industry concern that HMRC may have created a genuine inconsistency between the updated VAT Input Tax Manual and VAT Notice 700/17. The Manual appears to place significant weight on the employer being the contractual recipient of the services, with the invoice and payment flow supporting that position. By contrast, VAT Notice 700/17 is framed more broadly.

This offers guidance on how employers and trustees can claim input tax on funded pension scheme expenditure and does not, on its face, resolve every practical case where trustees contract for administration services but the economic burden is met by the employer. That difference matters because many established arrangements for administration costs were designed around HMRC's previous, more pragmatic approach.

The practical point is that existing arrangements may not automatically fit the updated HMRC view. Until HMRC clarifies whether it intended to narrow recovery for administration costs, there is a credible argument that existing arrangements should not be changed hastily where they have previously been adopted in good faith and are supported by VAT advice.

Actions for Employers and Trustees

We recommend that employers and trustees review whether VAT is currently being recovered, which party is claiming recovery, what categories of scheme costs are involved, and whether the contractual, invoicing and payment arrangements support that treatment. However, where the issue is continued recovery of VAT on administration costs under existing arrangements, clients may wish to avoid making immediate structural changes solely in response to the June 2026 Manual update until HMRC has clarified the apparent inconsistency with VAT Notice 700/17. In the meantime, clients should consult a VAT expert on current arrangements, including on:

- whether opportunities for future VAT recovery are being maximised;
- whether there is scope for recovering VAT on past invoices (recovery may be possible for up to four years prior to a VAT return); and
- whether a trustee-onward-supply arrangement, VAT grouping, or direct employer-contracting model is appropriate, recognising that some routes may require trustee VAT registration and additional compliance.

Conclusion

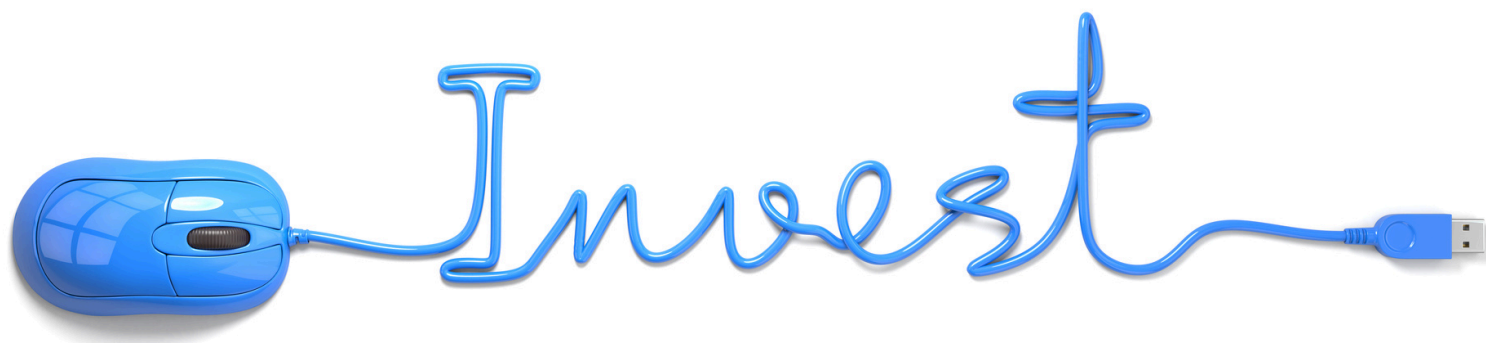
HMRC's revised approach is generally favourable for sponsoring employers where the arrangements support employer recovery and may allow increased recovery of VAT on pension scheme investment management costs from 18 June 2025 onwards.

However, the June 2026 VAT manual update also makes clear that entitlement to recover VAT remains highly dependent on the contractual recipient of the services, the invoicing position, evidence of payment and any trustee-onward-supply or VAT-grouping structure.

Existing arrangements should therefore be reviewed with VAT advisers before clients assume that historic or future VAT recovery is secure. That review should distinguish between investment management costs, where HMRC's policy change is more clearly favourable, and administration costs, where the interaction between the Manual and VAT Notice 700/17 is less clear. For administration costs, a sensible interim position may be to gather the relevant contracts, invoices and payment records, understand the potential exposure and wait for HMRC clarification before changing established recovery structures unless advisers identify a clear and immediate compliance risk.

Important note

HPW is not a tax adviser. Clients should take advice from their own VAT adviser before changing recovery arrangements, submitting claims for past VAT or relying on the revised HMRC guidance.



INHERITANCE TAX ON PENSIONS – WHAT HAPPENS?



From 6 April 2027, changes to Inheritance Tax (IHT) will bring most unused pension funds and pension death benefits within the value of a deceased member's estate for IHT purposes. Historically, many Lump Sum Death Benefits (LSDBs) have generally been outside the estate, meaning they were not normally included when calculating IHT.

The changes will not automatically mean that IHT is payable on pension benefits in every case. Certain benefits will remain excluded, and exemptions may apply depending on the circumstances and who receives the benefits. However, the changes will affect how some estates are assessed and introduce new responsibilities for those involved in administering pension benefits following a death.

What does this mean in practice?

Personal representatives (PRs) will be responsible for reporting and paying any IHT due on the estate, including the relevant pension benefits. Pension scheme administrators will have new responsibilities to provide information to PRs and respond to requests within specified timescales.

The new rules also introduce formal processes for withholding benefits and, where the relevant conditions are met, paying IHT to HMRC from available pension benefits. This means some death benefit cases may involve additional steps and could take longer to settle, particularly where information is outstanding or a withholding notice has been received.

Beneficiaries may also be affected, as they could be jointly liable with the PRs for the IHT attributable to benefits they receive. Scheme administrators may face liability in certain circumstances too, including where they fail to comply with a valid notice.

What should Trustees and administrators be considering?

Although the responsibility for dealing with IHT will largely sit with PRs, Trustees and administrators should consider what the changes mean for their existing arrangements.

This is likely to include reviewing death benefit procedures, updating standard letters and member communications, checking that systems can record and monitor information requests and notices, and ensuring staff understand the new requirements and timescales. Administration agreements and service levels may also need to be reviewed to make sure responsibilities are clear.

Clear communication will be particularly important. Beneficiaries may have questions about how the changes affect them, and administrators will need to explain the process without giving individual tax advice or implying that IHT will necessarily be payable.

What happens next?

With the changes due to take effect in April 2027, there is time to review current processes and identify what needs to change before the new requirements come into force. Trustees should discuss the implications with their administrators, while administrators should continue to monitor HMRC guidance and prepare for the additional requirements.

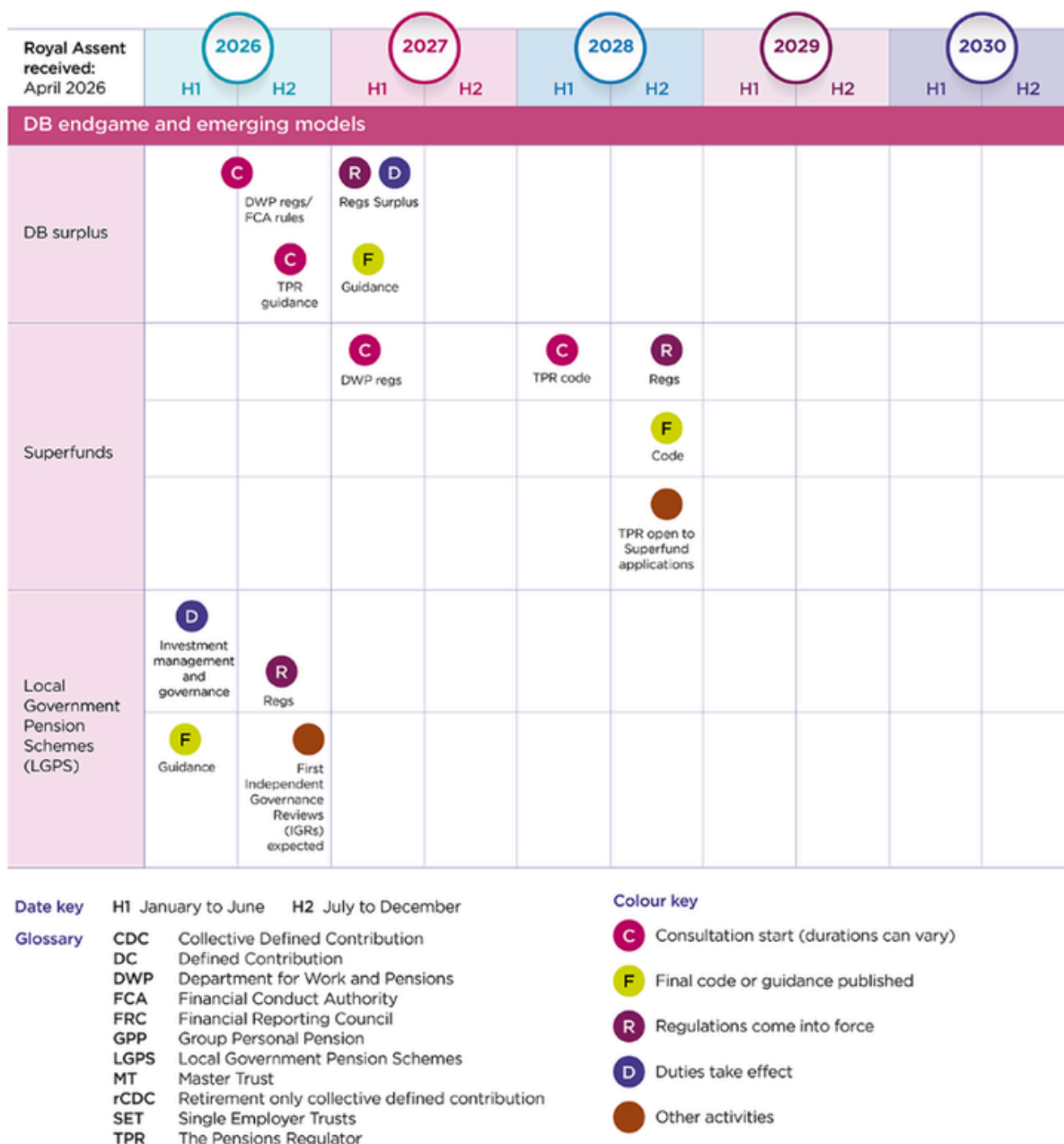
The key point is that this is not simply a change to the tax treatment of pension benefits. It also brings new information-sharing and administration requirements, which need to be understood and built into everyday processes before April 2027.

HMRC is expected to share further guidance over the next couple of months.



DWP PUBLISHES UPDATED PENSIONS ROADMAP

The new Regulatory Roadmap has been updated and brings together the various pensions reforms into a clear plan. It includes matters related to the Pensions Schemes Act 2026 for defined benefit (DB), defined contribution (DC) and collective DC schemes. The roadmaps form part of the context of the suite of documents published by the Pensions Regulator in July. They build on the timelines published in June 2025 and are split into three broad phases: enable, implement, and embed and scale. The DB roadmap is below (source: The Pensions Regulator). The DC roadmap can be found on [the Pensions Regulator's website](#) or [the DWP's website](#).



The timings set out in the roadmap are indicative and remain subject to policy development, legislation and implementation.

Torsten Bell MP, Minister for Pensions, said: “[The roadmap] means everyone can see how we anticipate the next phase of the reform programme evolving, rightly responding to the calls from industry for more certainty. It takes a pragmatic approach, reflecting on valuable engagement right across the industry.”

PENSIONS DASHBOARDS – WHAT HAPPENS NEXT



The 31 October 2026 connection deadline marks an important milestone for pensions dashboards. The Pensions Regulator (TPR) has warned that failure to comply with the dashboards duties may result in regulatory action. Much of the work so far has focused on preparing data and connecting schemes, but the focus is now shifting to what happens next and making sure schemes are ready for members to use dashboards.

Connection is not the finish line

The MoneyHelper Pensions Dashboard is currently expected to become publicly available during the 2027/28 financial year. The precise launch date has not yet been confirmed and the industry is expected to receive at least six months' notice. The time between connection and public launch gives trustees, administrators and providers an opportunity to test their processes, address any outstanding issues and make sure they have the resource in place to deal with the additional work dashboards may bring.

Data accuracy and the member experience

TPR continues to emphasise the importance of accurate, up-to-date data, particularly value data, and expects schemes to return this information to members within statutory timeframes. Trustees therefore need to be confident that their schemes can match members effectively and provide accurate pension information when required.

The Money and Pensions Service (MaPS) is also continuing to test the MoneyHelper Pensions Dashboard with consumers and real pension data on a wider scale, helping to identify issues and improve the service ahead of public launch.

Trustees should consider what happens when a member cannot find their pension, questions the information displayed or contacts the scheme with a query. There need to be clear processes in place to investigate and resolve these issues.

Trustees' responsibilities after connection

Connecting to dashboards is not a one-off exercise. Trustees may rely on their administrators and technology providers to undertake many of the practical activities involved, but they remain accountable for ensuring their scheme meets its legal obligations. They should therefore maintain appropriate oversight and monitor ongoing compliance, including:

- Ensuring all relevant members are connected and taking action where they are not.
- Maintaining an ongoing connection to the dashboards ecosystem.
- Maintaining data quality and implementing improvements where required.
- Reviewing processes in light of testing and making improvements where necessary.
- Ensuring appropriate arrangements are in place for the required reporting to MaPS, including receiving relevant reports and retaining records that can be made available to TPR on request.

Dashboards should also remain a regular item on trustee meeting agendas. Key decisions should be recorded, and trustees should keep up to date with changes to legislation, MaPS standards and relevant guidance.

Further changes are also expected, with draft Pensions Dashboards Programme Reporting Standards intended to support routine daily reporting of operational information to MaPS from 1 March 2027, subject to approval.

The next phase

The 31 October deadline marks a major step forward, but the real test will be how well pensions dashboards work in practice as members begin using them. The Pensions Administration Standards Association has published resources to help the industry prepare for this next phase, including guidance on ongoing compliance after connection and a toolkit on monitoring changes in member behaviour once dashboards are in use.

These provide useful starting points for trustees and administrators as they consider their ongoing responsibilities and the potential impact on members and administration teams.

<https://www.pasa-uk.com/press-release-pasa-publishes-new-guidance-to-support-ongoing-pensions-dashboards-compliance/>

<https://www.pasa-uk.com/dashboards-toolkit/>



ADAPTING SCHEME GOVERNANCE FOR AI



The year 2026 will be remembered for many things and one of the most prominent will have been the almost daily, at times almost apocalyptic, headlines generated by the AI industry. But whereas for many people their personal use of AI may still reside at a fairly low level, in their workplace it may be becoming much more prevalent.

For those working in pensions, the rate of acceleration in the use of AI has been striking. Unsurprisingly, the latest annual survey on AI from the Society of Pension Professionals (SPP) confirmed that 100% of respondents are now using AI. However, while for some usage has so far been confined to relatively low-risk, time-saving tasks, for others it has already opened up more ambitious possibilities such as greater automation and enhanced services for scheme members. And rapid adoption of AI is not confined to schemes, their trustees and advisers: the Pensions Regulator highlighted in its interim AI guidance in May 2026 that almost 40% of UK adults have used AI in the previous 12 months for financial planning including pensions advice, despite the lack of regulation that comes with that source of advice.

Against this backdrop the Pensions Regulator set out some clear expectations on trustees and scheme managers, which are to be expanded on in further guidance due to be published before the end of 2026. These include expectations that schemes will:

- Establish clear governance for AI use, ensuring that administrators, service providers and advisers also have robust arrangements in place;
- Carry out rigorous testing, assurance and ongoing monitoring of AI systems;
- Identify and evaluate risks with appropriate controls in place;
- Prevent members being scammed by remaining aware of the potential for AI-driven fraud;
- Have a clear data strategy, ensuring it is of high quality and complies with data protection legislation; and
- Seek professional advice when considering or implementing innovations.

So how can trustees start to develop a suitable governance plan when it comes to responding to the proliferation of AI use? In response to this challenge and the Pension Regulator's initial high-level guidance, the SPP recently published a practical framework to help trustees navigate the choppy waters ("Governance in the Age of AI: A Practical Framework for Responsible Leadership"). Its objective: "to steer trustees in how AI can be used safely, transparently and with appropriate oversight".

To help trustees prioritise their approach, the SPP has advanced a risk-based framework, summarised as follows:

- Low risk: internal drafting, summarisation, administrative support;
- Medium risk: member communications, operational processing support; and
- High risk: outputs influencing member benefits, decisions, or advice.

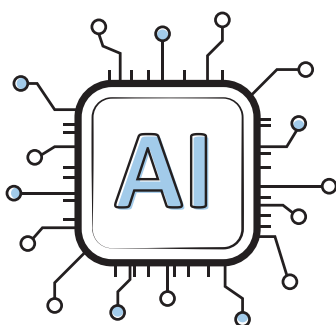
To start to apply such a risk-based approach, trustees need first to establish how AI is currently being used by their administrators and advisers, in line with the first of the Pensions Regulator's expectations listed above. This should also include being made aware of any new uses in good time to allow trustees to ensure proper controls are in place. The higher the perceived risks, the greater the time and focus that will be needed.

Controls should be proportionate to the risks involved. The SPP outlines a handy, short list of minimum expectations that should apply across all AI initiatives:

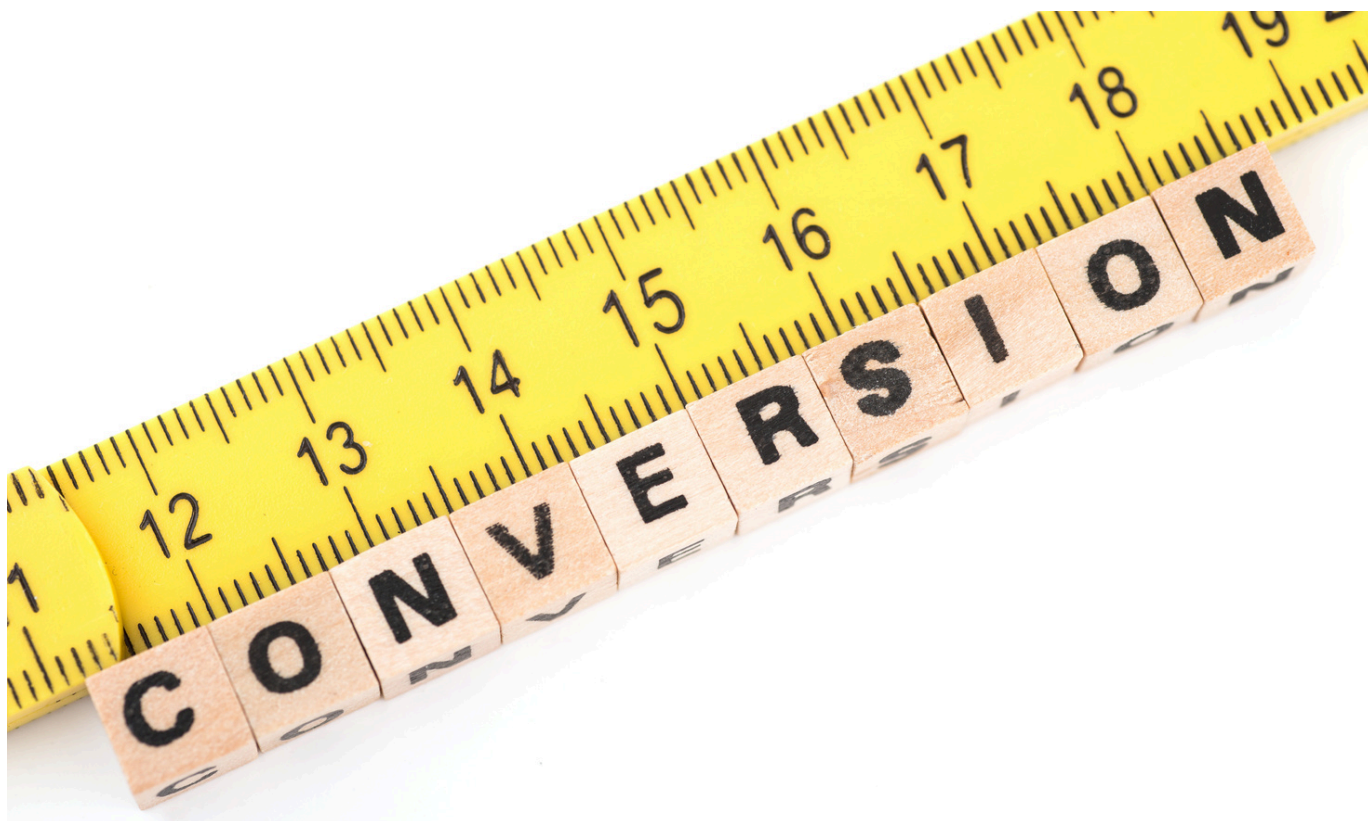
- No sensitive scheme data is input into unapproved tools;
- Outputs are independently verified;
- Tool usage aligns with scheme and employer policies; and
- AI is not used for decision-making without human validation.

Whilst these principles are useful reminders of the key guardrails that should apply to all AI usage, trustees will need to develop a detailed control and risk management framework for AI. This can form part of the trustees' effective system of governance and compliance as required under the Pension Regulator's General Code of Practice. In addition to an expansion of controls in areas such as data governance and protection, communications and cybersecurity, new trends such as automated decision-making and scheme members' external use of AI will need to be considered and managed where these become established.

The emergence of AI use in many aspects of pension scheme management and member experience presents specific challenges for trustees with potentially significant risks if not addressed appropriately. Trustees who already have strong governance controls in place will be well-placed to adapt as their scheme circumstances require. For trustees not so far along the good governance curve, the added AI dimension should underline the importance of elevating governance to near the top of their meeting agendas.



PROPOSED CHANGES TO GMP CONVERSION REGULATIONS



The DWP has launched a [consultation](#) on proposed changes to GMP conversion regulations. The proposals are geared towards enabling easier at-retirement GMP conversion calculations.

GMP conversion is the process by which GMP is converted into other scheme benefits, easing the burden of issues such as GMP equalisation which can complicate matters throughout the entire payment period of a GMP benefit. This process requires that the scheme actuary certifies that the post conversion benefits are at least as valuable as the pre conversion benefits.

Rather than a scheme actuary certifying ad hoc calculations, the proposals would allow the scheme actuary to instead certify the conversion process itself, valid for a period of 12 months and with any circumstances for further review specified. For schemes where trustees have already consulted members on GMP conversion, under the current proposals they would need to consult members again before proceeding under the new method of certification.

Also included in the proposals are regulations under the Pension Schemes (Conversion of Guaranteed Minimum Pensions) Act 2022 that are not yet in force clarifying the minimum survivor's benefits for converted pensions. There are also proposals to make employer consent less onerous, where consent is required from the scheme's statutory employer (rather than the employer associated with each member), and where statutory employers in a multi-employer scheme can nominate one employer to provide consent on behalf of the others.

The consultation closes on 29 October 2026.

KEY ITEMS TO ADD TO YOUR AGENDA

As trustees prepare for upcoming meetings, they should remain focused on forthcoming legislative changes, emerging industry priorities and key governance responsibilities.

1. Pension Schemes Act 2026

The Pension Schemes Act 2026 will bring significant changes for pension schemes over the coming years. While much of the detail remains subject to further regulations and guidance, trustees should understand the direction of travel and consider the potential implications for their scheme. Readers may also wish to revisit [HPW's recent Insight](#) on the Act and the pensions reform roadmap.

2. DB endgame planning

Improving funding levels continue to create opportunities for many defined benefit (DB) schemes. As schemes approach their endgame, trustees should review their long-term objectives and consider options including buy-in, buy-out, run-on and potential surplus, ensuring their strategy remains aligned with funding, covenant strength and member security. This complements [HPW's recent articles on DB surpluses and endgame planning](#).

3. Virgin Media: next steps

The Pension Schemes Act 2026 introduces a statutory mechanism to address issues arising from the Virgin Media judgment, allowing affected schemes to obtain retrospective actuarial confirmation for certain historic benefit amendments. Trustees should discuss with their legal advisers whether the new provisions are relevant to their scheme.

4. Pensions dashboards: life after connection

For many schemes, attention has now shifted from connecting to the dashboards ecosystem to maintaining ongoing compliance. Trustees should continue to monitor data quality, matching performance and governance arrangements, building on themes explored in previous [HPW dashboards Insights](#).

5. Cyber resilience

Cyber security remains a key governance priority. Trustees should review cyber controls, keep incident response plans up to date and consider regular training and testing.

6. Integrated risk management

Trustees should continue to monitor funding, investment, covenant and operational risks as part of an integrated risk management framework. Regular reviews of the risk register, together with consideration of emerging legislative and regulatory developments, will help ensure governance arrangements remain effective and proportionate.

Looking ahead

The coming months are likely to require a combination of preparation and monitoring. By maintaining a clear focus on legislative developments, operational resilience and long-term strategy, trustees can ensure their schemes remain well positioned for the challenges and opportunities ahead.

Trustees may find it helpful to revisit [previous HPW Insights](#) covering the Pension Schemes Act 2026, DB surpluses, pensions dashboards and cyber resilience as part of those discussions.

**PPF confirms zero levy for 2027/28**

The Pension Protection Fund (PPF) has confirmed that it will not charge a levy to conventional defined benefit schemes for 2027/28, marking the third consecutive year that the levy has been set at zero. Around 4,800 DB schemes are expected to benefit, reflecting the PPF's strong financial position.

The PPF has also confirmed a one-year pause to the Alternative Covenant Scheme levy, while it reviews the methodology.

Trustees should note, however, that section 179 valuations remain a statutory requirement despite the conventional levy remaining at zero. For further information, see the [PPF's announcement](#).

TPR warns trustees about hidden AI investment risks

The Pensions Regulator (TPR) has published new guidance highlighting the potential for hidden concentration risks from AI-related investments within pension scheme portfolios.

As AI becomes increasingly embedded across different sectors, TPR warns that even apparently diversified portfolios may have greater exposure to common AI-related risks than trustees realise.

TPR expects trustees to consider their total direct and indirect exposure, use scenario analysis to test portfolio resilience and consider whether diversification would remain effective in a market downturn. Trustees should also challenge their investment advisers and managers on how changing market conditions could affect their scheme's investments and objectives.

For further information, see [TPR's announcement and guidance](#).

UK Budget 2026 introduces targeted pension reforms

The UK Budget 2026 has announced several targeted pension reforms aimed at simplifying retirement taxation and expanding retirement options.

Key measures include a new Pension Tax Allowance for eligible pensioners, changes to the tax treatment of pension death benefits, and proposals for new retirement income arrangements.

The government is also encouraging greater pension fund investment in the UK economy. While broader pension tax reforms have not been introduced, further changes to the pensions sector are expected.



h
p
w

PHONE:
0117 427 8900

EMAIL:
info@hughespricewalker.co.uk

ADDRESS:
**Pembroke House 15 Pembroke Road Clifton
Bristol BS8 3BA**

WEBSITE:
www.hughespricewalker.co.uk