



Pensions update: working to protect your retirement income

Pensions are deferred income for our retired members which they have contributed to, one way or another, during their working lives. Therefore, pensions are a priority issue for your Retired Members Group representatives whose contribution to Prospect's work on pensions is invaluable.

This note explains Prospect's work on four issues, one success and three challenges:

- The Pension Protection Fund (PPF);
- Changes in inheritance tax
- Climate change and investment risk
- Defined Benefit Scheme surpluses.

PPF

Prospect with substantial and admirable support from retired members lobbied for changes to the PPF. This has helped change the law. The Pension Schemes Act 2026 introduces a new law that will allow the PPF to pay inflation increases, also known as indexation, on pension benefits built up before 6 April 1997.

Under that law the PPF will be able to pay inflation increases of up to 2.5 %, on pre-1997 compensation (for Pension Protection Fund (PPF) members) where members' original schemes provided for mandatory pre-97 increases. The changes apply from 1st January 2027 which is good news for members in schemes such as UK Coal with significant amounts of pre-1997 service: however, it does not provide for backdating of these increases so further progress is required. This small victory shows the benefit of focussed action by our RMG members.

Inheritance Tax

The government has announced changes to inheritance tax in relation to defined contribution pensions. Previously when a pensioner in a DC scheme died, any remaining money in their pension pot could be inherited tax free. This enabled tax efficient planning by retired members who chose not to simply buy an annuity with their pension pot.

From the start of the 2027/28 financial year, this money will be subject to taxation as it will be added to the deceased's estate.

Members who have planned the use of their DC pension pot to leave a tax-free inheritance in the cases where they die earlier than expected need to take independent financial advice on their options.

Climate Change and investments

Since conference in January, investor concern over the risks from climate change have become more pronounced after a year of record-breaking heat, wildfires and droughts. Members can check how much action their pension schemes and their fund managers are taking to minimise this risk.

One way to do this is to find online your pension scheme's "implementation statement" which reports on how it has implemented its statement of investment principles - this has to include how it has implemented its policy on environmental social and governance issues as regards the pension scheme's investments.

Things to look out for are whether the pension scheme invests in any funds allied with net zero, and the degree to which the trustees have questioned their fund managers on the actions they have taken on their behalf.

Defined Benefit Surpluses

After a huge rise in defined benefit pension scheme surpluses to an estimated £160 billion, the Government has changed the law through the Pension Schemes Act 2026 to enable employers to share some of these surpluses even where the Trust Deed of the Pension Scheme does not permit it. This goes beyond a contributions holiday for employers to money being withdrawn from the scheme so long as the scheme is judged likely to meet its obligations to scheme members.

The Department for Work and Pensions has consulted during the Summer and we shall keep you updated on progress so we can advise on what steps we can take to protect your interests. Until we see the outcome of the consultation, this remains speculation