The year ahead: Pensions in 2025

With what is thought to be the biggest package of pension reforms in decades on the horizon, Sophie Smith looks at the key priorities and areas of focus in 2025

Following an 'avalanche' of consultations in 2023, many in the pensions industry were hopeful that action and results would finally be seen in 2024.

The year got off to a strong start, with almost rapid-fire updates from the government and regulators, and further plans for pension reforms unveiled in the then-Chancellor's 2024 Spring Budget.

But these plans were thrown into limbo after the snap election in July, as the change of government sparked fears that it could be back to square one for many of these initiatives.

The new government sought to assuage these fears with the introduction of its Pension Schemes Bill in the King's Speech, which was highlighted as a "sign of continuity" by the industry, covering many of the pension policy initiatives started by the previous government.

It also launched a 'landmark' pensions review, the second phase of which, focusing on retirement adequacy, was expected to be a key focus for 2025.

However, whilst the first phase of the review has been completed, the second phase has been put on an indefinite hold.

This has prompted broader uncertainty for the year ahead, as whilst the government had purposefully held off on finalising the bill until this review is complete, with Pensions Minister, Emma Reynolds, suggesting that changes from the pension review would be incorporated into this, many are now unsure exactly what to expect in the bill.

Given this, LCP head of pensions research, David Everett, warns that, whilst the Pension Schemes Bill will likely be a priority this year for the government, the indefinite delay of the second phase throws into doubt aspects of what this bill will contain.

But the concern is not only that this could be another year of waiting, but also that this could trigger a "huge surge" of work all at once.

"With some changes having seemingly been patiently waiting in line for a long time now, it will be important to avoid too many hurtling towards the finishing line at once in 2025," Sackers partner, Claire Carey, says.

"Pensions changes can sometimes feel like riding a rollercoaster, with reforms often beginning with a flurry of activity and sudden twists and turns, followed by a slower and calmer middle section whilst waiting for a consultation's outcome, before often looping back to end close to where things started."

Indeed, this has brought the industry full circle, as LCP head of pensions research, David Everett, points out that "from a regulatory perspective, we end 2024, pretty much as we started it, with a whole swathe of policy proposals awaiting delivery".

2025 could still be the year of action many in the industry have been hoping for, but there is a lot of work to be done to get there first.

"We welcome these changes. However, as with any significant proposal for change there are some areas that require further work to realise the intention. This is particularly the case for some of the significant proposals, such as the biennial governance reviews and each fund having an independent adviser, for example. We hope to see a more detailed consultation on these aspects to allow further industry engagement and support the development of draft regulations and guidance where relevant."

Pension megafunds

Chancellor Rachel Reeves' plans for pension megafunds are set to be a key feature of 2025. Announced in her inaugural Mansion House speech, the plans are part of a "radical" set of pension reforms designed to unlock billions of pounds of investment in infrastructure and local projects. The government has since published two consultations on these plans, which close later this month *[January 2025]*.

This means that the pensions merry-go-round will start spinning almost immediately this year, Carey says, with responses due to the two significant consultations in quick succession.

"With a key policy aim of bolstering investment in UK PLC, the government's consultation designed to accelerate and help enable scale and consolidation in the DC market is first up, with the dawn of 'megafunds' beckoning," she states.

But this is not the only change in the DC space, as Carey warns that DC regulation is currently developing at a "dizzying pace", with other changes on the horizon dealing with small, deferred DC pots, value for money, and decumulation.

The reforms are also expected to bring renewed focus on the Local Government Pension Scheme (LGPS), as Hymans Robertson senior GAP consultant, Ian Colvin, notes that this is the "biggest shake up of LGPS governance in nearly 20 years".

"Although these proposals were somewhat overshadowed by the investment proposals that were also released after the recent Mansion House speech, they are significant," he says.

Growing adequacy concerns

Adequacy, particularly DC adequacy, is expected to be another key theme for 2025, despite the indefinite delay to the government's review in this area.

Indeed, despite "widespread disappointment" across the financial services industry and associated public policy stakeholders, The Lang Cat director of public affairs, Tom McPhail, says news of the delay is "not a great surprise", given the government's recent Budget announcements on the minimum wage and National Insurance.

Whilst no specific timings for the delay have been confirmed, Altus Consulting head of retirement strategy, Jon Dean, says that "it looks like it could be another parliament before we see any action to improve future workplace pension contribution rates".

This has prompted growing concern that savers will have to wait even longer for auto-enrolment reform, with LCP partner, David Fairs, warning that this could result in a "substantial delay" in the implementation of the 2017 changes, which the former government pledged to introduce in the mid-2020s.

But industry concerns around adequacy are only growing, as Mercer UK wealth strategy leader, Tess Page, says.

"The UK is slowly walking towards a cliff edge when it comes to pensions provision. Data from the World Economic Forum shows that the UK's pension savings gap will widen from £6 trillion to £25 trillion by 2050. Without urgent reform from policymakers the UK will not be able to close this gap and millions of individuals will not have adequate funding for their retirement.

"Policy makers and government must seize this opportunity to address the pensions saving gap and step back to solve this issue holistically. Multiple and coordinated actions could make a real difference, including expanding auto-enrolment, making investment more productive, and engaging the UK's workforce to encourage and empower them to save ahead of their retirement," she explains.

Broader conversations around adequacy are set to continue, as the Work and Pensions Committee is currently holding an inquiry into pensioner poverty, focusing primarily on the state pension.

But industry experts have suggested that the delay to the review could limit these discussions, as independent research consultant, Daniela Silcock, warned the committee that without a clear and agreed retirement income target, which had been hoped to be one outcome from the review, deciding on state pension policy, and by extension private pension policy, would be "very difficult".

DB de-risking to continue

Despite the focus on DC and public sector DB schemes, the DB landscape is also set for another busy year, as Pensions Administration Standards Association (Pasa) chair, Kim Gubler, says that next year may be the record-breaking year 2024 promised but didn't deliver on for the bulk annuity market.

"Either way, improved DB funding will mean schemes will be looking at their de-risking options – and of course, administrators will be at the heart of the data cleansing, final true ups and transitioning needed by insurers and consolidators," she says.

Investments are set to be another key consideration for those thinking about securing benefits via an insurance deal in 2025, according to Quantum Advisory principal investment consultant, Paul J M Francis, who says that trustees will need to get their investment portfolios into alignment so they can lock in their funding position, as well as reduce exposure to leveraged liability-driven investment (LDI) where possible, and eliminate the associated pain of collateral management that accompanies.

Broader investment changes could also be seen, as Francis says some fiduciary management mandates could come under close scrutiny as the locking down of improved funding positions implies there is less scope for fund managers to add value.

"Also, as returns from global equity markets may well be lower in the medium term, we expect schemes to be looking to offset this by reducing expenses and costs, ensuring they achieve value from their actuarial and investment advisers, as well as their fund managers," he adds.

But one piece of potential good news, according to Everett, is the possibility that the Pension Protection Fund (PPF) will announce that it is not collecting a PPF levy from PPF-eligible DB schemes this time around *[read more on page 13].*

However, there are other issues looming over DB schemes, as Everett says: "As we move into 2025, the *Virgin Media* case continues to cast a shadow on DB schemes, which can only be lifted if the DWP uses powers already available to it to intervene."

Pensions tax changes

Tax changes are expected to be another key theme in 2025, as the government looks to impose inheritance tax on pension assets and death benefits.

But Everett warns that these plans are "full of unnecessary complexity and contains within it eye-watering marginal rates of tax".

"Hopefully, before 2025 is out some of these rough edges will have been addressed and we will have seen the proposed legislation."

Legacy changes may present a more immediate focus though, as Carey says that the full force of some existing changes may begin to be felt during the course of 2025.

"Whilst the LTA was removed from April 2024, the legislation has taken time to catch up, with two major sets of amending regulations having only recently taken effect," she stated.

Dashboards – time to connect

But the big policy topic for 2025 will be the pensions dashboard, Everett says, as all schemes with 1,000 or more members (excluding pensioners) will have connected by the end of the year.

Trafalgar House client relationship manager, Callum Westney, agrees that dashboards will dominate trustee agendas in the year ahead, with 2025 connection deadlines fast approaching.

"Trustees must make decisions and take action now to ensure data readiness and avoid being caught out by the scale of the work involved," Westney says.

But it is not only trustees that need to be mindful of the upcoming dashboards work, as Gubler emphasises that administrators will be "central" in schemes successfully connecting to the dashboards central digital architecture and dealing with the increased flow of traffic driven by ramping up of MoneyHelper's dashboard testing.

And despite some concern about the timelines for dashboards *[read more on page 11],* PDP programme director, Kim Webb, has ambitious goals for 2025.

"Our primary focus is getting all 20 volunteer participants successfully connected, with as many as possible connected by the end of April, in order that connection with wider industry will get underway at that point as currently planned. We plan to start citizen testing as early as we can this year, and start the preliminary work on commercial dashboards."

Webb is also aiming to work with industry to discuss how and when dashboards can be launched safely and successfully.

But cyber concerns are expected to be a key factor in the push to launch dashboards, as RSM head of pensions, Ian Bell, warns that scammers could use government initiatives such as dashboards to trick consumers out of their savings. Adequacy concerns could also be exacerbated, as Bell says that as people become aware of what they have, public pressure for the government to do more to support pension savings will increase.

Written by Sophie Smith