first actuarial

Employer pension briefing, Quarter 1 2026

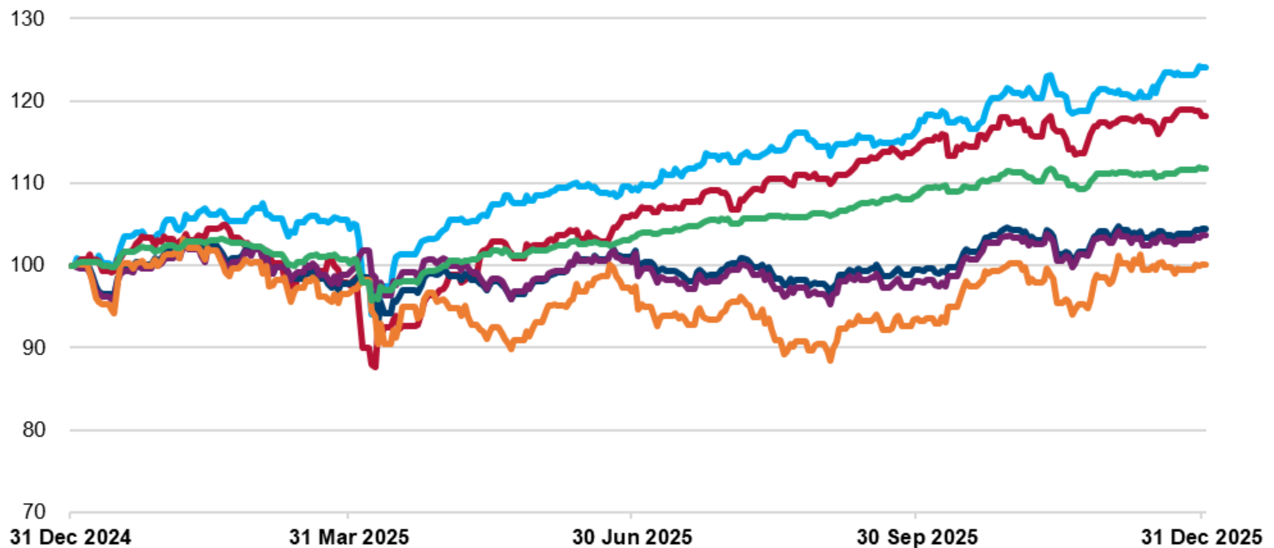
In this briefing, we outline key pension developments relevant to employers. We take a look at recent market movements and how they're shaping pension accounting positions and influencing upcoming funding valuations. The briefing covers the key pension-related implications of the 2025 Autumn Budget, and also explores risks associated with concentrated equity holdings and the potential impact of AI.

Changes in financial markets to 31 December 2025

The final quarter of 2025 saw positive returns across all major asset classes.

A recovery in bond markets over the quarter saw both government and corporate bonds end the year with positive returns of 4%, while a return of 7% over the quarter for index-linked gilts was enough to recover from the losses made over the first nine months of 2025, ending the year with a flat return.

Equities continued to demonstrate the strong performance seen since the turbulence of early April 2025. UK equities ended the year with an impressive return of 24%, while global equities lagged slightly at 18% over the year.



UK equities:	Global equities (unhedged):	Average DGF:	Corporate bonds:	Fixed-interest gilts:	Index-linked gilts:
+24%	+18%	+12%	+4%	+4%	0%

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Changes to scheme liabilities

Defined Benefit scheme asset performance should not be considered in isolation. Changes in scheme funding levels will reflect movements of both assets and liabilities.

Bond yields

Since 2022, we've witnessed material increases in corporate bond yields, resulting in significantly lower accounting liability values. Yields this year are much more stable, with corporate bond yields up by only around 0.1% pa compared with the start of the year. This slight increase in yields could result in a modest reduction in accounting liabilities of up to 1.5%.

It's a similar story for gilt yields, which play a key role in determining funding levels, low-dependency targets and buy-out discount rates. The extent of their impact on your scheme's discount rates will depend on its specific liability profile.

Inflation

Despite inflation stubbornly remaining above the Bank of England's long-term target of 2% pa, long-term expectations of inflation have fallen over the year. For schemes with inflation-linked benefits, we would expect this to result in a reduction in liabilities.

The extent of any change for your scheme will depend on the liability profile of the scheme and the caps and floors that apply to any inflationary increases.

Summary

The table below shows how key financial assumptions have changed over the year:

	31 December 2024	31 December 2025	Impact on the liabilities of an average[1] scheme
Corporate bond yield[2]	5.5% pa	5.6% pa	-1%
Gilt yield[3]	5.1% pa	5.2% pa	-1%
Market-implied inflation[4]	3.5% pa	3.1% pa	-4%
Actual inflation (year to November 2025)	RPI: 3.8% CPI: 3.2%		*Scheme-dependent*

1 An average scheme is taken to have a duration of 15 years and around 75% of liabilities linked to inflation
2 Yield on the iBoxx over 15-year AA-rated corporate bond index
3 Bank of England nominal gilt curve over a duration of 15 years
4 Gilt market-implied inflation at a term of 15 years from the Bank of England implied inflation curve

What does this mean for your scheme?

It's impossible to say how individual schemes have fared. Liabilities will be slightly lower than at the same time last year, but the impact on funding and balance sheet positions will depend on scheme profile and investment strategy.

For more information on the implication on funding positions – especially if you have an upcoming actuarial valuation date – you might find our Finance Director's guide to Defined Benefit pension scheme actuarial valuations as at 31 December 2025 useful. Ask your First Actuarial contact or request a copy by emailing us at *enquire.employer@firstactuarial.co.uk*.

The end of salary exchange?

Ahead of the 2025 Autumn Budget, every possible pension change seemed to be floated in the press, from tax relief and tax-free cash to annual allowance limits, and more besides. In the end, a smaller (but perhaps more complicated) change was introduced – a cap on pension contributions that can be made via salary exchange, or salary sacrifice.

As a reminder, pension contributions paid via salary exchange do not attract either employee or employer National Insurance contributions (NIC). Under the changes announced, from April 2029 this *NIC relief* will continue to apply to the first £2,000 of pension contributions made via salary exchange each year. Any pension contributions (made via salary exchange) in excess of this cap will attract both employer and employee NICs, creating an additional cost for both parties.

While the long lead time ahead of the change means there is no need for immediate action – and in any case we are still waiting for HMRC to provide more details of the mechanics of the cap – employers should start considering how the changes will affect their remuneration policy and whether any changes are needed.

Should you watch the Magnificent Seven?

Yes, to the 1960 original. Less so, the 2016 remake. But by *Magnificent Seven*, we aren't of course referring to the movies, but to the seven largest US technology stocks, and the question of what steps your scheme is taking to manage concentration risk in your equity investments.

The typical way to invest in equities is by tracking a *market-cap* index. In this type of index, the larger the company, the greater the proportion of the index it represents (and therefore the greater an investor's holding in the company).

Global market-cap equity indices have become increasingly concentrated in those Magnificent Seven large US technology stocks, which alone account for over 20% of a typical global equity index.

This growing concentration means that investors are now far more reliant on the fortunes of a small number of companies than they were just a couple of years ago. These companies are all involved in AI in various ways and have delivered stellar returns over the past few years. However, while AI has the potential to drive strong returns, there is a risk that a change in sentiment around AI could have a material impact on global market cap equity investments.

There are alternative approaches to market-cap equity investments that can help mitigate concentration risk. Please speak to our investment team at *enquire.investment@firstactuarial.co.uk* to discuss the options for your scheme.

Largest ever survey of pensions in the charity sector

We've carried out the largest ever survey of pension provision in the charity sector, looking at 300 charities of various sizes. Our survey reveals a disturbing picture of haves and have-nots, with smaller schemes in particular struggling with disproportionately high running expenses.

Read our full charity survey report.

Get in touch with our experts

To discuss any of the issues raised in this briefing, get in touch with your usual First Actuarial consultant or contact our employer services team at enquire.employer@firstactuarial.co.uk.