

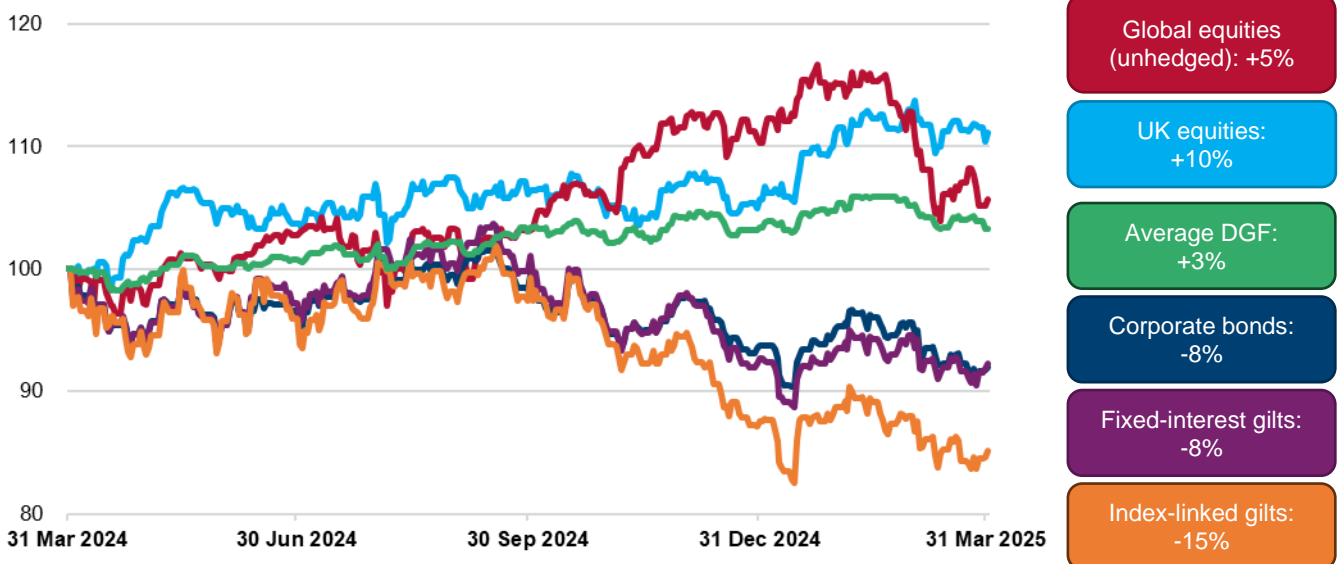
Employer pension briefing, Quarter 2 2025

In this briefing, we highlight key pension issues for employers. We focus on the impact of market movements on Defined Benefit pension cost accounting positions and upcoming funding valuations. We also look at the latest on the Virgin Media v NTL case, changes to the PPF levy, and the advantages of using salary exchange.

Changes in financial markets to 31 March 2025

Bond values tumbled over the final quarter of 2024 and the first of 2025, with long-dated index-linked gilts ending the year to 31 March 2025 down by 15%. Fixed-interest gilts and corporate bonds fared slightly better, but still ended the year with losses of around 8%.

Global equities saw sharp losses over the quarter (with volatility continuing beyond the quarter end) yet still ended the year with a positive return of 5%. In a change to recent history, UK equities outperformed their global counterparts, with a positive return of 10% for the 12 months to 31 March 2025.



Changes in financial markets in the first three weeks of April

Unless you spent the first two weeks of April on a tropical island with no Wi-Fi, you will be aware of President Trump's tariffs and the ensuing market volatility. At the time of writing, both UK and global equities are materially down since 31 March.

Policies regarding who and what are subject to tariffs seem to change daily, and investment markets remain volatile. This volatility is likely to persist until there is greater certainty around global trade policies.

The impact on Defined Benefit (DB) scheme funding will be mixed. Many DB schemes have become well funded over recent years and are invested cautiously as a consequence. For such schemes, the recent equity market falls are unlikely to have had a material impact.

For Defined Contribution (DC) members approaching retirement, falling equity market values are bad news – but the impact will have been mitigated if investors have gradually been reducing equity exposure (as is typical under a lifestyling strategy).

Changes to scheme liabilities

DB scheme asset performance should not be considered in isolation. Changes in scheme funding levels will reflect movements of both assets and liabilities. Indeed, a fall in the value of bonds is not necessarily bad news for pension schemes.

Bond yields

Corporate bond yields (used to set the discount rate for your accounting liabilities) and gilt yields (which tend to drive cash funding, and low-dependency and buy-out discount rates) have increased materially over the year.

This means the value of your scheme liabilities (and the cost of providing future pension benefits for those schemes still open to accrual) will be lower than it was 12 months ago. This will be the case across almost every measure – be it accounting, funding, low dependency or buy-out.

Inflation

Having fallen below the Bank of England's target of 2% pa in September, CPI inflation has since risen and remains slightly above that target. While long-term expectations are that inflation will fall, gilt market investors seem to expect market-implied inflation to remain above the 2% target over the next 40 years.

The extent of any change in your scheme's liabilities due to actual inflation and changes in expectations of future inflation will depend on the 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 March 2024	31 March 2025	Impact on the liabilities of an average ¹ scheme
Corporate bond yield ²	4.8% pa	5.7% pa	-13%
Gilt yield ³	4.3% pa	5.2% pa	-12%
Market-implied inflation ⁴	3.6% pa	3.5% pa	-2%
Actual inflation (year to March 2025)	RPI: 3.2% CPI: 2.6%		<i>Scheme-dependent</i>

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 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 March 2025](#) useful. Ask your First Actuarial contact or [request a copy](#).

Audit hot topics for 31 March year-ends

One of the key audit topics this year remains the potential impact of the Virgin Media case (the background to which is set out in a [previous briefing](#)), the work done to assess the risk and how this should be documented in your accounts. Each case will be unique, and different audit firms will have varying views on what is required.

However, there remains a lack of clarity on some of the details; and it's still possible that the Department for Work and Pensions (DWP) will introduce legislation to allow any problematic scheme changes to be certified retrospectively.

More clarity is expected once we have the judgment from another high-profile pension court case – Verity Trustees Limited v Wood. This case was heard earlier this year, though we do not expect to see a ruling before summer.

And could the DWP's hand be moved by the news that the Local Government Pension Scheme (LGPS) and other public service schemes may be affected by the Virgin Media judgment? The Government is now "actively considering" the issue. A cynic might suggest that the potential for extra public sector liabilities may encourage the DWP to introduce legislation to allow changes to be retrospectively certified.

Salary exchange now more beneficial than ever

Perhaps the faintest of silver linings, but this month's increase in employer National Insurance (NI) contributions does mean that using salary exchange (or salary sacrifice) will result in bigger savings than has previously been the case. For employers not currently operating a salary exchange arrangement, now is a great time to start.

By swapping a portion of salary for tax-efficient benefits like extra pension contributions, employees can boost their take-home pay, while employers benefit from savings on NI contributions. Employers can keep these savings, or reinvest them into the benefits package, enhancing offerings like life assurance, income protection, critical illness cover and healthcare benefits, without increasing costs.

Almost 12% of UK population now has access to private medical insurance

More than eight million people in the UK now have access to private medical cover, with around two-thirds of that cover provided by employers as an employee benefit, [according to research published this year](#). Providing healthcare benefits for your employees is fast becoming a win-win. Employee expectations have shifted, and support for financial, mental and physical wellbeing is now a priority. And with staff sickness costs exceeding £100bn in 2023, employers can't afford to ignore employee health.

Our [Employee Benefits team](#) are extending their services to include healthcare benefits. Please get in touch to discuss how our specialists can help you put in place an employee benefits package that meets your business needs while improving employee loyalty and retention.

PPF to collect more money than it needs

The Pension Protection Fund (PPF) has announced it expects to collect a much smaller levy for the 2025/26 levy year (around £45m in total, compared with £100m for 2024/25). Almost all schemes are expected to see a reduced levy. And while a smaller levy is undoubtedly welcome news, it's worth considering this in the context of the overall levy that the PPF says that it needs this year – zero.

Unfortunately, the legislation governing the PPF failed to foresee this situation, and limits the overall year-on-year increase in the total levy that the PPF can collect to 25%. This puts us in a situation where, if the PPF reduced the total levy to nil, it would not be able to raise any levy at all in future.

As discussed in our [February 2025 briefing](#), the Government is considering changes to give the PPF more flexibility, which *may* mean that the PPF will be able to reduce the levy collected to zero this year. For this to happen, the Government will need to act quickly, so perhaps don't hold your breath.

Get in touch with our experts

To discuss your situation, contact your usual First Actuarial consultant or any of our [employer services team](#)