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Employer pension briefing, Quarter 3 2025

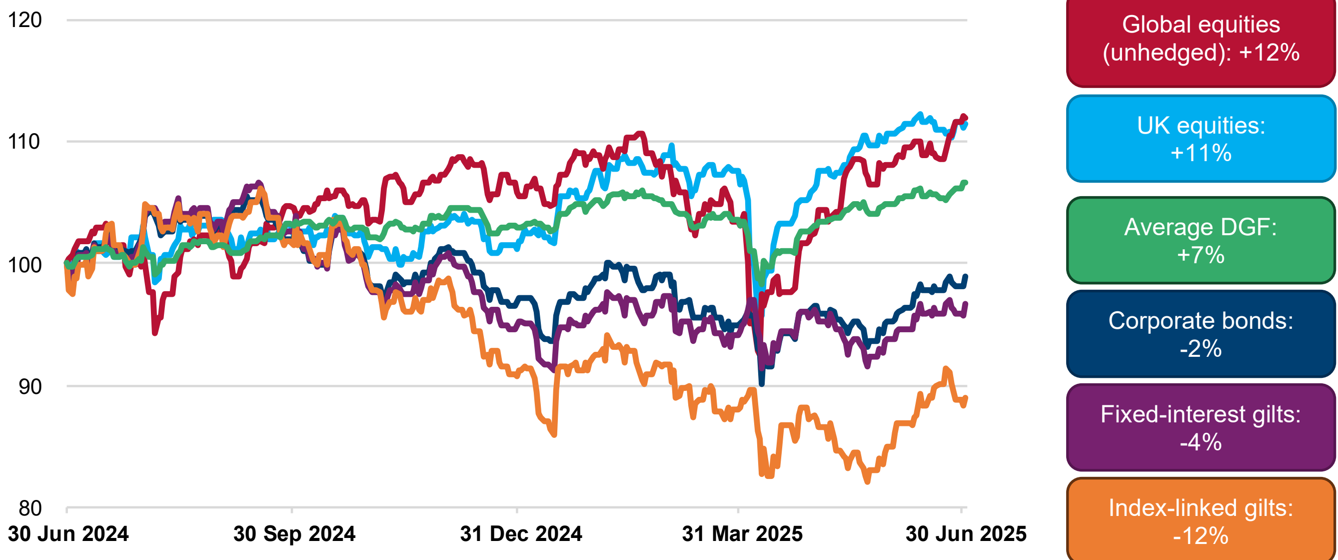
In this briefing, we highlight key pension issues for employers. It's a bumper edition as we look at the impact of a turbulent quarter in financial markets, the Pension Schemes Bill and several government proposals on the future of pensions, two pieces of guidance from The Pensions Regulator (TPR), and the latest development in the risk transfer market.

Changes in financial markets to 30 June 2025

It has been a turbulent quarter in financial markets, with Trump's introduction of tariffs causing significant volatility at the start of April. However, most of the main asset classes recovered from initial losses to end the quarter with positive return.

Equities were once again the standout performer over the year. Despite losses of 10% in the week following 'Liberation Day', both global and UK equities finished the year with returns in excess of 10%.

Despite positive returns over the final quarter, the return for bonds remained negative over the 12 months to 30 June 2025. A modest recovery in the final quarter tempered those losses, with corporate bonds and fixed-interest gilts down by 2% and 4%, respectively. Falls in expectations of future inflation meant that long-dated index-linked gilts ended the year with losses of around 12%.



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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 continued to rise and move further 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:

	30 June 2024	30 June 2025	Impact on the liabilities of an average[1] scheme
Corporate bond yield[2]	5.1% pa	5.6% pa	-6%
Gilt yield[3]	4.6% pa	5.1% pa	-8%
Market-implied inflation[4]	3.6% pa	3.2% pa	-4%
Actual inflation (year to June 2025)	RPI: 4.4% CPI: 3.6%		*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 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 30 June 2025 useful. Ask your First Actuarial contact or **request a copy**.

The Pension Schemes Bill 2025

The Government published the Pension Schemes Bill on 5 June 2025. The Bill introduces a sweeping package of reforms aimed at modernising the UK's retirement savings landscape and boosting long-term outcomes for savers.

Defined Benefit (DB) highlights

The key change for DB scheme is the introduction of a statutory power which enables trustees to amend scheme rules to permit surplus-sharing. This development has the potential to deliver meaningful benefits to both scheme members and sponsoring employers.

Although the specific eligibility criteria for surplus-sharing are still being finalised, it is anticipated that schemes will need to obtain actuarial certification confirming they are at least 100% funded on a low-dependency basis to qualify. This is a significant change from the current requirement that a scheme be broadly fully funded on a buy-out basis.

The proposed introduction of these new flexibilities will place additional responsibilities on trustees. It's likely that many trustees will choose to amend their scheme rules to permit the distribution of surplus. However, any decision to return surplus funds to the employer will be far more complex.

Defined Contribution (DC) highlights

One of the most significant changes is the automatic consolidation of small pension pots – those under £1,000 – into larger, better-performing schemes. This move is designed to reduce administrative costs, prevent erosion of savings through fees, and make it easier for individuals to manage their pensions as they move jobs.

The Bill also mandates that all schemes demonstrate *value for money*, by preventing employees from being locked into underperforming or costly plans. Schemes failing to offer value for money could be closed or merged with better-performing arrangements.

Additionally, the creation of multi-employer *DC megafunds* with assets of at least £25 billion is expected to drive down costs and unlock access to a broader range of investment opportunities, ultimately boosting returns for employees.

The introduction of *default retirement pathways* means that rather than leaving individuals to navigate a complex array of options on their own, schemes will now provide clearly defined pathways based on their retirement goals, which is especially helpful for those without access to financial advice.

Is the taxman coming for private healthcare?

In early August, Lord Kinnock, backed by the Good Growth Foundation, proposed the removal of VAT-exemption for private healthcare groups, citing a "windfall" in profits for the sector, driven by longer NHS waiting lists.

The private healthcare industry is concerned that such a change is likely to lead to increased costs for insurance companies and, ultimately, their customers. Another increase in employment costs is unlikely to be welcomed by UK businesses.

Private healthcare is now an extremely popular benefit with employees (ironically, in part due to longer NHS waiting lists), as well as a valuable tool helping employers manage sickness absence and the recruitment and retention of staff. As such, employers will want to keep an eye on developments in this area.

Fortunately, if costs do increase, there are options available – from reducing cover levels to redesigning benefit packages, or looking for alternative providers who can offer better terms. Get in touch with our healthcare team if you'd like to discuss your options.

Virgin Media: A rare display of common sense

On the same day the Pension Bill was published, the Government also announced plans to introduce legislation addressing the potential implications of the Virgin Media judgment. The legislation should allow schemes to retrospectively certify historical benefit changes, removing the risk of additional liabilities arising due to missing paperwork.

While the announcement has been welcomed across the pensions industry, we need to wait for the detail of the legislation before we can put this issue to bed. Nevertheless, this is a pragmatic step, and we hope that this sensible approach continues as the legislative process unfolds.

Multi-employer CDC schemes one step closer

As if the pensions landscape wasn't already undergoing significant transformation, the Government has also announced plans to introduce regulations this autumn that will pave the way for the establishment of multi-employer Collective Defined Contribution (CDC) schemes. CDC schemes are designed to combine the strengths of DC and DB schemes.

CDC was introduced in the UK in 2021. Currently, only single-employer or connected multi-employer CDC arrangements are permitted. This has limited adoption, with Royal Mail launching the UK's first (and only) CDC scheme in October 2024. To broaden access, the Government has proposed new regulations which would allow unconnected employers to collaborate and set up their own CDC scheme. This marks a significant shift, opening the door for smaller employers that may lack the resources to set up a scheme independently to offer the benefits of CDC pensions to their employees.

2025 Annual Funding Statement

The 2025 Annual Funding Statement, published on 29 April 2025, is the first to be aimed at schemes with valuations carried out under the new funding code.

The key message from TPR is that many schemes are now well funded. In the Statement, TPR estimated that 85% of schemes were in surplus on a technical provisions basis, 76% on a low-dependency basis, and 54% on a buy-out basis. As a result, TPR is expecting schemes to shift their focus from deficit reduction to long-term end-game planning. For those schemes that have a surplus, or expect to have one in future, TPR encourages trustees to put in place a surplus-sharing policy.

Despite improved funding positions, TPR urges trustees to remain vigilant regarding the strength of the employer covenant and to be mindful of external risks such as geopolitical instability, inflationary pressures and technological disruption.

These can affect scheme assets and the employer covenant in different ways, and trustees should consider, among other factors, whether they have sufficient liquidity to meet short-term cashflow requirements and whether the level of risk taken by the scheme remains appropriate.

Navigating the future: TPR end-game options for DB schemes

It has become increasingly clear that there is no one-size-fits-all long-term objective (or end game) for schemes. TPR has released guidance aimed at helping trustees and sponsors of DB schemes to navigate the complex landscape of end-game strategies.

The guidance outlines a range of end-game options, such as run-on and superfunds, along with the more traditional insurance route. TPR expects all trustees to carry out the required due diligence and obtain appropriate professional advice when considering the most appropriate end-game option.

Risk transfer market: Clara completes its first 'connected covenant' transaction

The Church Misson Society (CMS) Pension Scheme has become the fourth scheme to use Clara to secure benefits (with 730 members and £55m in assets). The transaction is the first to use Clara's 'connected covenant' structure and the first involving a not-for-profit employer.

The connected covenant structure means that the Scheme receives a continuing contingent guarantee from the original sponsor alongside Clara's capital commitment. Clara hopes that this structure will expand the potential number of DB schemes that can make use of consolidators.

It's also the first superfund transaction involving a not-for-profit sponsor – a significant step for the charity sector, one that paves the way for other charities to secure members' pensions without losing focus on their charitable objectives.

Get in touch with our experts

To discuss your situation, contact your usual First Actuarial consultant or any of our **employer services team**.