

Employer pension briefing, Quarter 4 2025

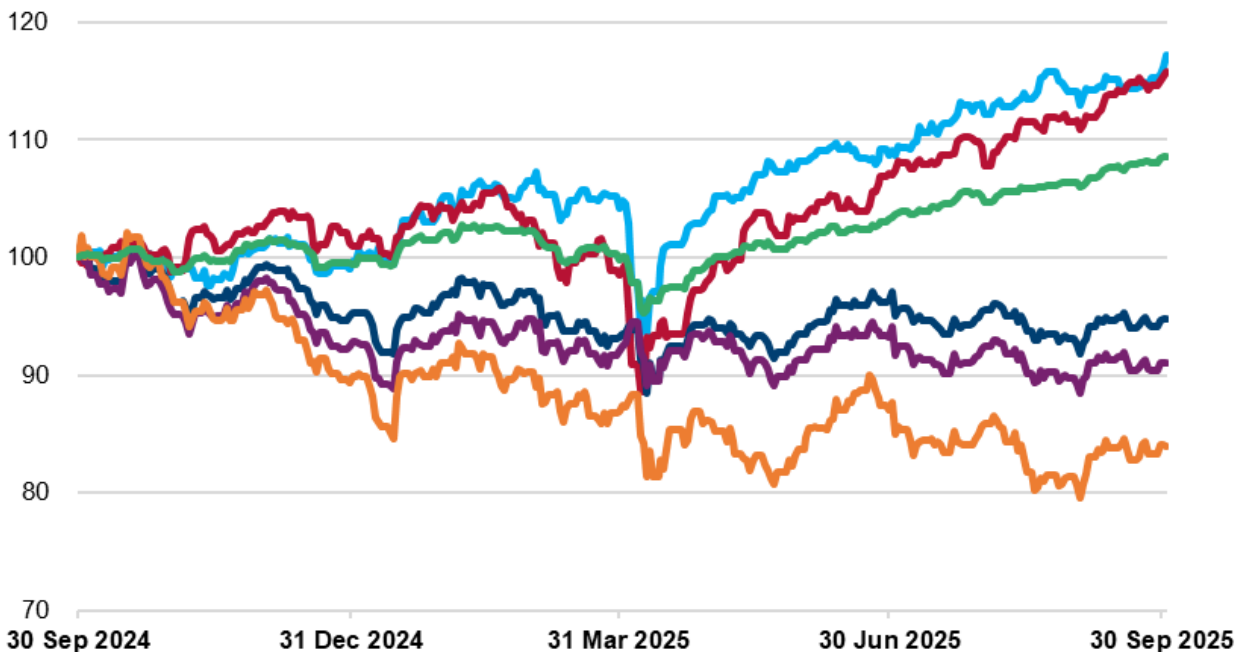
In this briefing, we outline key pension developments relevant to employers. We discuss recent legislative updates, including a potential fix for the Virgin Media judgment and an exciting development for Collective Defined Contribution (CDC) schemes. We also consider developments in the risk transfer market and look ahead to the November Budget.

Changes in financial markets to 30 September 2025

It's been another strong quarter for both global and UK equities, with returns of 9% and 8% respectively for the three months to 30 September 2025. Bonds have continued to struggle, with losses of up to 3% over the same period.

It's a similar story if we look over a 12-month period. Both global and UK equities have returned over 15%, despite significant falls in early April. Government and corporate bonds have fallen in value over the year, with the weakest performance coming from index-linked gilts, which fell by 16%.

Returns on diversified growth funds (DGF) were – unsurprisingly due to their multi-asset make-up – somewhere in the middle, with average returns over the year of 9%.



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. Indeed, a fall in the value of bonds is not necessarily bad news for 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

The headline rate of inflation for 2025 has now been confirmed, with CPI inflation for the year to September 2025 recorded at 3.8% – nearly double the Bank of England’s target of 2% per annum – and RPI inflation at 4.5%. These rates will determine 2025 and 2026 pension increases for many schemes.

And while market-implied inflation indicates that investors expect inflation to fall over the longer term, it also suggests that it will remain above the 2% target for the foreseeable future.

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 September 2024	30 September 2025	Impact on the liabilities of an average ¹ scheme
Corporate bond yield ²	5.1% pa	5.8% pa	-10%
Gilt yield ³	4.4% pa	5.4% pa	-13%
Market-implied inflation ⁴	3.4% pa	3.2% pa	-2%
Actual inflation (year to September 2025)	RPI: 4.5% CPI: 3.8%		<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 30 September 2025](#) useful. Ask your First Actuarial contact or [request a copy](#).

Virgin media issue ‘fixed’

No, not your broadband connection problems, but the potential issues arising from the Virgin Media vs NTL Pension Plan court case.

As announced over the summer, the Government has now made changes to the Pension Schemes Bill which aim to address this issue. However – and there is always a ‘however’ – it’s not a universal fix, and sponsors and trustees will need to consider their scheme’s individual circumstances.

Broadly, schemes that have not yet taken any ‘positive action’ based on relevant historical amendments being void – and have been administered on the basis that those amendments were valid – will be able to ask their Scheme Actuary to retrospectively certify those amendments.

This is a surprisingly common-sense solution which should alleviate any problems for most schemes. But it goes without saying that this will only fix the issue for those historical changes that can be certified. Any changes that cannot pass the relevant tests will still need remedying.

PPF pulls the plug on the 2025/26 levy

The Pension Protection Fund (PPF) has confirmed that no levy will be charged for the 2025/26 financial year. You may recall that when the rules for 2025/26 were first published, the intention was to raise £45m, despite the PPF being more than fully funded. This was primarily due to a quirk in the current legislation, which prevented the PPF from raising future invoices should the total collected fall to nil.

Following the progress made on the Pension Schemes Bill (which allows the PPF to reduce the levy to zero and reinstate it in future if needed) and in light of the Bill’s strong parliamentary support, the PPF Board has exercised its discretion to set the conventional levy to zero for the year.

Looking ahead, the PPF has stated it will engage with the industry on its levy plans for 2026/27, which will be shaped by the final passage of the Pension Schemes Bill.

Multi-employer CDC on the way

The Government has provided draft regulations to allow unconnected employers to participate in multi-employer CDC schemes. This is an exciting development for the UK pensions industry, paving the way for employers of all sizes to provide their employees with an income in retirement.

First Actuarial’s Head of CDC, Derek Benstead said **“This is what everyone’s been waiting for. It opens up a new way of providing pensions. An employer will be able to join a CDC master trust and simply sign forms and pay contributions. They’ll be spared all the work of setting up a scheme, managing it, and staying compliant with complex regulations.”**

Is pensions tax in the Chancellor’s crosshairs?

We may all be weary at the annual press headlines that pensions tax relief / salary exchange / tax-free cash (delete as applicable) is set to change as part of the upcoming Budget. But even a stopped clock is right twice a day. Could this be the year?

Well, the public finances are arguably in a worse state than ever, and changes to pensions tax may be a way of raising tax income without breaking manifesto promises. So, while it’s far from certain, a change certainly feels possible. [Read our Defined Contribution Q4 2025 briefing](#) for our view of the potential implications of a change to salary exchange (or salary sacrifice).

Inheritance tax consultation closes

The Government has responded to its consultation on proposals to apply inheritance tax (IHT) to unused pension funds and death benefits from 6 April 2027.

The original proposals were met with significant criticism, with many in the pensions industry deeming them impractical due to limited resources, the complexities of implementation and unrealistic payment deadlines for the tax charge.

Several amendments have been made to address the concerns raised. One of the most significant changes is the removal of death in service benefits from the scope of IHT. The other key change removes responsibility for reporting and paying IHT from scheme administrators, but effectively shifts this on to the estate's personal representatives.

But fear not, HMRC has set out a wonderfully convoluted five-stage process to guide personal representatives through this task, with each simple stage containing multiple steps. We can only hope for some simplification before the changes are implemented.

Risk transfer update: BWS acquisition of Just Group

Brookfield Wealth Solutions (BWS), a North American retirement services provider, has announced plans to acquire UK-based Just Group. This came as something of a surprise, as BWS has only recently entered the risk transfer market through its UK insurance company, Blumont Annuity.

BWS has confirmed its intention that Just Group and Blumont Annuity will operate as a single consolidated insurance group under the Just brand. The deal is expected to complete during the first half of 2026.

Just Group has confirmed to First Actuarial that it remains very much 'business-as-usual'.

Save the date: Wednesday 3 December 2025

As Christmas quickly approaches, your attention will no doubt be turning to your year-end pension cost accounting disclosures. Our pension cost accounting experts will be running our annual pension cost accounting webinar to keep you on top of the key issues. This year's event will take place at 10am on Wednesday 3 December 2025.

To register for the webinar, and to see what other events we have coming up, please [visit our booking site](#).

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](#).