First Briefing, May 2025
Annual Funding Statement 2025

The Pensions Regulator (TPR) has published its Annual Funding Statement 2025. It contains some broad considerations for schemes with a valuation effective date between 22 September 2024 and 21 September 2025. It also contains information for schemes carrying out their first valuation under the new regime and clarification around TPR's covenant guidance.

Key points

TPR estimates that most schemes are in surplus on a technical provisions basis (85%) and on a low-dependency basis (76%). Just over half (54%) are estimated to be in surplus on a buy-out basis. TPR expects 80% of schemes to be able to satisfy its Fast Track requirements.

Consequently, TPR is expecting most schemes to be switching their focus from removing deficits to end-game planning. TPR intends to publish end-game guidance, which trustees should find useful, in early summer.

General considerations

With regard to end-game planning, trustees should take advice on the most appropriate option for their scheme and its circumstances.

TPR also warns trustees of *heightened trade and geopolitical uncertainty*, which could make interest and inflation rates more volatile and present implications for markets and UK growth. This can affect scheme assets and the employer covenant in different ways. Trustees should make sure that their scheme can meet its short-term cashflow needs.

Where the impact of these factors on the employer is material, trustees should review whether the level of risk taken by the scheme remains appropriate. If the risk taken is no longer supportable, they should adjust their journey plan.

Trustees should understand the risks their scheme's investment strategy runs and must have robust and effective processes to strengthen their scheme's resilience to investment shocks.

TPR notes that the Government is planning to legislate to make it easier for schemes to pay surplus to employers. More detail is expected to be available in due course. TPR says that it is good practice for trustees to have a policy on surplus payments. Trustees might want to start considering how they would deal with an employer request for a surplus payment.

Funding strategies

When considering funding strategy, TPR has grouped schemes into three broad groups (as in previous years):

Group I: Funding level at or above low dependency

Trustees should focus on end-game planning and can find more information on options in TPR's end-game guidance (once published). Where trustees are considering running the scheme on, they must weigh benefits against risks. They will also need to put in place suitable *monitoring and management strategies* and continue to monitor the employer covenant.

Group II: Funding level above technical provisions but below low dependency

Trustees should make sure that their scheme can complete its journey to low dependency by the time the scheme is significantly mature.

Group III: Funding level is below technical provisions

Trustees should focus on removing their scheme's deficit. Technical provisions should be consistent with the trustees' journey plan to achieve low dependency when the scheme is significantly mature. The level of risk-taking should depend on the employer covenant and, subject to that, the scheme's maturity. Deficits should be recovered as soon as the employer can reasonably afford to do so.

New Defined Benefit (DB) funding regime

TPR expects to publish its response to the consultation on the format of the statement of strategy in spring 2025. The new digital service allowing trustees to complete and submit their statement of strategy will be launched at the same time.

Trustees should not delay completing their valuation until the new digital service goes live. However, TPR does not expect trustees to submit their valuation documents before the new digital service goes live.

TPR has been asked whether schemes should include intentions to buy-out in their funding and investment strategy. TPR notes that the statement of strategy allows for flexibility when describing the long-term objective.

Trustees would need to decide whether the commitment to buy-out is *clear and settled enough* to be included in the funding and investment strategy. TPR also notes that there is no legal requirement to meet the long-term objective in a specific timescale.

Assessing and monitoring the employer covenant

TPR has provided detailed additional clarification on its covenant guidance, which was published in December 2024. In particular:

- Trustees should take a proportionate approach to covenant assessment.
- A lighter touch approach to assessing the employer covenant might be more appropriate when a scheme is less reliant on the employer covenant.

Supportable risk

As the approach taken in the new DB funding code on assessing supportable risk is principle-based, TPR says it no longer intends to publish a formal supportable risk formula. TPR says this *recognises the need for schemes to approach an assessment of supportable risk, based on the specific merits of the scheme and the employer*. The Annual Funding Statement contains clarification for trustees on how to carry out this assessment.

Comment

The change in focus from eliminating deficits to planning end games is only to be expected in light of TPR's estimates of scheme funding levels.

As mentioned above, TPR is expected to launch its new *Submit a scheme valuation* digital service in the coming weeks, including a statement of strategy spreadsheet.

The new funding regime started its journey in a landscape where most schemes had significant deficits and relied heavily on their employers. Today, 75% of schemes have very little reliance on their employers, and 80% are expected to meet the Fast Track standards. Hopefully, the regulations for these well-funded schemes will not be too onerous to comply with.

Read the full Annual Funding Statement

Further information

For further information, please contact your usual First Actuarial consultant.