

First Actuarial briefing for trade unions Q3 2025

In this briefing, we consider the Government's response to its 2024 consultation, *Options for Defined Benefit schemes*.

We also highlight the launch of a call for evidence to support the Government's third State Pension age review, and share our exciting plans for TUC Congress 2025.

Surplus flexibilities for Defined Benefit schemes

The Government has published its response to the *Options for Defined Benefit schemes* consultation. The consultation was launched in February 2024 against a backdrop of improved reported Defined Benefit (DB) funding levels. However, existing legislation made it difficult to use surplus for the benefit of either members or employers.

The proposals sought to make it easier for DB schemes to distribute surplus while continuing to run-on – rather than only at wind-up – by introducing a statutory power allowing trustees to amend scheme rules to enable surplus sharing. This would remove the current restriction that only schemes with a pre-2016 resolution can do so.

However, the Government will not legislate on how surplus should be used. Instead, it will leave decisions to trustees and sponsors, supported by guidance from The Pensions Regulator (TPR).

To extract surplus, schemes will need to be fully funded on a low-dependency basis. This is a less demanding test than buy-out funding. Trustees will need actuarial certification to confirm that the funding level is met. If surplus is returned to the employer, it will be taxed at 25%. The Government is still reviewing the wider tax treatment.

Although the Pension Schemes Bill published in June 2025 includes some initial changes, the detailed regulations will be consulted on in 2026 and are expected to come into force by the end of 2027. In the meantime, TPR has issued guidance encouraging trustees and sponsors to begin thinking about how surplus might be used.

One of the more far-reaching effects of the proposals may be to encourage employers to keep DB schemes open for longer. If surplus can be accessed while the scheme is ongoing, and used to support wider business objectives, then the employer has more reason to continue funding the scheme rather than winding it up.

Where surplus is available for distribution, trustees' lawyers may well advise sharing the surplus between the employer and members. It's generally hard to sustain an argument that a surplus belongs wholly to either the members or to the employer.

For example, most closed DB pension schemes are likely to have required active members to contribute more for lower benefits at some point before the DB scheme was closed in favour of a DC arrangement. So current employees in a DC scheme who were once active DB scheme members will have helped to support an expensive DB scheme.

A further proposal rejected by the Government was the option for schemes to pay a *super levy* for full Pension Protection Fund (PPF) coverage. This was seen as potentially expensive and encouraging inappropriate risk-taking. That said, improving the PPF is an idea well worth exploring, even if not by this means.

One good thing which can be done with a DB scheme in surplus, which requires no new legislation, is to re-open it to new entrants. The surplus may support the cost of accrual, both saving the employer money and extending good pension benefits to more employees.

Why this matters to trade unions

Sharing surplus in a fair way is a matter for negotiation, balancing the interests of the employer and members. There is a potential role for trade unions to engage in a discussion on the use of surplus on behalf of members.

Third State Pension age review

The current State Pension age (SPA) is 66. However, this is set to rise gradually to 67 between 2026 and 2028. The Government is legally required to keep the SPA under review to ensure it remains fair and sustainable.

The second review concluded in March 2023. It confirmed that the increase to age 67 would go ahead, but recommended delaying the rise to age 68. This was due to uncertainty around life expectancy trends, the impact of the Covid-19 pandemic and wider economic pressures. The Government accepted the recommendation and committed to a further review within two years of the next parliament.

On 18 August 2025, the Department for Work and Pensions launched a call for evidence as part of the Government's third review. Dr Suzy Morrissey has been appointed to lead the review, and has been instructed to consider whether the current timetable for increasing SPA remains appropriate, and whether changes should be made to the way in which future increases are determined.

The review will also explore whether the UK should adopt an *automatic adjustment mechanism*, similar to systems used in Denmark and Portugal. These mechanisms link SPA to life expectancy data and are intended to provide a structured approach to future changes.

However, they can result in adjustments being made with little warning, and may fail to reflect the realities of workers in different regions and occupations. There is a risk that such mechanisms could unintentionally entrench existing inequalities, especially for workers in lower-income or manual roles.

The review will also consider healthy life expectancy, which is particularly relevant for manual workers and those in lower-income areas of employment. These groups often have shorter life expectancies and fewer healthy years in retirement.

Alongside the independent review, the Government Actuary's Department (GAD) has been commissioned to produce a separate report. GAD's role will be to analyse the latest life expectancy projections and assess whether the current SPA rules allow people to spend a fair proportion of their adult lives in retirement. Its report will also include sensitivity analysis and commentary on trends in mortality.

We believe there is more to the adjustment of SPA than a response to changes in life expectancy. What would a study of fitness for full-time work in older age reveal?

Why this matters to trade unions

The SPA affects when members can retire and how long they can expect to enjoy retirement in good health. While average life expectancy is rising, the gains are not shared equally – for some groups, life expectancy is barely rising at all.

The call for evidence is open until 13 October. You can read and respond to it [here](#).

First Actuarial at TUC Congress 2025

First Actuarial will be attending the 157th annual TUC Congress, taking place in Brighton from Sunday 7 to Wednesday 10 September 2025.

We'll be hosting a stand throughout the event, where we'll be promoting financial wellbeing and raising awareness around pensions. We're looking forward to catching up with our trade union friends and having conversations about how we can support members with pension education, financial resilience and long-term planning.

If you're attending Congress, please do come and say hello. We'd love to see you.

Pensions fun fact!

In our last briefing, we asked:

Many individuals have a State Pension age of 66. However, what proportion of people aged 66 or older were still working as of June 2024?

1.3% 5.7% 9.5% 15.2%

Answer: According to the UK's 2024 Annual Population Survey, **9.5%** of people aged 66 and older (1.12 million people) were still working.

This briefing's question

When is Pension Awareness Week?

April August September December

This year, Pension Awareness Week takes place from 11 to 15 September.

Once again, First Actuarial is supporting Pension Awareness Week. We want to help our clients raise pension awareness within their membership, so please feel free to circulate a link to our [Pension awareness landing page](#), which includes some free resources, including a short video to watch.

**PENSION
AWARENESS
SUPPORTER 2025**

How First Actuarial can help

First Actuarial is a nationwide firm of pensions actuaries and consultants. We help trade unions with all their pensions issues.

We can help support trade unions in negotiations with employers, lobby government, resolve problems within specific schemes, and explain any changes or choices members have to make. We also provide administration, actuarial and investment services to a large number of trade unions' own schemes.

If you or any of your colleagues would like to receive future briefings but are not on our circulation list, please [visit our preference centre](#) to sign up. Select *Pensions for Trade Unions* under the topics of particular interest banner.

If you'd like more information on any of the issues contained in the briefing, please contact:



Derek Benstead
derek.benstead@firstactuarial.co.uk
0161 348 7451



Aaron Love
aaron.love@firstactuarial.co.uk
0161 348 7462



James Allen
james.allen@firstactuarial.co.uk
0161 348 7432



James Milligan
james.milligan@firstactuarial.co.uk
0161 348 7495