first actuarial

Charity survey 2025



Introduction

DB pension schemes' funding levels have generally improved over recent years. The rise in gilt yields has reduced DB liabilities, and many schemes have seen significant improvements in their funding levels against technical provisions and accounting measures.

In particular, differences in Liability-Driven Investment (LDI) fund usage have contributed to a range of outcomes. Schemes with little or no LDI have tended to see larger funding improvements, while those with higher levels of hedging have experienced more stable and predictable positions.

At First Actuarial, we support employers and schemes of all sizes in managing their pension risks. That's why our analysis spans the full spectrum of charities and scheme sizes – not just the larger organisations. Our dataset includes many smaller employers, ensuring a representative and inclusive view of the charity sector as a whole.

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Our survey

We have analysed the published accounts of 300 charities, focusing on those that sponsor their own Defined Benefit (DB) schemes.

We have excluded charities that do not report in pound sterling, along with schools, universities, housing associations and other charities that primarily provide pension benefits through multi-employer arrangements such as the Teachers' Pension Scheme, Universities Superannuation Scheme and Local Government Pension Scheme.

All information has been sourced from annual reports and financial statements. A list of charities analysed is available on request.



Key findings

3p

in every £1 of charitable expenditure is spent on pensions.

67%

of those pension contributions are going to Defined Contribution (DC) arrangements.

7 in 10

of DB schemes in the charitable sector have less than £50m in assets.

£0.6bn

is the aggregate FRS 102 surplus for charities.

3 in 5

of charities' DB schemes will not be able to generate sufficient asset returns to meet ongoing scheme-running expenses.

£0.4bn

is the aggregate deficit against a low-dependency liability measure for all smaller schemes (with less than £50m in assets).

88%

of charities with a DB scheme in deficit have insufficient reserves to de-risk their schemes now.

£0.4bn

could potentially be returned to charities from well-funded DB schemes.

c25%

of DB schemes sponsored by charities have a surplus on a buy-out basis, compared to more than 50% across the whole DB landscape.

Full survey findings

What are charities in our survey spending on pensions?

£23.0bn
Total charity income

£23.4bn
Total charity expenditure

£8.7bn
Total staff costs

£0.6bn
Total pension costs included in staff costs

£0.2bn
DB costs

£0.4bn
DC costs

Charities are spending 7% of total staff costs and 3% of total expenditure on pensions.

DC contributions far exceed those of DB

Charities are spending around twice as much on DC pension arrangements as they are on DB schemes. For many charities, the focus is switching from managing legacy DB scheme deficits to enhancing their DC offering for current employees.

On average, DC contributions represent 4% of total staff costs. While there are lots of variables, this suggests an average employer rate of 4 to 5% of salary. That's above the statutory minimum (3% of *qualifying earnings* – around 2.5% of salary for an average earner).

But is that enough to provide security in retirement? Possibly not. The Living Wage Foundation's *Living Pension* standard recommends a total pension contribution of 12% of salary (with at least 7% from the employer).

By comparison, many auto-enrolment schemes operate at the statutory minimum of 8%, and evidence suggests that most employees do not voluntarily increase their own contributions to bridge that gap.

As a result, there is increased focus across the industry on helping employees understand their pension options – both in the years leading up to retirement and once they access their benefits.

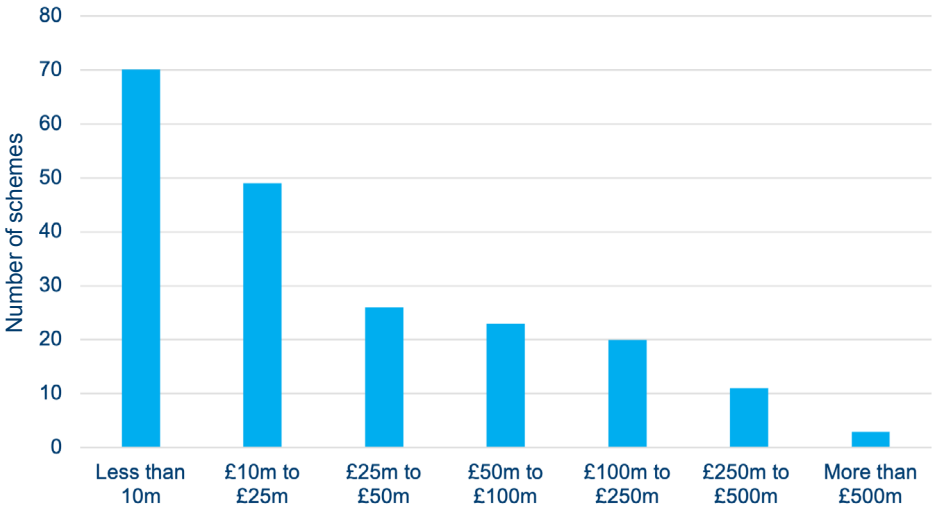
Our 2025 DC survey revealed that a top priority for employers over the next two years for their DC arrangements is to enhance the financial wellbeing of their employees and improve retirement support.



What does the charity DB pensions landscape look like?

Our dataset includes 202 charities with DB schemes.

Size of charities' DB pension schemes



Approximately 70% of schemes in the survey have assets below £50m. These smaller schemes face particular challenges:

Disproportionately higher running costs
Many running costs are fixed and represent a larger percentage of assets for smaller schemes.

Expense reserves
There may be material increases to funding liabilities due to the inclusion of expense reserves under the new funding code.

Limited insurer appetite
Fewer insurers are willing to engage with smaller schemes, pushing up buy-out costs, although competition has recently improved.

Out with the old and in with the new

The Pensions Regulator (TPR) introduced its new funding code for actuarial valuations on or after 22 September 2024. Under the new funding code trustees are required to:

- Set a long-term objective, aiming for **low dependency** on the employer by the time the scheme reaches **significant maturity**
- Align technical provisions with the journey plan to a low-dependency target by their **relevant date**
- Set an appropriate journey plan given the employer covenant strength and the level of support available, with **specific guidance for not for profit organisations.**

Schemes will be able to comply with the new funding code by either a Fast Track (if they meet the required parameters) or a Bespoke approach.

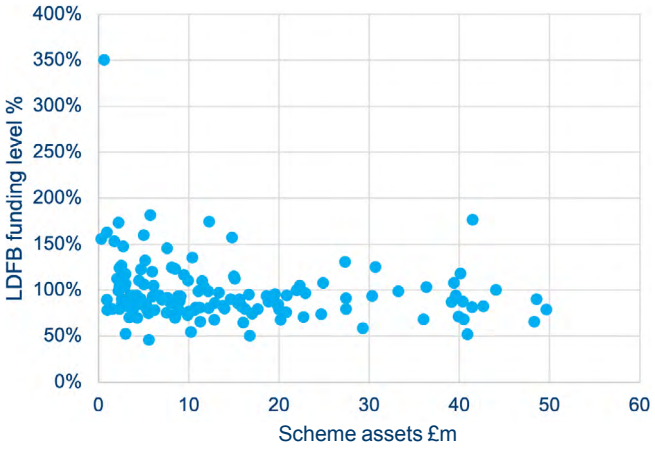
All else being equal, the new funding code is likely to result in more stringent funding targets for charities, with liabilities now including a potentially material reserve for future running expenses.



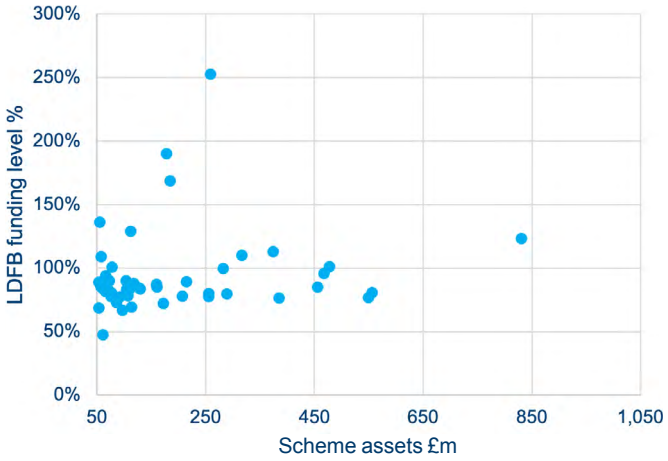
How will charities fare under the new funding code?

We look at an estimate of the low-dependency funding basis (LDFB) funding level (on a Fast-Track compliant basis) across the 202 charities in our dataset below:

LDFB funding level for smaller schemes



LDFB funding level for larger schemes



94%

is the estimated average LDFB funding level.

75%

of schemes have a deficit on a Fast Track-compliant LDFB.

£2bn

is the estimated LDFB shortfall across all schemes (with £0.4bn being the estimated total LDFB deficit for smaller schemes).

88%

of charities with an LDFB deficit do not have sufficient unrestricted charity assets to fund their schemes up to an LDFB at present. These charities will need to agree a journey plan with their trustees, relying on a combination of asset performance and contributions to achieve their long-term objectives.

Charitable release of surplus assets (CROSA)

The Pension Schemes Bill 2025 includes a proposal to allow scheme trustees to release surplus assets.

This can create a compelling argument across the industry for running-on a well-funded scheme, rather than undertaking a risk transfer transaction with an insurer, with the aim of generating additional funds to support charitable objectives.

How much could CROSA return to charities to meet charitable objectives?

We estimate that **51 charities have an LDFB surplus** – that's **£0.4bn** which could be released to charities to help them meet their objectives.

And if those schemes continue to run on, further funds could be released down the line – potentially up to **£80m per year** across the charities in our dataset.



Will running costs cause issues?

Yes. To remain viable into the long term, schemes need to generate sufficient asset outperformance to meet ongoing expenses. And they will need to do this within the framework of the new funding code.

This means that smaller schemes, where expenses are disproportionately high, may not be able to generate sufficient returns to meet ongoing costs.

The table below shows estimated annual running costs for schemes of various sizes. Based on these, we estimate that around 3 in 5 charity schemes will not be able to generate sufficient asset returns to pay ongoing expenses.

Scheme size at relevant date	Typical annual expenses (£)	Typical annual expense (% of scheme size)
£10m	£50k – £100k	1%
£20m	£100k – £150k	0.75%
£50m	£150k – £200k	0.4%
£100m	£200k – £250k	0.25%
£200m	£250k – £300k	0.15%
£500m	£300k – £500k	0.1%

Are any other potential issues stopping CROSA?

Scheme trustees will need to consider whether releasing a surplus is in the interests of the members. Surpluses could be used to fund:

- **Buy-out – securing the current level of benefits**
- **Additional discretionary benefits**
- **Enhanced member option terms**
- **DC payments**
- **Other charitable aims.**

Are charities nearing their end game for DB pensions?

As noted, running on to release surplus is not going to be suitable for all, and a risk transfer transaction with an insurer (a buy-out) is the logical end game for many charity schemes.

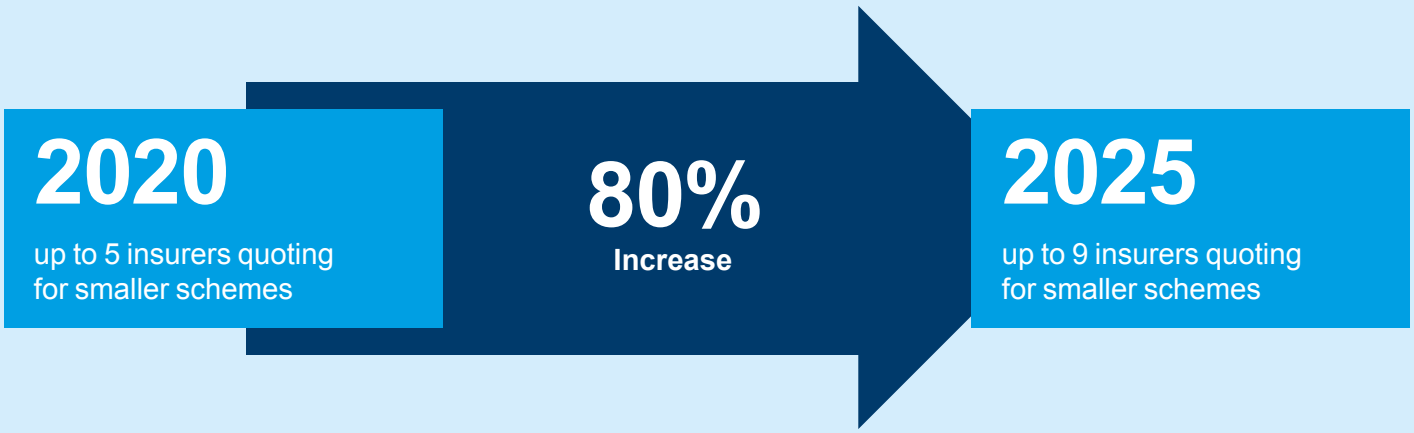
Over the past five years 750 schemes have been wound-up. There have been several high-profile transactions in the charity sector.

87% is the median buy-out funding level (compared with TPR's estimate of 102% of all DB schemes at 31 December 2024).

24% of all charities' schemes are estimated to be at least fully funded on a buy-out basis (compared with TPR's estimate of 54% of all DB schemes at 31 December 2024).

The position is slightly better for smaller schemes – 28% are estimated to be at least fully funded on a buy-out basis, with a median funding level of 89%.

In the past, achieving competitive pricing for smaller schemes has been a challenge. In the last five years the buy-out market for smaller schemes has become more competitive, leading to better pricing.



At First Actuarial we have the expertise required to help charities with smaller schemes either run-on in a cost-efficient way or navigate winding-up their DB scheme after a buy-out.



Survey method

We have analysed the latest published accounts of 300 UK charities and included 248 charities in the total pension cost analysis and 202 charities in the DB scheme analysis.

We have excluded charities that are schools, universities, housing associations, and any other charity likely to participate in multi-employer arrangements such as Local Government Pension Scheme and the Universities Superannuation Scheme.

The data used for our analysis has been taken directly from the charity accounts, without making any further judgement or adjustments with the following exceptions:

- In some cases, charities are excluded from certain statistics as their disclosures did not include the necessary data or the data provided did not appear to be consistent with the intended use. For example, some charities use restricted funds or endowment funds to support the scheme.
- The LDFB funding levels shown are based on a discount rate of gilt yields plus +0.5% pa in line with the top end of Fast-Track requirements. The LDFB liabilities are estimated by assuming they are 15% higher than the disclosed FRS 102 liability, plus an allowance for post relevant date expenses based on the scheme's asset size. This is intended as a proxy only and takes no account of the strength of the employer covenant, scheme asset allocation and any prudence required within the demographic assumptions.
- The estimated buy-out cost is assumed to be 25% higher than the disclosed FRS 102 liability. This is intended as a proxy for the cost of insuring a scheme's liabilities. It does not reflect the specific nature and duration of the schemes.

Where does your charity sit in relation to the charities in our study?

We can produce a benchmarking report and even arrange a meeting to discuss our findings with you. We can also provide advice about your pension arrangements, with a free introductory meeting.

Get in touch with our not-for-profit team



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About us

First Actuarial helps clients and pension scheme members get the best out of pensions. We are a leading provider of pensions advice to the not-for-profit sector, working with more than 200 charities and other not-for-profit organisations.

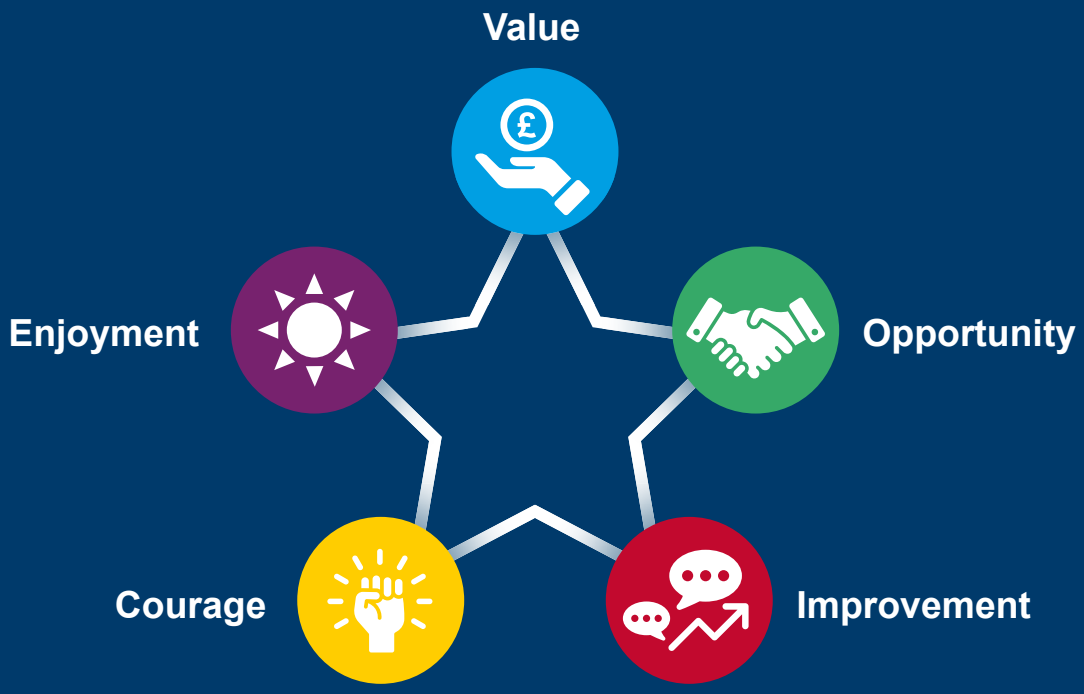
We offer considerable experience of supporting not-for-profit organisations and their pension scheme members through change. We listen carefully to what clients want to achieve and help them to do this – sometimes by challenging conventional thinking.

CHARITIES PENSIONS CLUB

Actuarial Partner 2025 and 2026

Our values are our VOICE

VOICE is the five simple values that capture the essence of First Actuarial and everyone who works here.



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