First Briefing, May 2026
Annual Funding Statement 2026

The Pensions Regulator (TPR) has published its Annual Funding Statement 2026, setting out expectations for schemes with valuation dates between 22 September 2025 and 21 September 2026 (known as Tranche 25/26 or T25/26 schemes).

The Statement also covers general information for schemes submitting their valuations under the new Defined Benefit (DB) funding code of practice, and clarifies expectations arising from queries about the code.

The big picture

TPR's analysis paints a strikingly positive funding landscape:

- 90% of schemes are currently in surplus on a technical provisions basis
- 80% are in surplus on a low-dependency basis, with 60% funded at over 110%
- 60% are estimated to be in surplus on a buy-out basis.

As a result, TPR expects most schemes to switch their focus from removing deficits to end-game planning, pointing trustees to its 2025 guidance for support.

TPR notes the new legislation around surplus release in the Pensions Schemes Act 2026, and plans to issue a statement and, at a later date, consult on more detailed surplus guidance.

Valuations with purpose

A key theme of the Statement is a shift in mindset. TPR stresses that for many schemes, valuations should no longer be treated as a budgeting or compliance exercise. Instead, valuations should be a strategic tool – shaped by the scheme's long-term objective and statement of strategy. TPR emphasises that long-term objectives and the statement of strategy should be *driving the valuation process, rather than being a post-valuation by-product.*

There will be no change to Fast Track parameters for T25/26 valuations. However, TPR makes it clear that:

- Fast Track parameters may evolve in future years
- Certain requirements remain under active review – particularly the definition of *low risk* for statement of strategy submissions, and how this applies to schemes that are fully buy-in backed.

Funding strategy: four clear pathways

This year, TPR has refined its approach by categorising schemes into four funding groups (up from three in previous statements), each with a clear strategic focus:

Group	Focus
Group 1A: 110% funded or more on low dependency	• Finalise and implement end game • Establish and agree a clear surplus policy
Group 1B: 100% to 110% funded on low dependency	• Develop and progress end-game planning • Monitor the employer covenant proportionately

© First Actuarial LLP 2026 all rights reserved.

The information contained in this bulletin is, to the best of our knowledge and belief, correct at the time of writing. However, First Actuarial cannot be held liable for any errors contained herein and the recipient accepts that the information stated is provided on an "as is" basis. This briefing is for general information only. It does not and is not intended to constitute advice. Specific advice should always be sought from the appropriate professional on all individual cases.

First Actuarial LLP is a limited liability partnership registered in England & Wales. Number OC348086. Registered address: First Actuarial LLP, Mayesbrook House, Lawnswood Business Park, Leeds, LS16 6QY. First Actuarial LLP is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of insurance and investment services to clients because we are licensed by the Institute and Faculty of Actuaries. We can provide these services if they are an incidental part of the professional services we have been engaged to provide

Group	Focus
Group 2: Funding level is above technical provisions but below low-dependency funding target	• Maintain momentum towards low-dependency funding
Group 3: Funding level is below technical provisions	• Address funding shortfalls and repair deficits

General considerations

Employer covenant assessments remain integral to protecting progress towards long-term objectives.

Trustees are reminded to remain alert to:

- The potential covenant impact of cyber incidents
- Ongoing macroeconomic uncertainty
- Broader climate change and sustainability risks.

TPR also stresses the importance of:

- A clear understanding of investment risk, supported by robust processes to improve resilience to investment shocks
- High-quality member data, highlighting its role in operational effectiveness, governance oversight and the reduction of compliance risk.

A review of data requirements for scheme returns is underway in the context of the funding code and statement of strategy, with changes scheduled for implementation from 2027.

Trustees and employers are urged to consider and make use of the recent guidance for resolving issues arising from the Virgin Media case, regarding the validity of past amendments to benefits for some previously contracted-out schemes.

Valuations under the new DB funding regime

TPR expects trustees to consider the scheme's long-term objective and journey plan before choosing between a Fast Track or Bespoke approach.

The new regime requires a far more integrated valuation process, underpinned by early and ongoing collaboration between trustees, employers and advisers.

TPR has also addressed some common queries from schemes preparing to submit their valuations under the new funding regime.

Key points include:

Employer covenant

TPR expects that where a scheme cannot comply with the principle of assessing supportable risk through the journey plan due to limited covenant support, the statement of strategy should classify the covenant strength as inadequate.

Importantly, TPR notes that an *inadequate* covenant assessment alone would not typically trigger regulatory engagement. Engagement is more likely where trustees have assessed the covenant as adequate, but the surrounding evidence strongly suggests otherwise.

Supportable risk

TPR notes that a surplus on a technical provisions basis can be taken into account in the assessment of supportable risk over the reliability period. However, TPR doesn't expect trustees to rely on the full surplus amount to support a higher-risk strategy, or to increase risk based on a strong funding position. TPR says: *If we engage with trustees in relation to the valuation and find the scheme's strategy had been materially changed as a result of allowing for a technical provisions surplus, we may ask the trustees to justify their approach.*

Low-dependency funding basis and low-dependency investment allocation

TPR covers a number of clarifications concerning the high-resilience test for low-dependency investment allocation, schemes past relevant date with a low-dependency deficit, and liquidity in the funding and investment strategy.

TPR also covers the expense reserve to be included in low-dependency liabilities, recognising that this can be particularly significant for smaller schemes.

TPR says the expense reserve *can be estimated proportionately and pragmatically, with approximate methods acceptable for long-dated and uncertain expenses.* Furthermore, the expense reserve is expected to evolve over time meaning that *the reserve is likely to be adjusted at each valuation.*

Read TPR's Annual Funding Statement 2026.

For further information, please contact your usual First Actuarial consultant