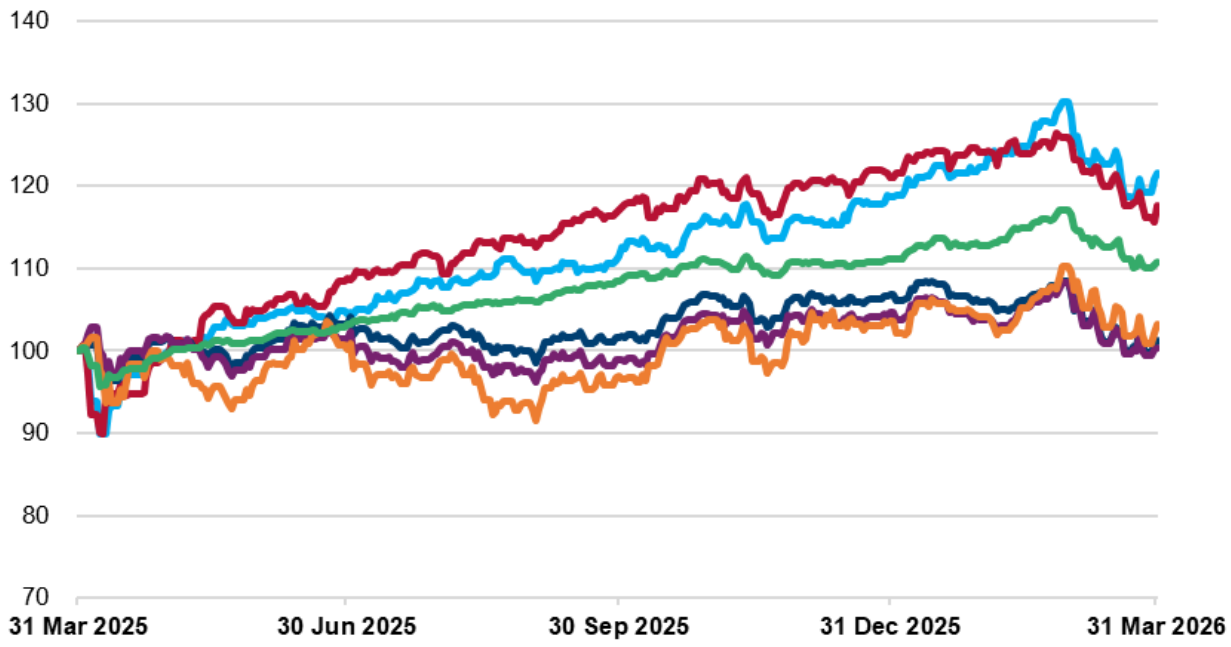
Employer pension briefing, Quarter 2 2026

In this briefing, we outline key pension developments relevant to employers. We take a look at recent market movements and how they're shaping pension accounting positions and upcoming funding valuations. We also provide an update on changes to the pensions landscape since the Pensions Schemes Act 2026 came into force, alongside other industry news.

Changes in financial markets to 31 March 2026

Despite periods of heightened market volatility, investment markets have delivered strong positive returns over the 12 months to 31 March 2026, driven primarily by equities. UK equities were the standout performer, achieving returns of around 22%, while global equities also posted a robust gain of approximately 17%. Diversified growth funds experienced steadier, more moderate progress, finishing the year up by around 11%.

In contrast, bond markets struggled to generate meaningful momentum. Although returns trended modestly upwards for much of the period, a late downturn eroded earlier gains, leaving overall performance broadly flat by year-end.



UK equities:	Global equities (unhedged):	Average DGF:	Corporate bonds:	Fixed-interest gilts:	Index-linked gilts:
+22%	+17%	+11%	+1%	+0%	+3%

© 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

Changes to scheme liabilities

Defined Benefit (DB) scheme asset performance should not be considered in isolation. Changes in scheme funding levels will reflect movements of both assets and liabilities.

Bond yields

Over the past four years, we've seen a substantial rise in both corporate bond and gilt yields, driving materially lower liabilities across almost all valuation bases – accounting, funding, low-dependency and buy-out.

Just as conditions appeared to be stabilising, renewed market volatility has emerged. Since the start of the year, corporate bond yields have increased by around 0.5% pa, with gilt yields up by approximately 0.3% pa.

For schemes where discount rates are linked to gilt returns, these movements are likely to reduce liabilities further. However, the precise impact on your scheme's discount rate will depend on its specific liability profile and the methodology used to set assumptions.

Inflation

With the Bank of England's long-term inflation target of 2% pa becoming increasingly distant, long-term market expectations for inflation have risen over the past year. For schemes with inflation-linked benefits, this would typically be expected to increase the value of liabilities.

The actual impact on your scheme will depend on its specific liability profile, including the nature of the benefits, and the caps and floors, applied to inflationary increases.

Summary

The table below shows how key financial assumptions have changed over the year:

	31 March 2025	31 March 2026	Impact on the liabilities of an average[1] scheme
Corporate bond yield[2]	5.7% pa	6.2% pa	-6%
Gilt yield[3]	5.2% pa	5.5% pa	-4%
Market-implied inflation[4]	3.5% pa	3.6% pa	+1%
Actual inflation (year to February 2026)	RPI: 3.6% CPI: 3.0%		*Scheme-dependent*

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 slightly 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 31 March 2026 useful. Ask your First Actuarial contact or request a copy by emailing us at *enquire.employer@firstactuarial.co.uk*.

Pension Schemes Act 2026

The Pension Schemes Bill received Royal Assent on 29 April 2026, becoming the Pension Schemes Act 2026, bringing significant changes across the DB and Defined Contribution (DC) regimes. We've set out the key provisions below:

Section	What does it change?
DB: Surplus release	Trustees are to receive new powers allowing surplus sharing, subject to appropriate safeguards. All else being equal, this is likely to result in more surplus going back to employers, with the Government having previously estimated an aggregate surplus on a low-dependency basis of c£160bn. While the Act permits this at a high level, the details of how this will operate will be set out in secondary legislation, expected next year.
DB: Resolving the Virgin Media issue	The Act introduces provisions to allow historical amendments to be retrospectively certified, meaning that those schemes with missing paperwork can (potentially) breathe a sigh of relief. However, retrospectively certifying historical changes may not be straightforward. In some cases, trustees and their advisers may need to rely on information from the employer. This could include details of pay and reward structures, remuneration policies and staff profile around the time of any changes. We suggest speaking with your advisers to understand any such requests.
DB: Superfunds	The Act establishes a regulatory framework for superfunds and relaxes the *onboarding conditions*, notably removing the requirement for schemes to have "no realistic prospect of buy-out in the foreseeable future" to use a superfund. While there have so far only been a handful of superfund transactions (and only one operational superfund), the above changes are likely to result in increases over time.
DC: Small pot consolidation	The Act puts in place new powers to enable the consolidation of small pots (of less than £1,000) into authorised consolidator schemes that meet prescribed standards. This change is designed to reduce administrative complexity, minimise the erosion of savings through fees, and make it easier for individuals to manage their pensions throughout their working lives.
DC: Value-for-money framework	The Act introduces a requirement for trust-based DC schemes to operate under a *Value for Money* framework. Schemes must clearly demonstrate that they deliver strong investment returns relative to their costs. Schemes that fail to provide sufficient value for money may be required to close or merge into better-performing arrangements.
DC: Guided retirement	The Act requires DC schemes to offer a default retirement strategy for members who do not make an active choice. This aims to provide a third way between full financial advice and total self-management. By designing pathways that typically include a mix of flexible drawdown for early retirement and guaranteed income (annuities) for later life – and even new Collective Defined Contribution (CDC) models – providers are working to automate the most difficult financial decisions of a member's life.
DC: Megafunds	The Act requires relevant DC schemes to operate (or participate in) a "main scale default arrangement" with at least £25bn of assets. This is intended to reduce costs and enhance access to a wider range of investment opportunities, ultimately improving returns for savers.
DC: Mandation	This is the most controversial part of the Act. It gives government the power to compel DC arrangements to invest part of their assets in certain asset classes (including UK-based private investments), for the benefit of both savers and the wider economy.

TPR's Annual Funding Statement 2026

Not content with one regulatory update this quarter, The Pensions Regulator (TPR) published its Annual Funding Statement 2026 shortly after the Pensions Schemes Act came into force.

It sets out TPR's expectations for schemes with funding valuations between September 2025 and September 2026.

The key messages are:

- Funding positions have continued to improve. TPR now estimates that 90% of schemes are in surplus on a technical provisions basis, 80% on a low-dependency basis and 60% on a buy-out basis. As a result, TPR expects trustees and employers to focus on end-game planning.
- TPR notes that the Pension Schemes Act 2026 includes new legislation relating to surplus release, with further detail to follow in DWP regulations, which are expected to come into force in 2027. It expects to release further guidance in due course.
- TPR has confirmed that the Fast Track parameters will remain unchanged for valuations in this tranche (i.e. those with valuation dates up to September 2026), but that it may revisit these in the future if current market conditions persist. It notes that experience to date is that around 80% of schemes are able to use the Fast Track compliance route (in line with initial estimates), but reiterates that Bespoke compliance is an equally valid choice.
- TPR has provided clarification on assessing employer covenant, supportable risk and the low-dependency funding basis and investment allocation. This includes:
  - Confirmation that a guarantee that does not meet the *look-through* criteria set out in the funding code can still have value ascribed to it in the statement of strategy
  - Confirmation that the low-dependency investment allocation (LDIA) need not reflect the scheme's actual investment strategy
  - Additional guidance on how expense reserves should reflect a scheme's long-term strategy. This is particularly relevant for those smaller schemes targeting run-on, which may reach a point at which buy-out becomes the only economically sensible option.

Risk transfer market: A new option for smaller schemes?

Clara, the *bridge-to-buy-out* consolidator, has announced that the Videndum DB Pension Scheme (500 members and £43m of assets) is the latest scheme to transfer assets and liabilities to the superfund. This represents Clara's smallest transaction to date, with the consolidator confirming the establishment of a separate section specifically designed for smaller schemes.

The development, along with the relaxation of gateway tests under the Pensions Act 2026, introduces a credible alternative end game to buy-out for a much wider range of schemes.

PPF confirm zero levy for 2026/27

The Pension Protection Fund (PPF) has confirmed that it will not charge a levy on conventional schemes for the 2026/27 financial year, marking the second consecutive year in which eligible schemes will face no PPF levy. This reflects the strong and sustained improvement in scheme funding levels, which has reduced pressure on the PPF.

ABC – Alphabet, Bond, Century

Alphabet (Google's parent company) has issued a 100-year *century bond* to support its significant investment in AI infrastructure. This has immediately positioned the US tech giant as one of the five largest investment-grade corporate bond issuers in the UK – despite having no previous presence in the market.

On the surface, the bond might look appealing as a DB scheme investment, but its 100-year term extends well beyond the expected term of future payments for most DB schemes (which are typically closed to new entrants and/or new benefit build up) and so it is likely to be of limited use to most DB schemes.

There has been some debate over the impact the bond will have on accounting discount rates (which are based on investment-grade corporate bond yields). The immediate answer is not much – we estimate that the bond typically reduces discount rates by less than 0.02% pa.

A recent Pensions Expert article – What does Alphabet's 100-year bond mean for UK pension schemes? – includes a contribution from Rob Skelton, Head of Investment Research at First Actuarial.

The Iran conflict – what does this mean for pension schemes?

As noted earlier, we have seen increased market volatility over Q1. A key driver of this is the conflict involving Iran. Disruption to energy markets has weakened equity markets, renewed inflation concerns, and led to upward pressure on long-term interest rates.

Many pension schemes now operate lower-risk investment strategies and may be relatively well protected. However, employers may wish to check in with trustees to understand how funding levels are holding up and whether any risks have emerged, for example, around collateral resilience (i.e. whether there are enough liquid assets to support any leveraged liability-driven investment [LDI]).

Are changes in gilt issuance affecting your liability matching?

If your scheme invests in gilts, it's worth considering whether the recent high levels of issuance are damaging your returns.

A common way to invest in gilts is by tracking a *market-cap* index. Such funds might have names like *All Stock Gilts Index Fund* and *Over 15 years Index-Linked Gilts Index Fund*.

These funds reflect the structure of the market – meaning that a higher value of gilts at a given maturity results in a larger allocation to that part of the market.

In recent years, gilt issuance has increased (due to high government borrowing). Issuance has also shifted towards shorter maturities, as this is currently cheaper for the Government. These trends are expected to continue.

This has two main implications:

- We anticipate a drag on performance as the Government issue gilts where it is *cheaper* for them. We estimate this drag could be around 0.5% p.a. on affected gilts.
- Over time, new issuance will change the liability-matching characteristics of the gilts, affecting the level of interest rate or inflation hedging they provide.

There are alternative approaches available that can help mitigate these risks. Please speak to your regular consultant (or our investment team at enquire.investment@firstactuarial.co.uk) to discuss the options for your scheme.

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 at enquire.employer@firstactuarial.co.uk.

Sign up to First Actuarial's Annual Conference on **Thursday 25 June** at the De Vere Grand Connaught Rooms in London (with complimentary lunch and post-event drinks). We have a strong speaker line-up covering key pensions and employee benefit developments. **RSVP here**.