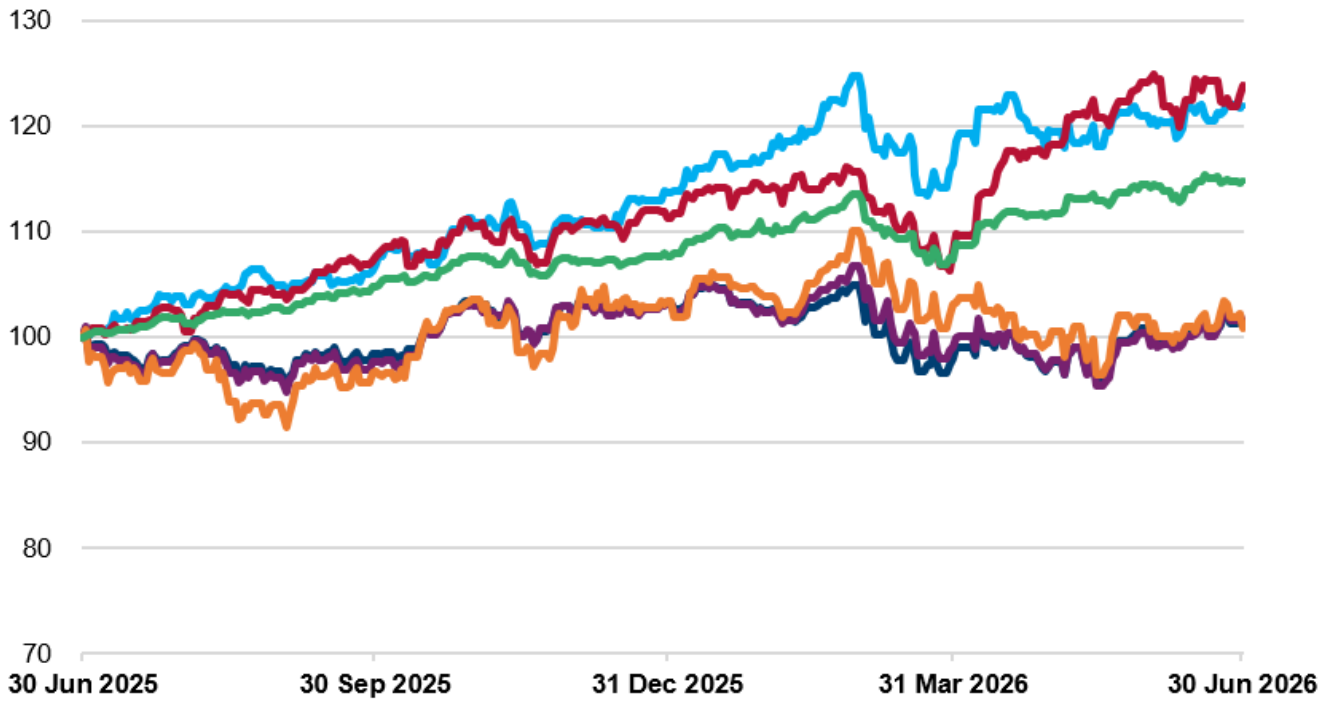
Employer pension briefing, Quarter 3 2026

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 discuss updates to the Retirement Living Standards, potential changes to flexible apportionment arrangements (FAA), and the future direction of Defined Contribution (DC) pensions.

Changes in financial markets to 30 June 2026

In what has become a very familiar story, equities have delivered strong performance over the last 12 months, while bond returns have lagged behind. We saw some market turbulence in March this year, but it has otherwise been a relatively quiet period.

Both UK and global equities saw returns in excess of 20%, with both corporate and government bonds ending the year relatively flat. Diversified growth funds (DGF), as you might expect, landed somewhere in the middle – with the average DGF returning 15%



UK equities:	Global equities (unhedged):	Average DGF:	Corporate bonds:	Fixed-interest gilts:	Index-linked gilts:
+22%	+24%	+15%	+1%	+1%	+1%

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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 have seen significant increases in both corporate bond and gilt yields, resulting in materially lower pension liabilities across almost all valuation bases, including accounting, funding, low-dependency and buy-out measures. This trend has continued, with further increases seen in bond yields over this year.

For schemes with discount rates that are linked to gilt yields, these market movements are likely to lead to further reductions in liabilities. However, the extent of the impact will vary from scheme to scheme, depending on the specific liability profile and the methodology used to determine the discount rate and other key assumptions.

Inflation

Long-term market expectations of inflation are broadly unchanged over the year, although they remain well above the Bank of England's 2% pa target. For schemes with inflation-linked benefits, higher expected inflation means higher liabilities.

The impact on any individual scheme will depend on its specific liability profile, including the nature of the benefits provided and the extent to which inflationary increases are subject to caps and floors.

Summary

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

	30 June 2025	30 June 2026	Impact on the liabilities of an average[1] scheme
Corporate bond yield[2]	5.6% pa	6.0% pa	-6%
Gilt yield[3]	5.1% pa	5.4% pa	-4%
Market-implied inflation[4]	3.2% pa	3.2% pa	+0%
Actual inflation (year to May 2026)	RPI: 3.1% CPI: 2.8%		*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 are likely to 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 30 June 2026 useful. Ask your First Actuarial contact or request a copy by emailing us at *enquire.employer@firstactuarial.co.uk*.

BREAKING: Torsten Bell keeps his job

Only in politics could someone keeping their job be a headline.

Following Andy Burnham's appointment as Prime Minister and the subsequent reshuffle, pensions minister Torsten Bell is one of the few to have remained in post. At the time of his reappointment, he had racked up an impressive (by pensions minister standards) 556 days in post. Should he manage to see the year out, he will become the third longest serving pensions minister since the role was created.

An updated pensions reform roadmap

And it is good to see that continuity, not least because the Government released its updated pension roadmap on 14 July, covering its timetable of reform for DB, DC and Collective Defined Contribution (CDC) arrangements.

The roadmap updates timelines originally published in June 2025, and sets out how and when the various measures will be implemented over the next 10 years.

For DC savers, the direction of travel is clear – fewer, larger schemes, better value for members and default retirement-income solutions for those who do not wish to navigate complex choices themselves (which could potentially include retirement CDC options).

For DB, the immediate focus is on implementing the new surplus-sharing regime from April 2027 and introducing a permanent superfund framework during 2028.

DWP consults on new DB surplus flexibility regime

DWP has launched a consultation on the draft regulations that will underpin reforms to surplus sharing in DB schemes. The regulations will bring in two key changes:

- A statutory override for trustees to change scheme rules to allow surplus sharing
- A weakening of the funding threshold (from buy-out to low-dependency) that needs to be met before payments can be made to sponsoring employers.

But, as always, the devil is in the detail, and the draft regulations give us a first glimpse of the mechanics of surplus sharing. As you would expect, there are some significant safeguards being proposed to protect members, including:

- Surplus sharing will be a trustee-led process. It's up to trustees to decide on the appropriate funding threshold. Low dependency is set as a minimum, but trustees may opt for a higher threshold.
- Actuarial certification will be required. This will have to confirm that the funding test is met at the time of payment and that at any point during the following three years, it is at least as likely as not that assets will remain greater than liabilities on a low-dependency basis.
- Members must be notified three months before any payment is made to the employer.

It will certainly not be the case that employers can access surplus funds automatically. Trustees must consider the impact of any payment to employers on benefit security, while the Government has been clear that it expects schemes to share the benefit of any surplus with members.

As such, it's difficult to see how surplus can be returned to an employer without an accompanying benefit for members. For many schemes, the most challenging discussion won't be whether surplus can be released, but how it should be shared between the employer and members.

Guided retirement

Auto-enrolment has largely solved the problem of getting people to save for retirement (though, as we will get to, not necessarily to save *enough)*. But it has not solved the problem of how best to turn those retirement savings into a retirement income.

One of the key elements of the Government's pension reforms looks to resolve this. The Pension Schemes Act introduces a *guided retirement* duty. This will require trustees and providers of DC schemes to offer a default retirement option for members who do not make an active choice. These solutions aim to provide a third way

between full financial advice and total self-management. Default pathways might include a mix of flexible drawdown for early retirement and guaranteed income (annuities) for later life, or even new CDC models.

Government to review FAA framework

You may have seen the innovative *sponsor swap* deal in the press earlier this year. Trustees of the Stagecoach Group Pension Scheme agreed to change the sponsoring employer from Stagecoach to Aberdeen (the financial services company, not the Scottish city).

The tool used to change the sponsoring employer in that transaction was an FAA. FAAs were not strictly designed with that kind of transaction in mind – ostensibly, they are tools to facilitate corporate restructurings, mergers, acquisitions and other business reorganisations.

In light of the Stagecoach deal, the Government has announced a review of the existing FAA framework, to consider *whether and how existing FAA regulations could be strengthened*, noting that *regulatory standards and safeguards must evolve to match the new risks this creates*.

While it's unlikely that deals such as that of Stagecoach will become widespread, the Government is clearly keen to ensure this approach does not become a way of circumventing member protections.

Is anyone saving enough for retirement?

One of the key issues the Government's suite of reforms is looking to resolve is pensions adequacy (or, more aptly, pensions inadequacy).

The Second Pensions Commission was set up last year to review whether the UK pensions system will deliver adequate, fair and sustainable retirement incomes. It published its interim report, Pensions 2050, in May. The key headline is that the UK is not saving enough for retirement, with as many as 18 million working age adults not saving into a pension scheme *at all*. The Commission is currently gathering views from industry, employers and experts ahead of making its recommendations in spring 2027.

At the same time, Pensions UK has published its updated Retirement Living Standards. These give an idea of how much income people might need in retirement. They consider three retirement income levels – *minimum*, *moderate* and *comfortable*.

It will not come as a shock to learn that recent inflationary pressures mean that the income needed at all levels has increased significantly. It's now estimated that achieving a comfortable standard of living in retirement requires an annual income of around £45k for a single person and £63k for a couple. To meet the *minimum* standard, these amounts fall to £14k and £23k respectively. **Importantly, these figures do not include any housing costs**, an issue that will become more acute as more people reach retirement without owning their own home.

Pensions UK's findings mirror those of the Second Pension Commission. Most individuals are not saving enough for retirement. While 82% of the workforce is expected to achieve the *minimum* standard, largely due to the State Pension, just 9% are on track to achieve a *comfortable* standard of living in retirement.

Inheritance tax changes for pensions

Up to now, pension savings have sat largely outside the inheritance tax regime. From April 2027, that will change. The Finance Act 2026 has introduced changes around the tax treatment of unused DC funds and certain death benefits. From April 2027, these may form part of a member's estate for inheritance tax purposes. The Government's rationale for these changes is to prevent pension schemes being used and marketed as a tax-planning vehicle to transfer wealth rather than to fund retirement.

Employers should work with their advisers and scheme providers to make sure these changes are communicated to employees. You can read more about this in our recent inheritance tax briefing.

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.