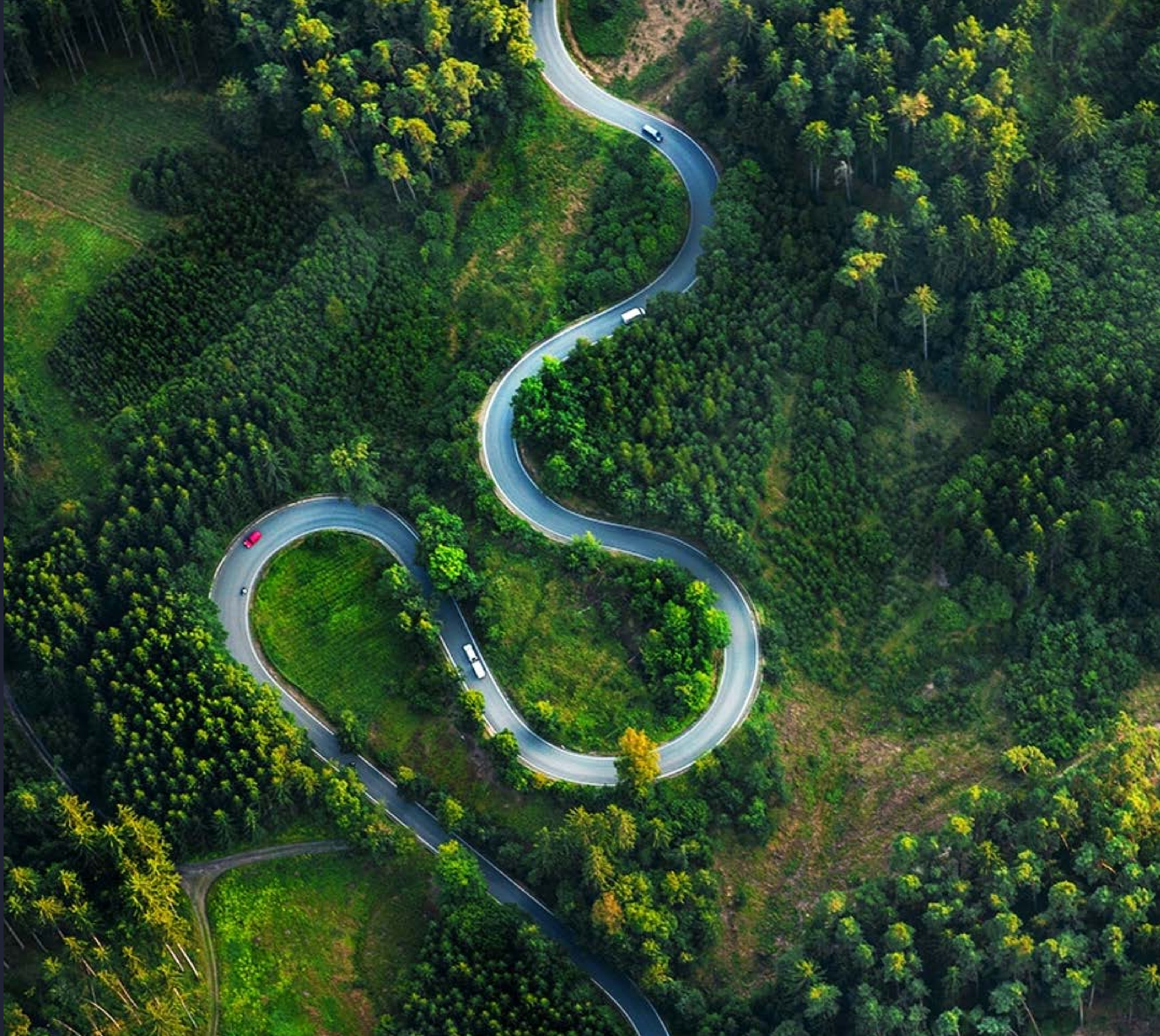
Pension scheme funding - an analysis of completed valuations

In Depth

September 2025



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Overview

This year's analysis shows that the average funding level improved further; nearly two-thirds of schemes were fully funded against their technical provisions.

Since the dates of these completed valuations, the average funding level has moved slightly higher, although there is variation between schemes. Around half of schemes are now fully funded on a buy-out basis.

Our analysis covers the last valuations to be completed under the funding regime that has applied since 2005.

Valuations under the new funding regime are now underway - with its focus on a journey plan towards a low dependency funding target, aiming to reduce reliance on the employer covenant and achieve low dependency as a scheme matures. Ahead of this becoming a legislative requirement, many schemes completing their valuations over the last 12 months have considered what to set as their target – and their long-term objective.

Against this background, provisions are included in the Pension Schemes Bill to make surplus refunds to employers easier. The objective is to make it more attractive for DB schemes to 'run on', invest in productive assets, and generate surplus which can potentially be shared with employers and members.

Trustees and employers are considering the full spectrum of endgames in order to assess which will deliver the best outcomes for pension scheme members and sponsors.

Our full data-driven analysis aims to support our clients' better decisions.

Key findings

This In Depth sets out the approaches to and results of UK pension schemes' funding valuations completed up to July 2025.

This is the nineteenth year in which we have produced a detailed analysis, and our key findings this year are:

- Of those schemes already adopting a long-term funding target, 51% used a low dependency funding basis and 49% used a buy-out basis; 78% had reached their target or expected to do so in under 5 years;
- Of the same schemes, in terms of long-term objective, 54% intended to pursue a buy-out and 29% intended to run on the scheme in some way; 17% had not decided;
- 74% of schemes used a third party/specialist assessment of the employer covenant;
- 92% of schemes hedged at least 70% of their interest rate risk and 92% also hedged at least 70% of their inflation risk, compared to 84% and 85% respectively three years ago;
- Average discount rates in excess of gilt yields were slightly higher than those for the previous year but lower than three years ago;
- The average difference between RPI and CPI assumptions was 0.86% p.a. for the period before 2030 and 0.10% p.a. post-2030, reflecting the announced change to the calculation of RPI from 2030;
- The average assumed life expectancy was 0.4 years shorter than three years ago, when many schemes' previous valuations were undertaken;
- The average technical provisions funding level – 105% – and the proportion of schemes in surplus – 65% – were both higher than for any previous year since the start of the funding regime in 2005;
- The percentage of schemes requiring a recovery plan fell from 58% to 35%; for schemes in deficit, the average recovery period, of 3.9 years, was 1.9 years shorter than three years ago, when many schemes' previous valuations were undertaken;
- 40% of schemes had put in place contingent security; the majority of schemes with such arrangements (80%) were in surplus;
- The proportion of recovery plans including an element of additional return in excess of the discount rate was 26%, which was similar to last year but significantly lower than three years ago (66%);
- Since the dates of these valuations, average funding levels have continued to improve from a historically high starting point; around half of schemes are now fully funded on a buy-out basis;
- Against this background of higher funding levels, the Pension Schemes Bill includes provisions to make surplus refunds to employers easier. This is intended to make it more attractive for DB schemes to 'run on', invest in productive assets, and generate surplus which can potentially be shared with employers and members.

We comment on possible explanations for our findings, and look ahead to 2025 valuations and beyond.

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The funding landscape

The long-term funding target and use of integrated risk management

1.1 A comprehensive picture

Our analysis covers 136 completed valuations carried out by Aon consultants for our clients, under the scheme specific funding regime, covering effective dates from September 2023 to July 2024. The data also include valuations carried out by Aon consultants with earlier effective dates.

We consider:

- **The funding landscape** – the long-term funding target and use of integrated risk management;
- **The technical provisions** – the discount rate, inflation, mortality, other demographic assumptions and the funding level;
- **The recovery plan and contingent security** – the recovery period, contingent security and the recovery plan assumptions; and
- **Looking ahead** – to 2025 valuations, and beyond.

We divide valuations into categories based on their effective dates, to allow us to illustrate how features have changed. For this purpose, we have adopted the approach used by The Pensions Regulator, under which valuations are grouped into 'tranches', with the most recent as follows:

Tranche	Effective dates of valuations
19	22 September 2023 to 31 July 2024
18	22 September 2022 to 21 September 2023
17	22 September 2021 to 21 September 2022
16	22 September 2020 to 21 September 2021

In its 2025 Annual Funding Statement, the Regulator stated that going forward tranches would be renamed; Tranche 20 will be known as 'Tranche 24/25'. However, for consistency with the above, we have continued to refer to those valuations currently in process as tranche 20 below.

1.2 The long-term funding target

For valuations with effective dates on or after 22 September 2024 (i.e. valuations from tranche 20), the Pension Schemes Act 2021 requires schemes to set a strategy for ensuring that benefits can be provided over the long term. Detailed requirements are set out in the Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2024.

The Appendix to this document defines key terms used in the context of the new funding regime.

A key principle is that a scheme must set a **long-term objective** (LTO) and aim to be in a state of low dependency on the sponsoring employer by the time it is 'significantly mature'. The aim is that when (or shortly after) significant maturity has been reached, the scheme must be fully funded on its **low dependency funding target** – targeting at least 100% of liabilities on a low dependency funding basis, which reflects a low dependency investment allocation. A **journey plan** must set out how the scheme will progress towards this target.

The legislation is supported by The Pensions Regulator's revised Code of Practice, which sets out guidance on how to comply with the legislative requirements and the Regulator's expectations. It includes detail on the regime that applies to valuations from 'tranche 20' – and will have been considered for many valuations analysed in this In Depth, with earlier effective dates.

The Code defines the duration of liabilities at which schemes will be considered significantly mature as 10 years (other than for cash balance benefits, for which it is eight years).

The rationale for introducing the LTO principle now is the maturing of the typical DB pension scheme. In its 2025 Annual Funding Statement, the Regulator states that it expects most schemes to be shifting their focus from deficit recovery to endgame planning.

A long-term funding target (LTFT), in addition to that used for technical provisions, was used by 66% of schemes with tranche 19 valuations, compared to 68% for tranche 18. Of these, 51% used a low dependency funding basis (documented formally in 47% of these cases) and 49% used a buy-out basis (documented formally in 20% of these cases). Chart 1.2.1 provides further information on the bases used for LTFTs.

For tranche 19, the LTFT drove funding/contribution decisions for 59% of schemes: for 67% this was indirectly (for example, it was a factor considered when the funding strategy was agreed at the valuation), and for the other 33% directly (for example, contributions were contingent on the funding level measured on the LTFT basis). For 82% of schemes for which the LTFT had not been achieved, the LTFT drove investment/de-risking decisions: for 81%, this was indirectly (for example, it was a factor considered when the investment strategy was agreed), and for the other 19% directly (for example, de-risking triggers were driven by the funding level on the LTFT basis).

In addition, technical provisions were determined on a low dependency basis for 15% of tranche 19 valuations.

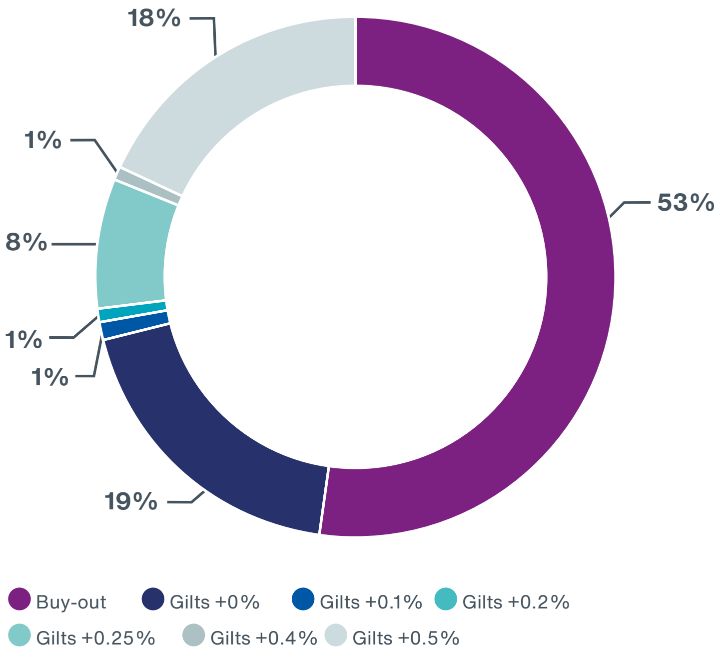
Though the new funding regime did not apply to tranche 19 valuations, these statistics indicate that trustees and employers understood the importance of long-term planning, and that they were anticipating some of the changes to the funding regime. However, for their next valuations, they will need to consider whether and how they need to amend their long-term planning, when they determine their 'funding and investment strategy', to fully meet the requirements of the new legislation and the Regulator's expectations set out in its revised Code.

"

Of those schemes already adopting a long-term funding target, 51% used a low dependency funding basis and 49% used a buy-out basis; 78% had reached their target or expected to do so in under 5 years

Of the same schemes, in terms of long-term objective, 54% intended to pursue a buy-out and 29% intended to run on the scheme in some way; 17% had not decided

Chart 1.2.1 Basis of long-term funding target – tranche 19



In addition to using a 'prudent' discount rate and mortality assumptions, 43% of LTFTs included an element of prudence in other assumptions; the other LTFTs used best estimate for other assumptions. 71% included an explicit allowance for expenses; of these, 68% included an estimate of wind-up expenses, 22% an estimate of all ongoing expenses and 10% an amount below those two estimates.

Of those schemes with an LTFT, 49% had a journey plan that aims to achieve the target by the time the scheme is broadly significantly mature.

The Regulator encourages trustees to consider a full range of endgame options. In the longer term, schemes might 'run on', secure buy-out with an insurer or target moving to a consolidator. In June 2025, the Regulator published guidance on "New Models and Options in Defined Benefit Pensions Schemes", which covers endgame options including running on a scheme and insurance solutions, as well as alternative financial and governance arrangements which may support the journey. The Pension Schemes Bill includes provisions on commercial superfunds, to establish a permanent regime – to replace the Regulator's current interim regulatory regime. We might expect some schemes to set a low dependency funding target based on consolidation vehicle pricing in the future.

In terms of timescale, Chart 1.2.2 shows that 41% of schemes with an LTFT had already reached it, which compares with 25% for tranche 18, and 37% of schemes were expecting to reach their target in under 5 years.

Chart 1.2.2 Expected timescale for reaching long-term funding target – tranche 19

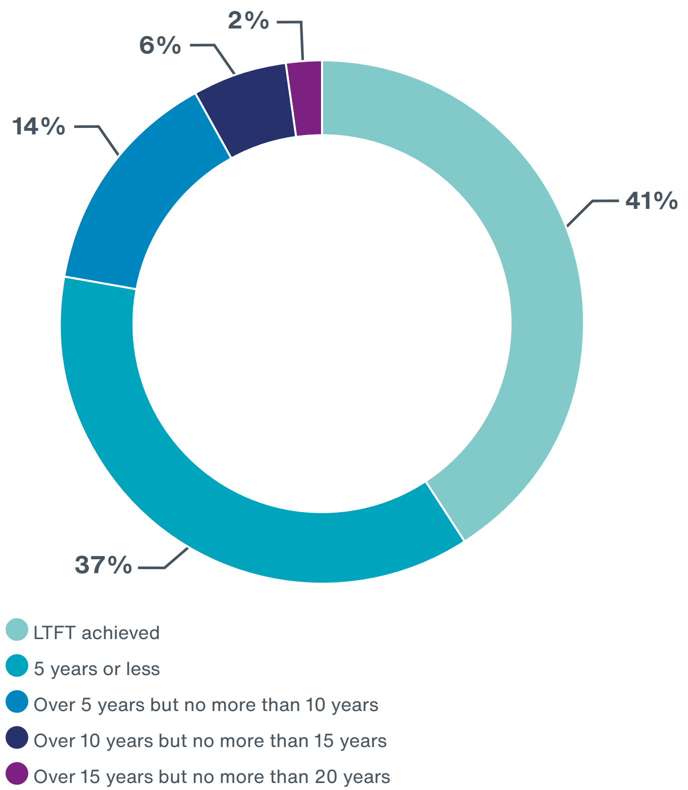
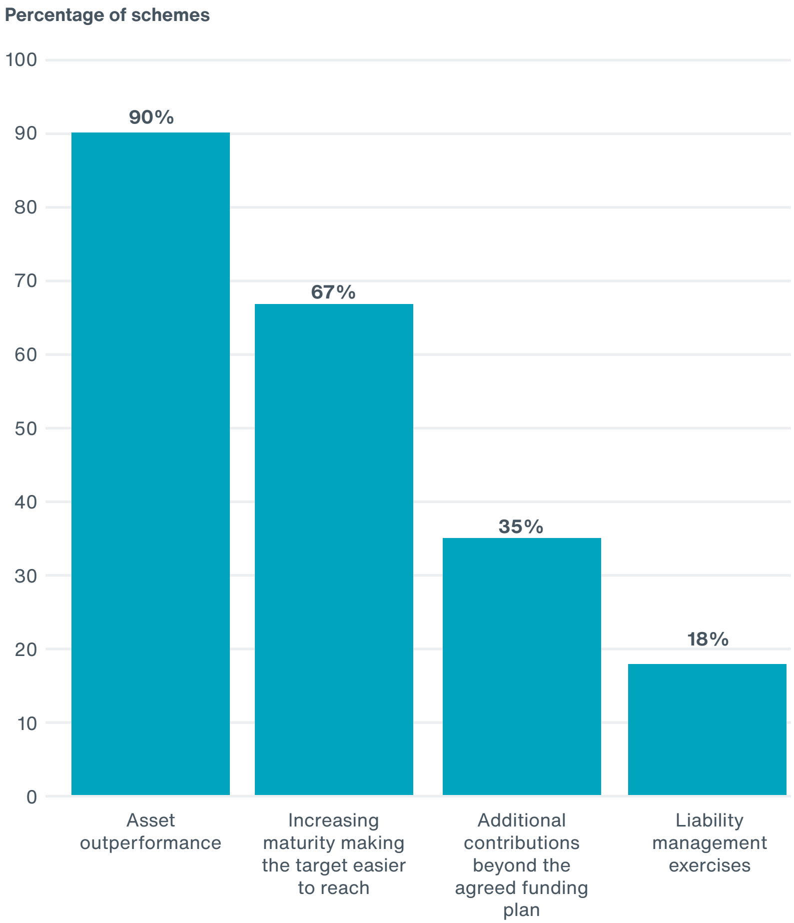


Chart 1.2.3 shows that a large majority (90%) of the schemes yet to reach their target were intending to use asset outperformance to do so, at least in part.

Chart 1.2.3 Intended means to reach long-term funding target – tranche 19



For schemes with tranche 19 valuations, where the trustees had set an LTFT, once they had reached that target, 54% intended to pursue a buy-out and 29% intended to run on in some way. 17% had not decided.

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1.3 An integrated approach

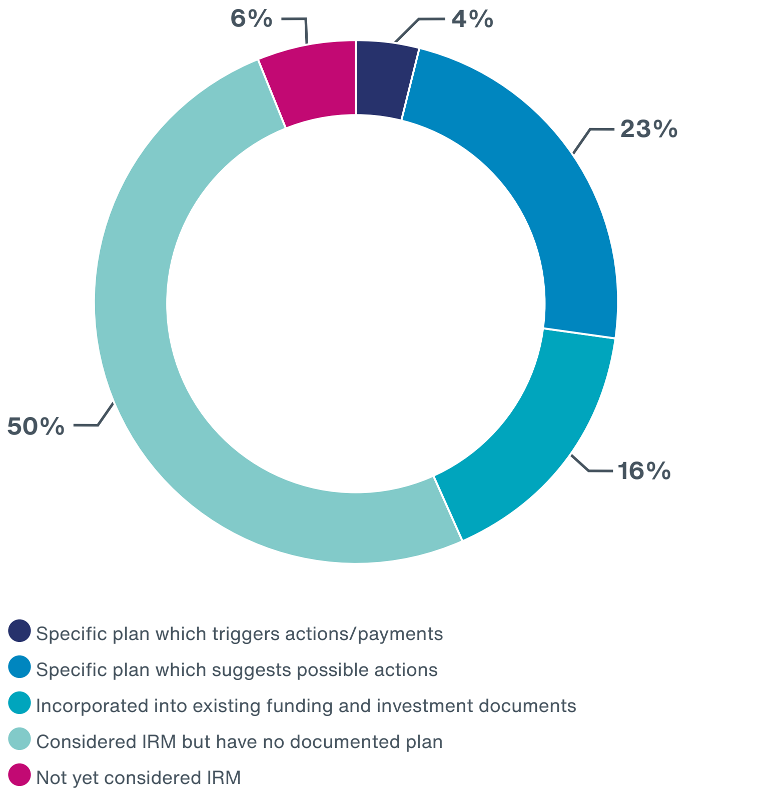
The Pensions Regulator's Code of Practice on defined benefit funding offers practical guidance for trustees and employers on how to comply with the funding requirements under legislation. A key aspect of the version of the Code that applies to valuations up to tranche 19 (i.e. valuations with effective dates before 22 September 2024) is the importance of an integrated approach to risk management. Trustees should understand the risks across funding, investment and the employer covenant. The Regulator's revised Code – which applies to valuations from tranche 20 – sets out its continuing expectation that trustees adopt an integrated approach.

Maturity is important because, as benefits paid out increase as a proportion of scheme assets, this can put a different complexion on the risks that need to be managed, especially investment volatility. In tranche 19, 78% of schemes were cashflow negative (not allowing for asset income). However, the average duration of liabilities was 13 years on the technical provisions basis, indicating the average scheme is some way from being considered 'significantly mature'.

For tranche 19 valuations, the trustees of 71% of the schemes took an integrated approach to risk management, in respect of funding, investment and employer covenant, that included consideration of downside scenarios and contingency planning. The percentage of trustees taking an integrated approach is similar to that in tranche 16 (74%), indicating that it is well-established practice for most trustees.

Varying approaches to integrated risk management (IRM) were taken for tranche 19, with only 6% of schemes having not yet considered IRM.

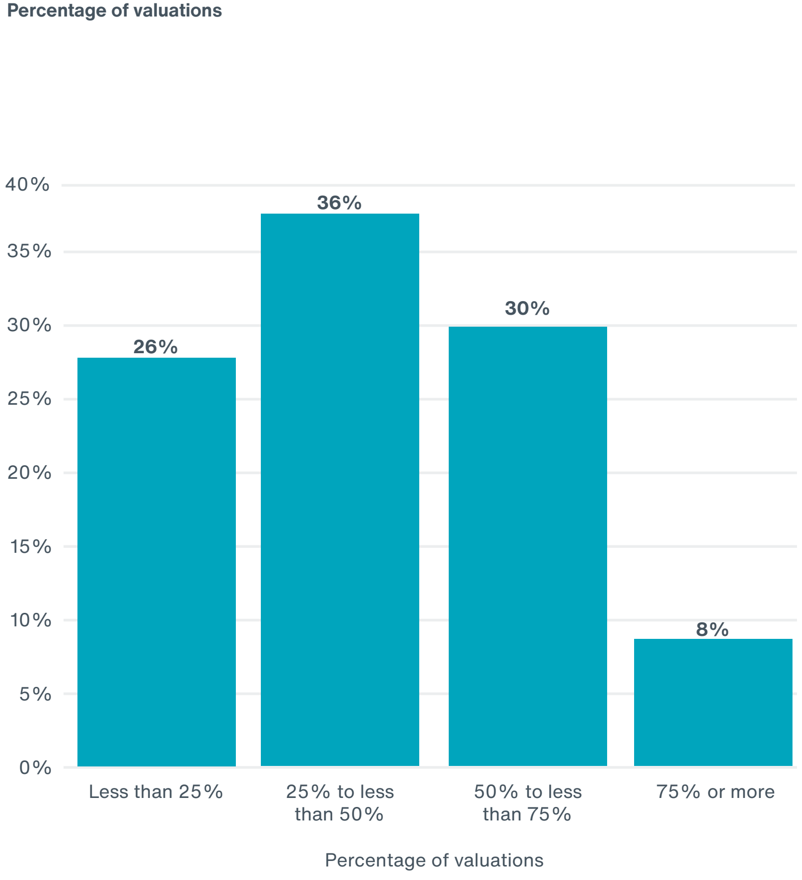
Chart 1.3.1 Approach to integrated risk management - tranche 19



Funding and investment: the discount rate relative to expected investment returns

Discount rates are a key assumption for calculating technical provisions for scheme funding (see section 2.1). We compared discount rates to expected returns for schemes' investments, which were based on best estimate investment return assumptions. We allowed for the asset distribution of each scheme at the effective date of the valuation, including diversification of investment. The investment return assumptions do not necessarily reflect the views of the trustees, and do not allow for any future changes in a scheme's asset distribution or any additional return that might be gained from active management strategies. However, the analysis provides some rudimentary insight into trustees' allowance for investment outperformance in excess of a gilt return in the discount rate.

Chart 1.3.2 Proportion of investment return in excess of gilts allowed for in discount rate - tranche 19



Employer covenant and investment: assets and employer covenant

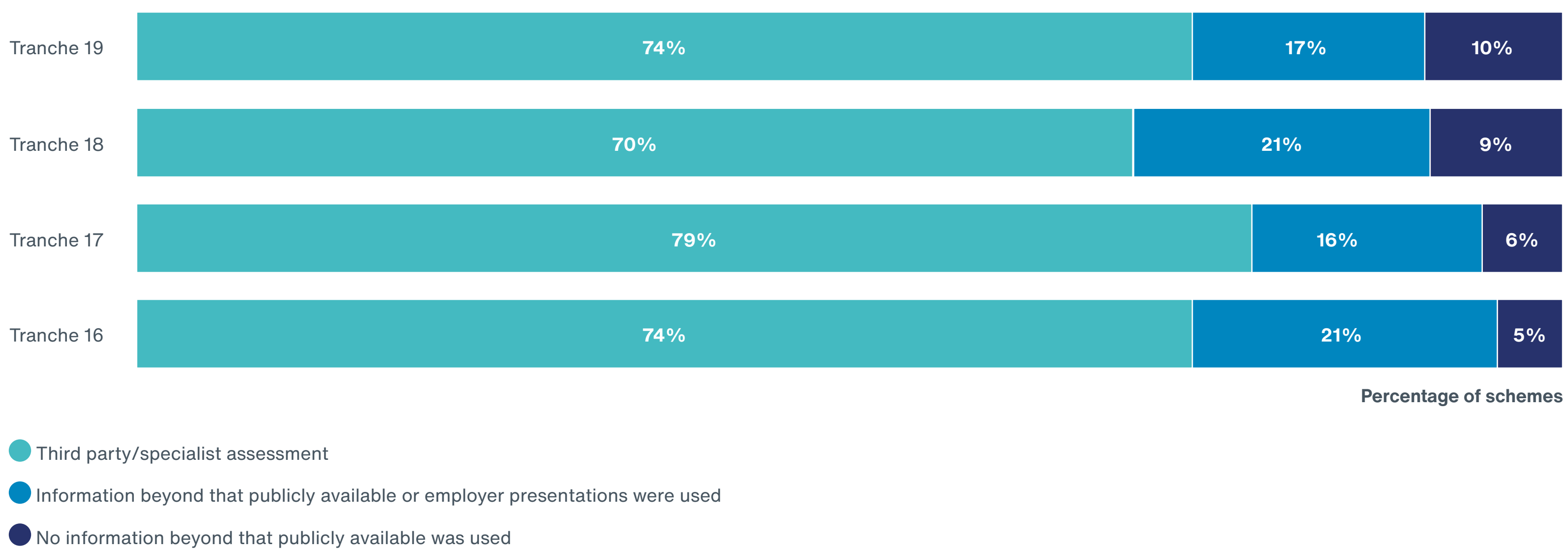
The version of the Code of Practice that applies to valuations up to tranche 19 states that trustees should understand the strength of the employer covenant, which involves forming a view of the covenant now and how it could develop in the future. Advice should enhance the trustees' understanding and can be focused on areas where trustees are not already confident of the position or able to readily understand it for themselves. The Regulator's revised Code – which applies to valuations from tranche 20 – sets out its expectations for employer covenant assessment in the context of the scheme's journey plan (see section 1.2) and beyond significant maturity. The Regulator sets out further detail on its expectations for covenant assessment in its employer covenant guidance, which it updated in December 2024.

Chart 1.3.3 shows that 74% of schemes in tranche 19 used a third party/specialist assessment of the employer covenant, in line with the Regulator's call for an integrated approach.

> 74% of schemes used a third party/specialist assessment of the employer covenant

> 92% of schemes hedged at least 70% of their interest rate risk and 92% also hedged at least 70% of their inflation risk, compared to 84% and 85% respectively three years ago

Chart 1.3.3 Covenant assessment - tranches 16 to 19



Charts 1.3.4 and 1.3.5 compare how schemes with weaker and stronger employer covenants have hedged interest rate risk and inflation risk. The large majority of schemes have fully or mostly hedged, irrespective of covenant strength.

92% of schemes with tranche 19 valuations hedged at least 70% of their interest rate risk; 92% also hedged at least 70% of their inflation risk. For tranche 18, this applied for 94% and 93% of schemes, respectively. For tranche 16, when many tranche 19 schemes' previous valuations were undertaken, this applied for 84% and 85% of schemes respectively.

The revised Code of Practice indicates that schemes should seek to have a minimum level of interest rate and inflation hedging of 90% in their low dependency asset allocation.

Chart 1.3.4 Interest rate hedging, by employer covenant - tranche 19

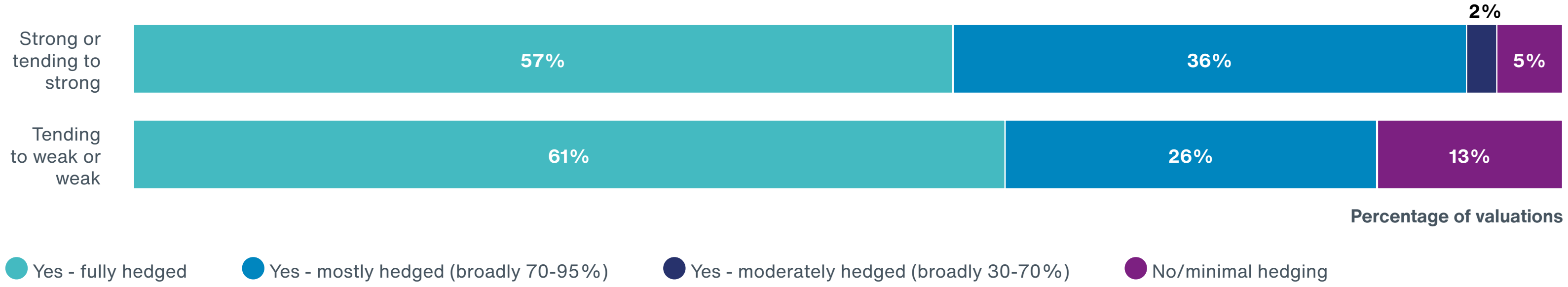
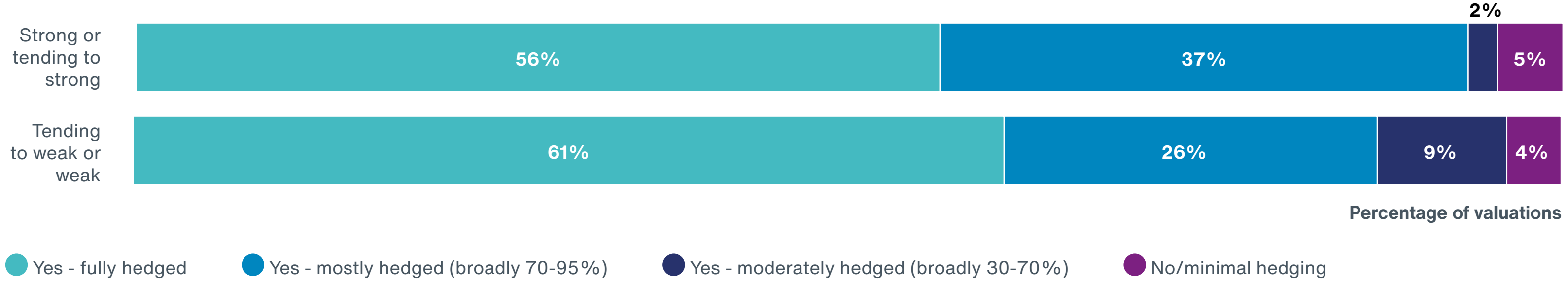


Chart 1.3.5 Inflation risk hedging, by employer covenant - tranche 19

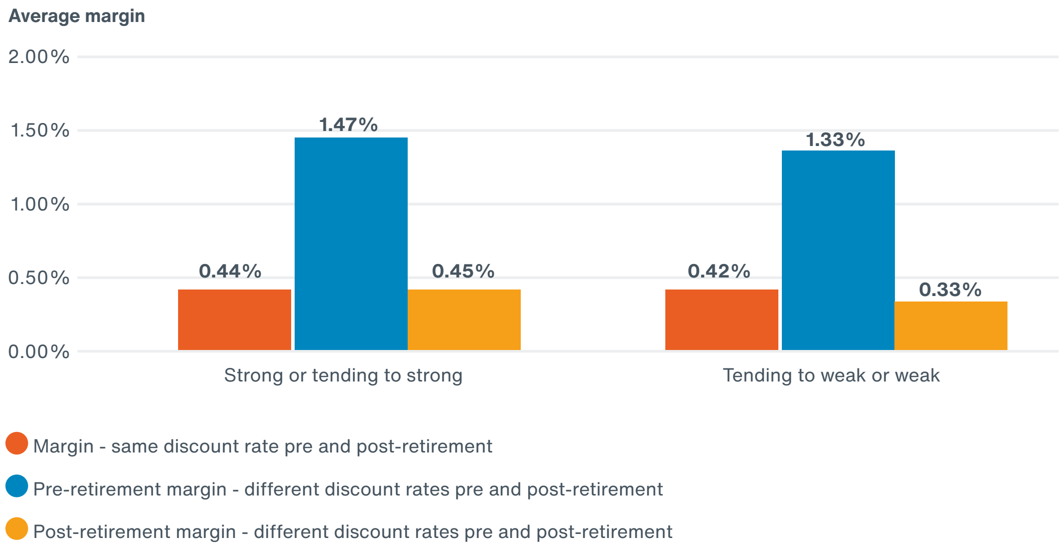


Funding and employer covenant: discount rate and employer covenant

A key area of focus for schemes is the link between the strength of the covenant and the prudence in the discount rate.

Chart 1.3.6 shows, for tranche 19 valuations, the average margin over gilts allowed for in the discount rate split by the trustees' assessment of the employer covenant – separately for those using the same discount rate for pre and post-retirement and for those using different discount rates for pre and post-retirement. Most schemes adopt the same discount rate pre and post-retirement (see Section 2.1); the chart provides some indication that schemes with weaker employer covenants used lower margins. Under an integrated approach to funding, schemes with weaker employer covenants might be expected to allow for greater prudence in the discount rate.

Chart 1.3.6 Average margin over gilts, by employer covenant - tranche 19



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The technical provisions

The discount rate, inflation, mortality, other demographic assumptions and the funding level

2.1 The discount rate

Valuation methods

There are currently four main approaches:

- **'Gilts plus'** – the discount rate is derived by adding a margin to the yield available on gilts (this is the 'plus' although the adjustment could be zero or even negative). Alternatively, a similar approach may be to set the discount rate, which is often a 'dynamic' discount rate, relative to swap or corporate bond yields.
- **'Best estimate minus'** – the discount rate is derived by deducting a margin (the 'minus') from the best estimate returns expected on the scheme's assets.
- **Stochastic** – stochastic modelling is used to determine whether the assets and contributions are likely to be sufficient to pay the benefits.
- **Cashflow-driven** – the discount rate is derived from the returns expected on a portfolio of assets selected to generate the scheme's cashflows, adjusted for the risk of defaults.

There is overlap between the methods – for example, the 'gilts plus' approach where the 'plus' varies depending on expected investment returns is similar to 'best estimate minus'.

The 'gilts plus' approach is the most common. There are two main ways in which the 'gilts plus' method might be used, which reflect the objectives of the scheme:

- It may be set as a prudent estimate of the return expected to be earned from the scheme's assets, in which case the 'plus' may be expected to be variable and the outcome to be more in line with the 'best estimate minus' approach.
- It may be set to reflect a long-term target such as self-sufficiency (or to approximate buy-out), in which case the 'plus' is likely to remain relatively stable over time. Increases in gilt yields will feed directly through to lower liability values in the same way that the cost of buying annuities would be expected to reduce.

A 'dynamic' discount rate is a discount rate that moves with the expected return on the asset portfolio that is backing the liabilities. Dynamic discount rates are most often used in connection with cashflow-driven investment (CDI) strategies, which meet a scheme's cashflow needs with assets that deliver stable and predictable contractual cashflows; a dynamic discount rate can be linked to the yields on those assets.

For tranche 19 valuations, 40% of schemes derived the margin above a reference yield (generally gilts) at each valuation; this is consistent with the 'best estimate minus' approach above, or a 'gilts plus' approach where the addition is reviewed regularly. For another 31% any margin above (or below) the reference yield was broadly fixed, for 15% a low dependency basis was used and 7% used a proxy buy-out basis – for all of these approaches we would expect any 'plus' to be relatively stable over time. 1% used a dynamic discount rate approach.

Regardless of the approach adopted to set the discount rate, it is possible to compare discount rates to gilt yields - allowing for a comprehensive and consistent analysis across all valuations. This is in line with The Pensions Regulator's analysis, and the data that schemes are obliged to submit to the Regulator, and is how we set out our results below.

> "
> **Average discount rates in excess of gilt yields were slightly higher than those for the previous year but lower than three years ago**

Analysis

For 96% of tranche 19 valuations, a 'yield curve' approach was adopted, whereby the discount rates varied with the term of the cashflows. The large majority (92%) of tranche 19 yield curve valuations were based on gilt yield curves.

Some schemes are using term-dependent margins for discount rates; for tranche 19, 18% of valuations adopted this approach. This may reflect a focus on reaching their long-term funding targets within a specific timeframe.

Most valuations used the same discount rate margins for pre and post-retirement. For tranche 19, 79% of valuations allowed for the same margin; this compares to 69% for tranche 18 and 70% for tranche 16, when many tranche 19 schemes' previous valuations were undertaken. These figures include schemes using term-dependent margins. For schemes using a single margin, the averages are set out in Table 2.1.1.

Table 2.1.1 Average margin over gilt yields (single margin pre and post-retirement)

	Tranche 16	Tranche 17	Tranche 18	Tranche 19
Margin	0.52%	0.50%	0.39%	0.43%

For schemes using a single margin, the average margin over gilts of 0.43% p.a. for tranche 19 was slightly higher than for tranche 18 but lower than that for tranches 16 and 17.

For schemes using term-dependent margins, 76% adopted a long-term margin of 0.5%. There was a wide variation in initial margin and in the period over which this reduced to the long-term margin.

For tranche 19, 21% of schemes used different discount rate margins for pre and post-retirement. Table 2.1.2 shows the average margins, over tranches 16 to 19, for valuations that used different discount rates for pre and post-retirement.

Table 2.1.2 Average margin over gilt yields (margin differs pre and post-retirement)

	Tranche 16	Tranche 17	Tranche 18	Tranche 19
Pre-retirement	1.89%	1.66%	1.66%	1.45%
Post-retirement	0.46%	0.41%	0.42%	0.44%

One can approximate outperformance over gilts using a single effective discount rate, allowing for approaches that do not specify fixed margins over gilts (including bases with term-dependent margins) to be brought into the analysis. Table 2.1.3 sets out the average outperformance of single effective discount rates in excess of the spot gilt yield at a typical duration for that tranche. The average for tranche 19 was slightly higher than those for tranches 17 to 18 but lower than for tranche 16.

Table 2.1.3 Average over gilts of single effective discount rate (all valuations)

	Tranche 16	Tranche 17	Tranche 18	Tranche 19
Margin	0.65%	0.47%	0.45%	0.51%

Each year, The Pensions Regulator issues its scheme funding analysis; its 2025 version, covering valuations up to tranche 18, is due to be published on 4 September 2025. The Regulator's analysis for tranche 19 will be published in 2026. Table 2.1.4 shows how the Regulator's average single nominal rates (where available) compare to the average single nominal rates calculated for the valuations of our clients. The significant change between tranches 17 and 18 reflects the increase in gilt yields during 2022.

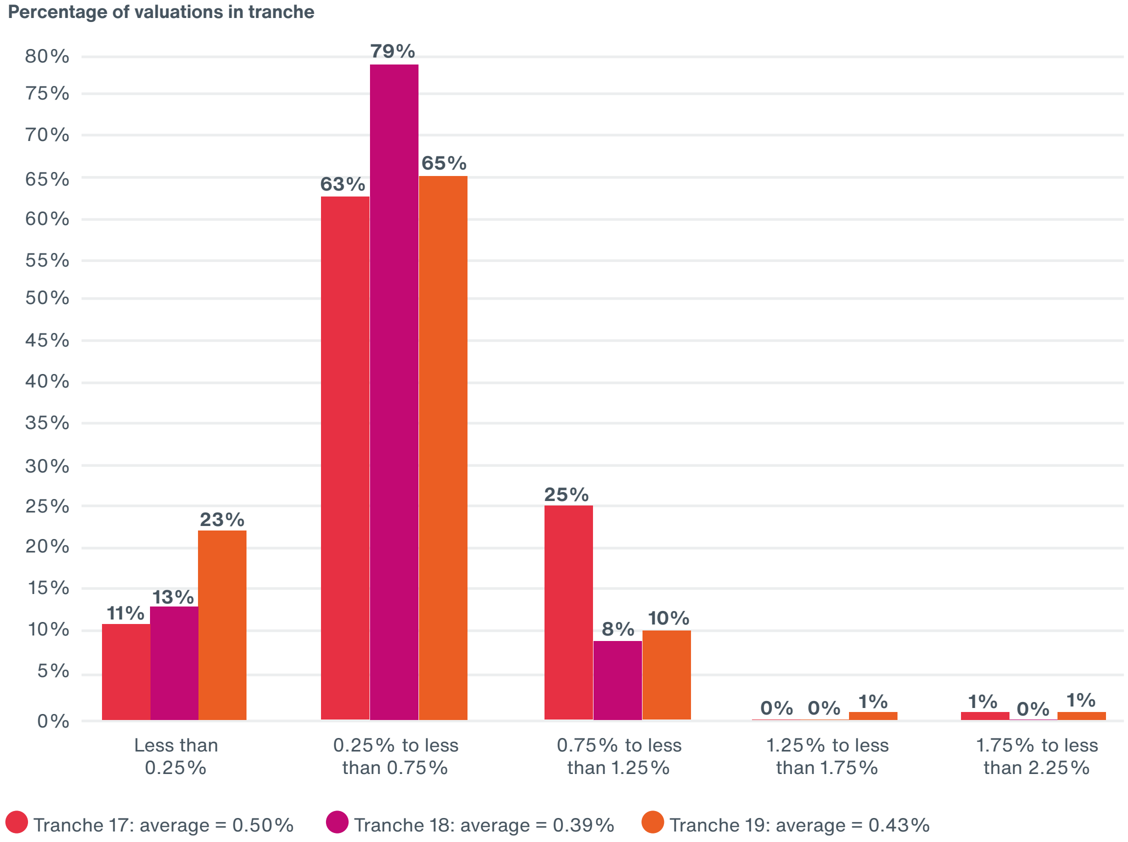
Table 2.1.4 Average single effective discount rate (all valuations)

	Tranche 16	Tranche 17	Tranche 18	Tranche 19
In Depth valuations	1.75%	2.19%	4.33%	4.69%
All valuations in Pensions Regulator's analysis	1.87%	2.28%	Not yet available	Not yet available

The selection of a discount rate that is appropriate for a particular scheme's circumstances is key. While average rates may be informative, they do not tell the whole story. Under the scheme funding regime, schemes use a wide range of assumptions and charts 2.1.1 and 2.1.2 illustrate this range for tranches 17 to 19, under the two approaches set out above.

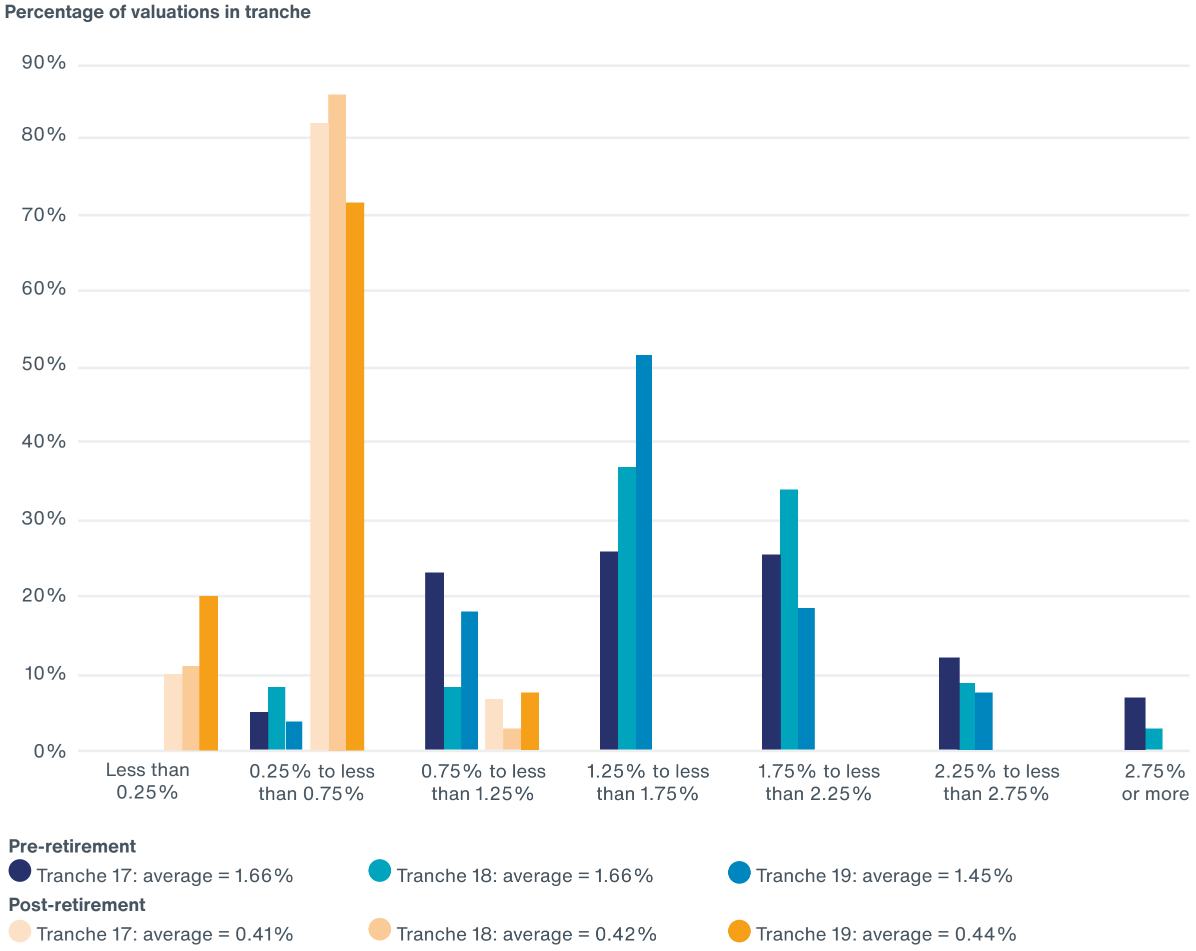
In charts 2.1.1 and 2.1.2, a convergence of the discount rate (post-retirement in Chart 2.1.2), to around 'gilts + 0.5%', is evident over the past few years. This is consistent with the minimum-strength parameters for a low dependency funding basis for Fast Track compliance under the new funding regime.

Chart 2.1.1 Margin over gilts (where single margin pre and post-retirement) – tranches 17 to 19



The allowance for outperformance in the discount rate is an important aspect of a valuation. An allowance that increases the annual discount rate by 0.5% p.a. would typically decrease the liabilities by around 6%.

Chart 2.1.2 Margin over gilts: pre and post-retirement (where different discount rates used) – tranches 17 to 19



2.2 Inflation

Typically, the Retail Prices Index (RPI) inflation assumption is set by reference to the difference between the yields on fixed interest and index-linked gilts. It is sometimes considered appropriate to make an adjustment, normally a deduction, to allow for supply and demand effects in the gilt market – the 'inflation risk premium'. 7% of schemes allowed for an inflation risk premium in tranche 19. This is slightly higher than for tranche 18 (4%) but lower than for tranche 16 (13%) when many tranche 19 schemes' previous valuations were undertaken. On average, where an adjustment was applied, it was 0.17% p.a. for tranche 19, 0.22% p.a. for tranche 18 and 0.28% p.a. for tranche 16.

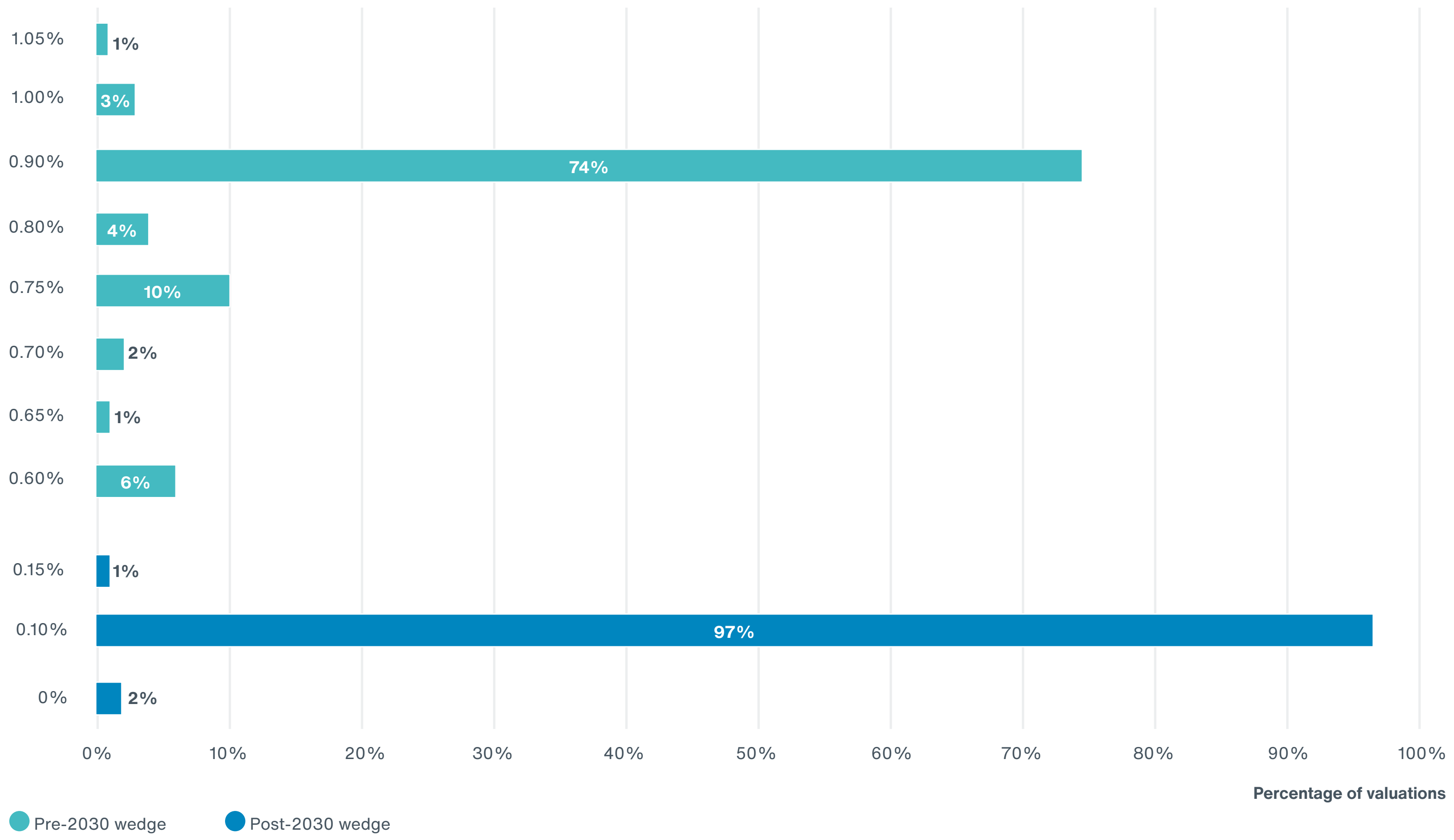
As schemes increasingly hedge inflation risk, and so can no longer justify an assumption that does not reflect a 'break-even' market rate, this may be reflected in a longer-term decline in the use of such an adjustment.

> **"The average difference between RPI and CPI assumptions was 0.86% p.a. for the period before 2030 and 0.10% p.a. post-2030, reflecting the announced change to the calculation of RPI from 2030**

The Consumer Prices Index (CPI) is now the measure for statutory revaluation and indexation of pension benefits. Depending on scheme rules, assumptions may be required for both RPI and CPI. CPI increases are generally expected to be lower than RPI increases. However, the calculation of RPI is expected to change from February 2030 to be in line with the Consumer Prices Index including owner occupiers' housing costs (CPIH), which is expected to be much closer to CPI.

For tranche 19 valuations, the difference between the RPI and CPI assumptions (the 'wedge') averaged 0.86% p.a. for the period before 2030 and 0.10% p.a. post-2030. The assumption ranged between 0.6% p.a. and 1.05% p.a. pre-2030 and between 0% p.a. and 0.15% p.a. post-2030.

Chart 2.2.1 Difference between RPI and CPI assumptions, pre and post-2030 - tranche 19



Both RPI and CPI assumptions are important for most schemes, so allowing for an inflation risk premium or not, and the derivation of the CPI assumption, can impact upon the technical provisions significantly. Typically, a 0.2% p.a. change to inflation might alter the liabilities by around 2%.

2.3 Mortality

The CMI (Continuous Mortality Investigation) published the 'S4' mortality tables in February 2024. The tables are based on the mortality of pensioners of self-administered pension schemes. They were used for 62% of tranche 19 valuations. The CMI's 'S3' tables, published in 2018, were used for the other 38% of valuations.

Where the S4 mortality tables were used, standard tables were used for 48% of valuations, 21% used 'light', 21% used 'heavy', 8% used 'mid' and 1% used 'very light'. Where the S3 mortality tables were used, standard tables were used for 63% of valuations, 18% used 'light', 14% used 'heavy' and 6% used 'mid'.

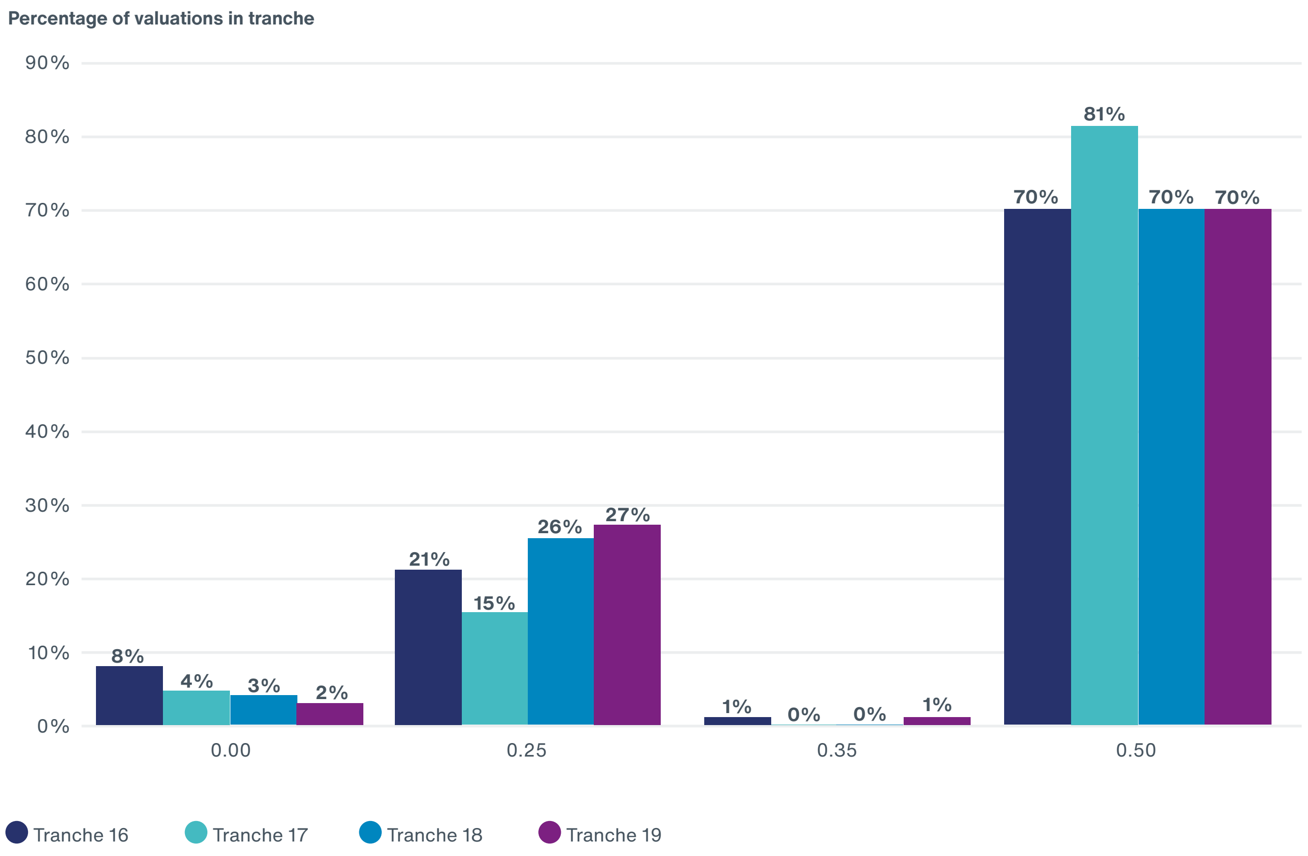
Aon's Demographic Horizons™ longevity model was used for 71% of tranche 19 valuations, to accurately assess the current mortality rates in the scheme, based on a postcode analysis of scheme members and actual scheme experience where there was sufficient data.

It is normal to make an explicit allowance for further improvements in the future. The 'CMI Core Projections' model is updated annually by the actuarial profession to predict improvements. The CMI Core Projections were used for all tranche 19 valuations. The CMI_2023 version was used for 76% of valuations; CMI_2022 was used for the other 24%.

CMI models allow users to increase or decrease the initial rate of improvement by a fixed amount, using parameter 'A'. Chart 2.3.1 shows that 70% of tranche 19 valuations used 0.50% for this parameter.

> “
> **The average assumed life expectancy was 0.4 years shorter than three years ago, when many schemes' previous valuations were undertaken**

Chart 2.3.1 Parameter 'A' applied to CMI models – tranches 16 to 19



CMI models also allow for the input of a smoothing parameter (S_K). In tranche 19, all valuations used 7.0 for S_K (the default).

The CMI Core Projections require trustees to set an assumed long-term level of year-on-year improvements in mortality rates. Chart 2.3.2 shows the improvement factors that were applied in tranches 16 to 19. (We excluded a small number of valuations – one in each of tranches 16 and 17 - that used improvement factors that differed for males and females.)

The average long-term improvement for tranche 19 was 1.49% p.a.; it was 1.53% p.a. for tranche 16, when many tranche 19 schemes' previous valuations were completed.

Chart 2.3.2 Long-term improvements applied to mortality table - tranches 16 to 19

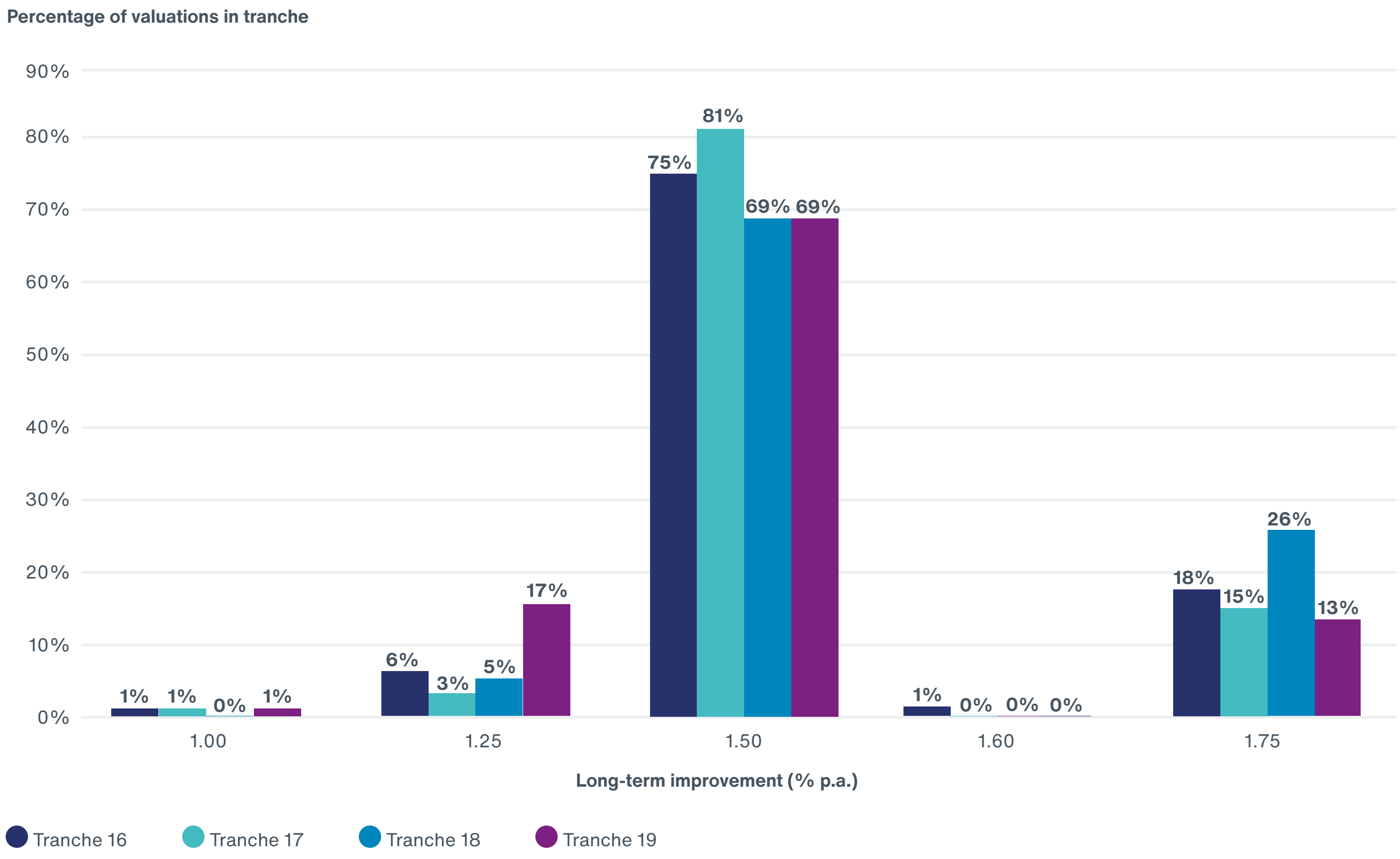
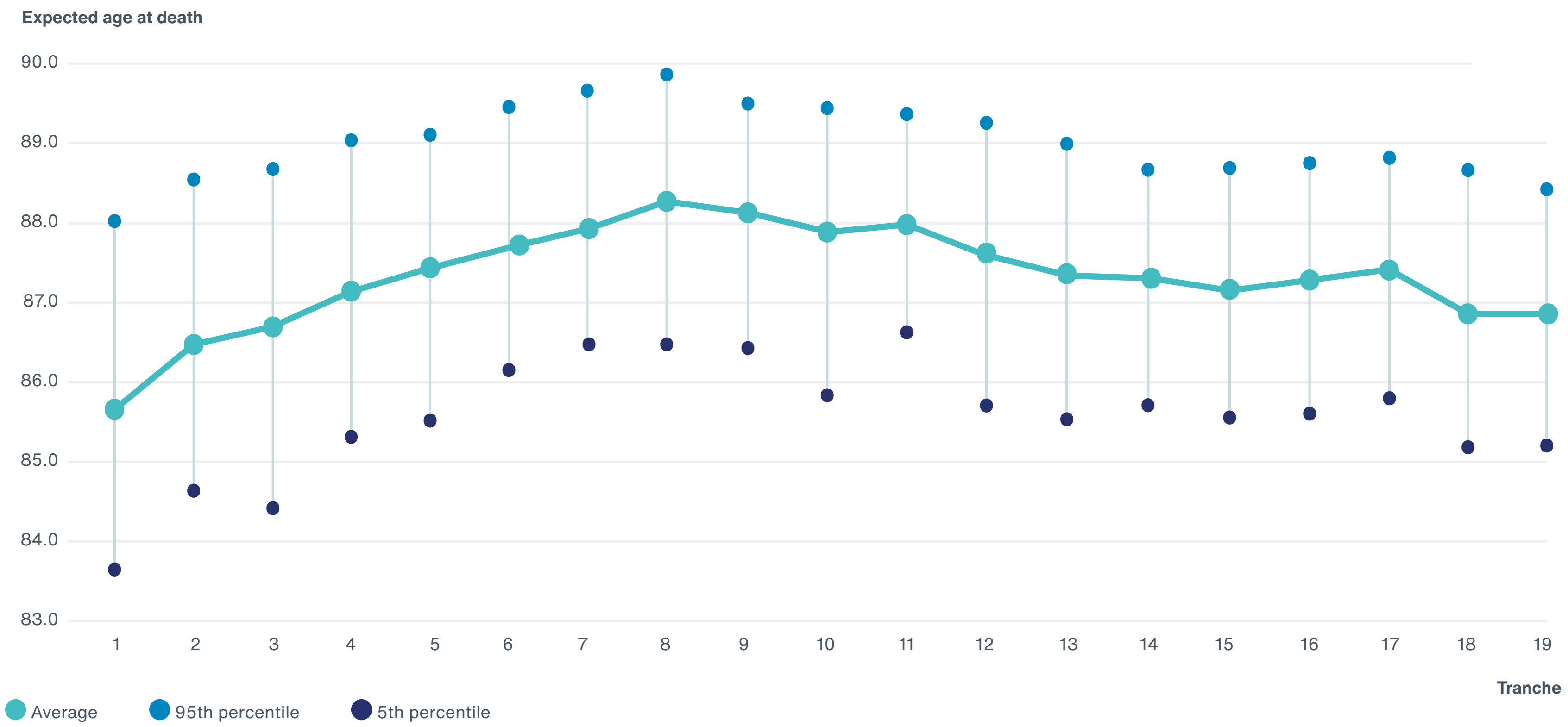


Chart 2.3.3 illustrates how expectations of longevity have been reflected in the assumptions adopted by trustees since the current funding regime was introduced. For tranche 19 valuations, the average assumed life expectancy of a male aged 65 was 1.2 years higher than for tranche 1. However, since tranche 8, the average assumed life expectancy of a male aged 65 has often reduced slightly on the previous year's expectation, and is now 1.4 years lower.

Mortality assumptions currently allow for an increase of around 0.15 years over a period of three years. However, between tranche 16, when many tranche 19 schemes' previous valuations were completed, and tranche 19, the average assumed life expectancy fell by 0.4 years.

For a typical scheme, an increase in life expectancy of one year, over and above the improvements already allowed for, would typically increase liabilities by around 3.5%.

Chart 2.3.3 Average life expectancies for male pensioners aged 65 at date of valuation, by tranche



2.4 Other demographic assumptions

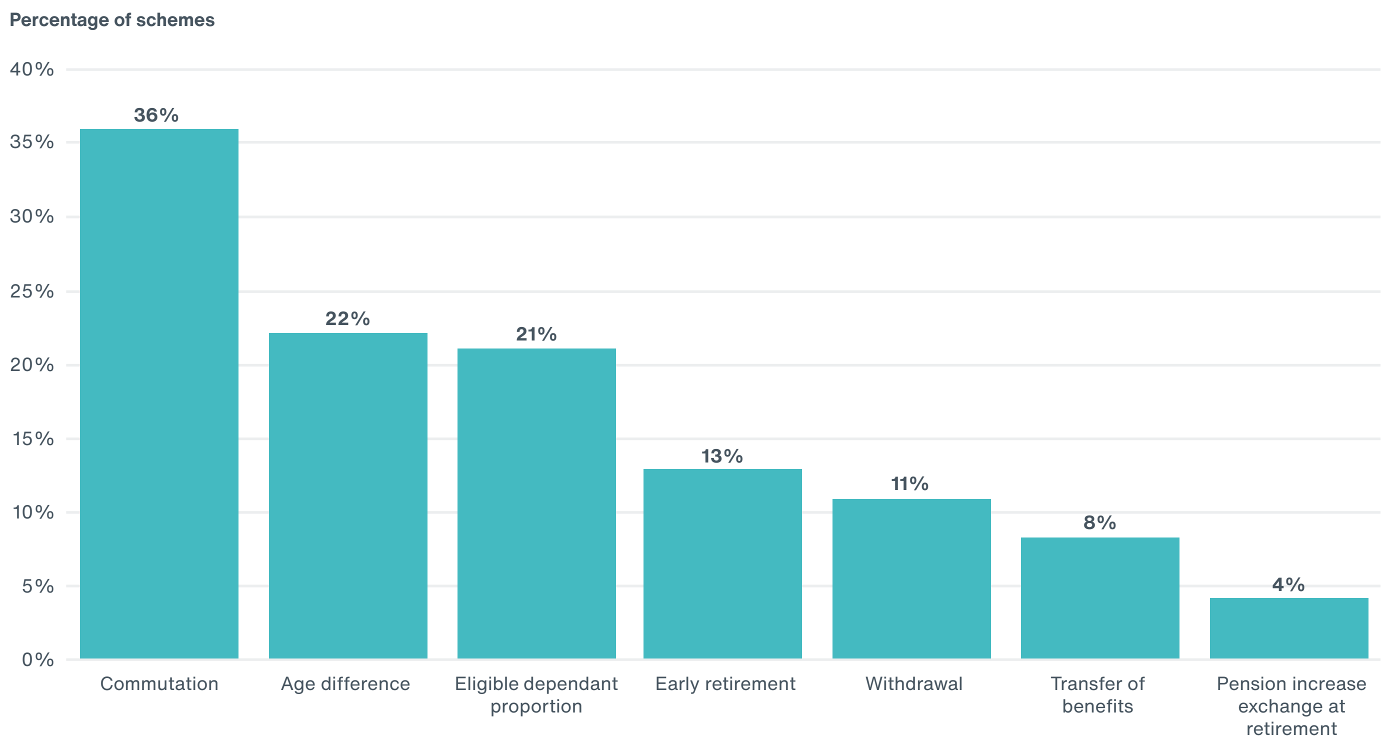
Schemes commonly carry out analysis, either alongside or in advance of the valuation, to determine how the demographic assumptions used at the previous valuation compare to the actual experience of members. For example, they may consider how many members are retiring early and at what ages, the proportion of members who leave an eligible dependant when they die, and the age differences between members and their partners. This analysis results in a better understanding of the appropriate assumptions to use.

For 44% of tranche 19 schemes, an analysis of experience was carried out in respect of one or more demographic assumptions other than mortality; such analysis was carried for 27% of tranche 18 schemes. Chart 2.4.1 sets out the percentage of schemes that undertook an analysis of experience in respect of relevant factors. It indicates that such analysis was most commonly undertaken in respect of commutation.

Analyses of transfers and pension increase exchange are being undertaken as schemes make additional options available to members, and as money purchase flexibilities continue to impact upon the behaviour of members in the run-up to retirement. Some schemes have adopted software such as the Aon Retirement Options Model (AROM) to help members make decisions when faced with the increased options available at retirement.

In tranche 19, for 4% of valuations, the technical provisions assumptions made an allowance for transfers out or for pension increases to be exchanged at retirement. An imminent liability management exercise was anticipated by 4% of schemes with tranche 19 valuations, and allowed for in the technical provisions assumptions for two valuations.

Chart 2.4.1 Analysis of experience - tranche 19



Online personalised educational tools

The pensions industry is undergoing a digital transformation which has driven a surge in digital engagement. Our experience in recent exercises is that 80% of members actively choose to interact with their pensions digitally when given the option.

Digital platforms have become a key part of the member journey, with an increasing number of pension schemes providing support to members through online educational tools.

New for 2025: MyPensionPlanner

With the introduction of Pensions Dashboards and recognition that many members approaching retirement now have multiple pension pots across both DB and DC, we have launched a new holistic financial planning tool – **MyPensionPlanner**.

MyPensionPlanner is designed to support members at every stage of their retirement journey and ensures they are making informed decisions on their retirement planning and outcomes.

Its key features include:

- **Holistic retirement planning** – MyPensionPlanner allows members to build a full picture of their estimated retirement income - including all pension arrangements (including State Pensions) and any other savings and investments.
- **In-scheme option modelling** – The figures in members' retirement quotes can be pre-populated in the Tool. Members can explore how in-scheme options affect their retirement income from their scheme.
- **Pensions Dashboards** – MyPensionPlanner allows members to input figures directly from Pensions Dashboards.
- **Educational support** – Members can compare their projected income against Pensions UK's Retirement Living Standards and consider what steps they might need to take to address any shortfalls.
- **Easy access to appointed Independent Financial Advisers** – Provides members with a direct link into the appointed Independent Financial Adviser ('IFA').

Aon's Other Personalised Educational Tools

Aon Retirement Options Model ('AROM')
Trusted by schemes for nearly a decade, AROM helps members of DB pension schemes explore all available retirement options - both within and outside the scheme.

With pre-loaded personalised pension and transfer value figures, AROM simplifies complex decisions and has supported over 60,000 members.

Aon PIE Modeller ('APM')
We launched the APM in 2022 to help members included in a bulk PIE exercise to understand their choices in more detail and make informed decisions. Members can explore an interactive graph of their projected pension income, with the ability to adjust key assumptions to understand how their income might change in the future.

Here is what members think of our educational tools:

"An excellent tool that gives insight into my pension options, and the potential risks and opportunities of each of the choices."

"Very impressed with the help and direction it gives!"

"A very concise review of the pension options available, with the ability for me to customise some aspects. It was good to see how the options compared to each other."

"Very clear and explains your options very well. Not too much jargon. A real help in making my decision."

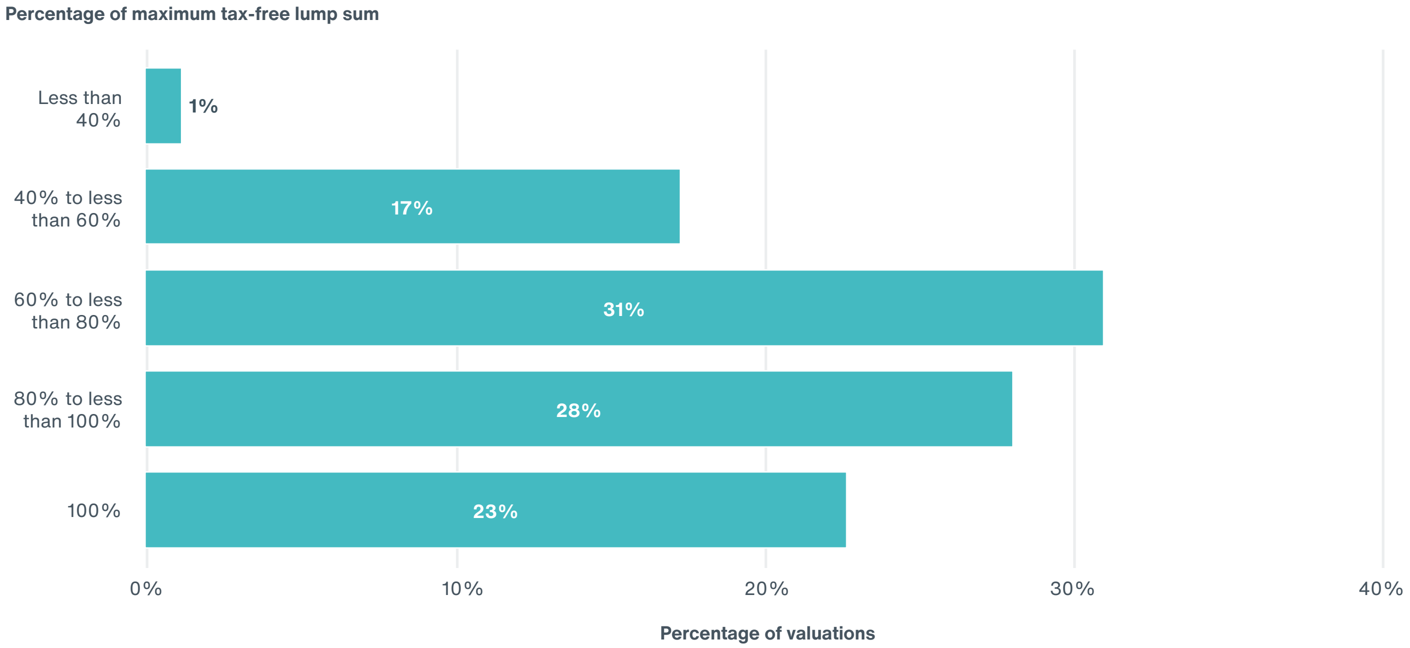
To understand how online modellers could help your members and receive a demo on the tools, please contact your usual Aon consultant or email us at memberoptions@aon.com.

Commutation

An assumption that allows for relatively straightforward analysis of past experience is the allowance for commutation. Legislation permits around 25% of the value of a member's benefits to be paid as a tax-free lump sum; any allowance, or change in the allowance, for commutation can be significant in the valuation of a scheme's liabilities because commutation factors are generally not cost-neutral relative to prudent funding assumptions. Allowance was made for commutation in 78% of tranche 19 valuations, and in 80% of tranche 18 valuations.

Where allowance was made for commutation under tranche 19 valuations, the average allowance, across all members of a scheme, was 75% of the maximum tax-free lump sum. Chart 2.4.2 shows the distribution.

Chart 2.4.2 Commutation allowance, where allowance made - tranche 19



Family details

Where benefits are paid to a spouse or other eligible dependant on the death of a member, the trustees will need to adopt assumptions to reflect the likelihood that such benefits will be payable. Scheme rules will determine the class of potential beneficiaries.

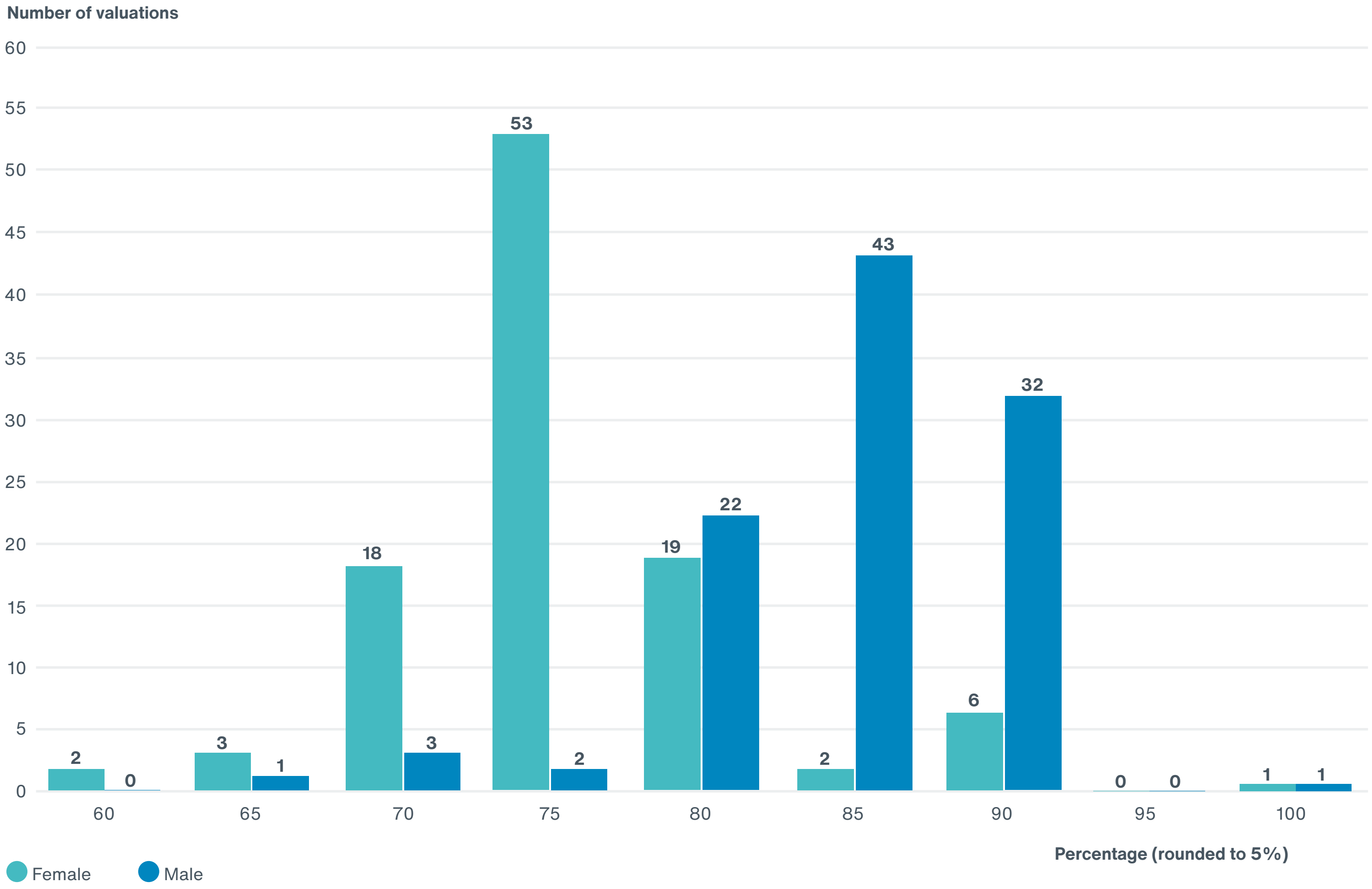
Chart 2.4.3 sets out the assumptions used in tranche 19 valuations for male and female members (rounded to the nearest 5%). The average percentage was 85% for males and 76% for females.

Where such contingent benefits are payable, an assumption is made with regard to the difference in age between a member and their partner. For tranche 19, male pensioners were assumed to be three years older than female partners for 78% of valuations (with four years older for 5%, two years older for 16% and one year older for 1%). Female pensioners were assumed to be one year younger than male partners for 83% of valuations (with three years younger for 10%, two years younger for 6% and the same age for 1%).

Analysis by Aon's Demographic Horizons™ team shows considerable variation between schemes for both the proportion of members with an eligible dependant and age difference, depending on four key factors: wealth, gender, age and time. Allowing for these factors can change liabilities by up to 5% compared to the approaches traditionally used to set these assumptions.

Our research has allowed us to develop a sophisticated model that can predict whether members are married, or have a partner, allowing for all of these factors. It can do this based on just basic member details usually held by schemes (such as age, gender and postcode), or can combine all available survey, tracing and death data on a scheme with our predictions based on basic member details to come up with an overall prediction.

Chart 2.4.3 Percentage of members assumed to have an eligible dependant at retirement - tranche 19



Data cleaning

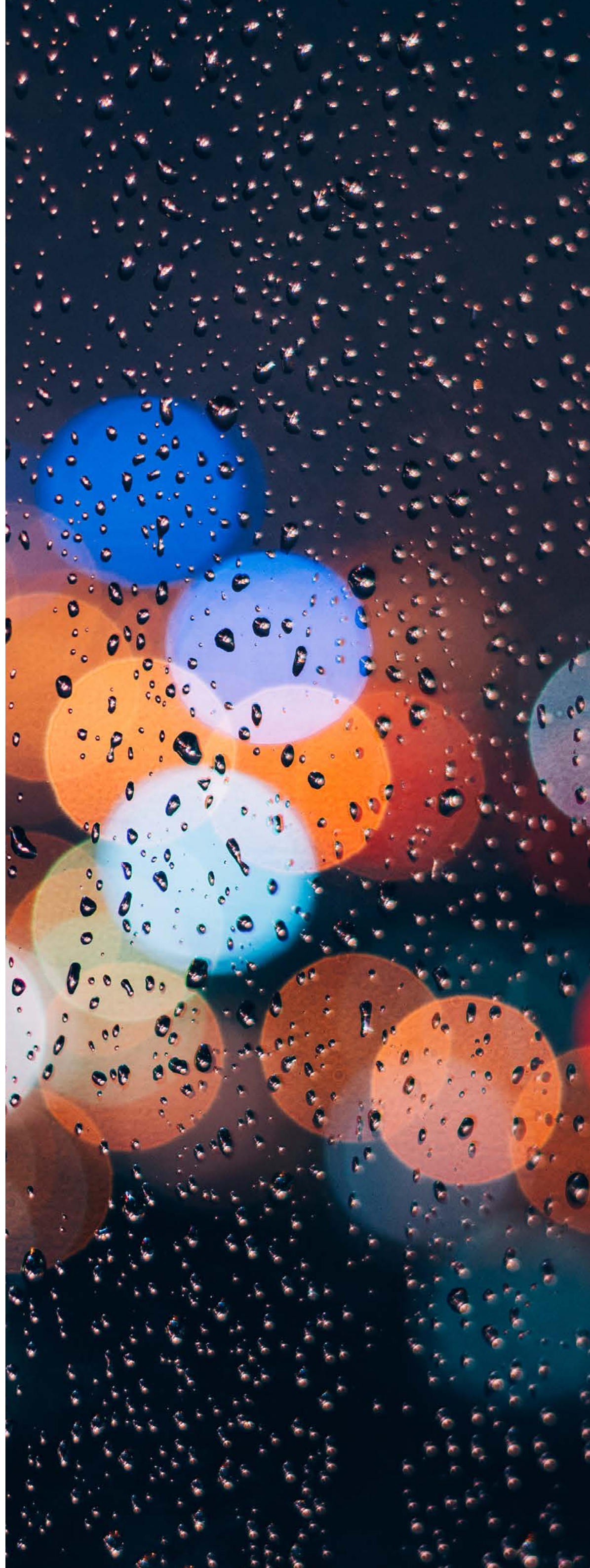
Our clients often clean their scheme member data in advance of a valuation. This may involve exercises such as those set out. 44% of tranche 19 schemes carried out a data cleaning exercise in the last three years. Where an exercise had not been undertaken, one was planned for 36% of schemes.

These measures allow for more accurate calculations of technical provisions. They also allow for the provision of the more accurate and complete data required for future transactions such as pensioner buy-ins, and for liability management exercises such as pension increase exchange exercises.

Data cleaning exercises, and wider data collection exercises, are also carried out in preparation for Pensions Dashboards and GMP equalisation projects.

Type of data cleaning

Deferred members	Pensioners
Existence exercise	
Tracing exercise	Address tracing e.g. missing postcodes
GMP reconciliation	
Pensions Regulator data audit	
Updating administration system to hold spouses' data	
Spot check of benefit calculations	



2 2.5 The funding level

The average funding level for valuations in tranche 19 was 105% and 65% found the scheme to be fully funded on the technical provisions basis. Both of these measures were higher than for any previous tranche.

The change over the typical valuation cycle, from tranche 16 to tranche 19, indicated an improvement in the average funding level, from 92% to 105%, and an increase in the percentage of schemes for which the technical provisions were fully funded, from 42% to 65%.

> "The average technical provisions funding level – 105% – and the proportion of schemes in surplus – 65% – were both higher than for any previous year since the start of the funding regime in 2005

Table 2.5.1 Funding positions

Tranche	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Average funding level	86%	92%	88%	75%	86%	88%	84%	84%	92%	92%	89%	91%	91%	92%	92%	92%	97%	103%	105%
Percentage of schemes fully funded	16%	23%	21%	4%	17%	16%	9%	11%	27%	31%	20%	23%	32%	32%	34%	42%	44%	62%	65%

Chart 2.5.1 Risk Analyzer - funding level divergence by quartile - tranche 19

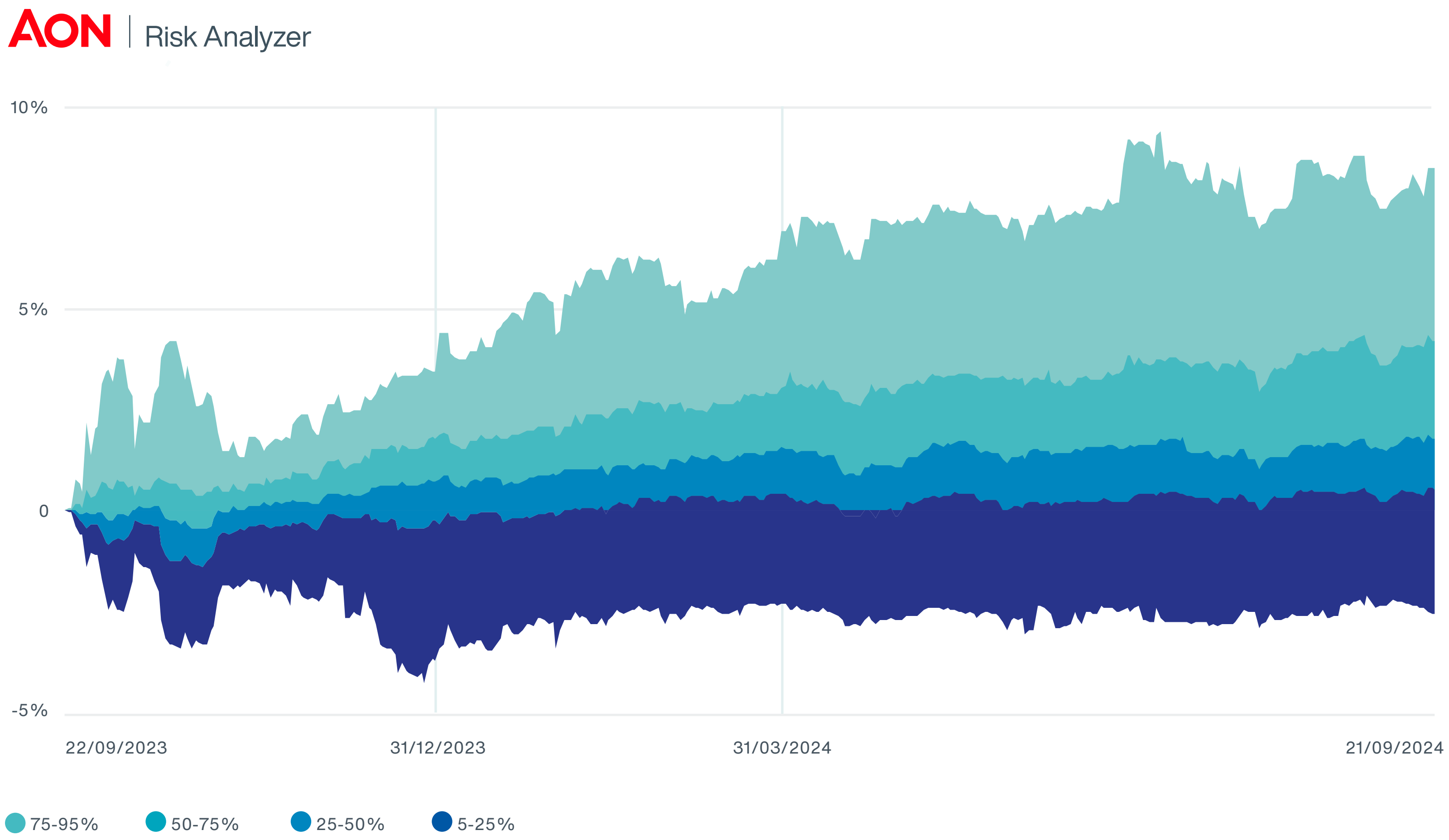


Chart 2.5.1 shows the change in funding level of a range of clients using our Risk Analyzer software over the tranche 19 period. The average (median) scheme saw an increase in its funding level but there was variation between schemes.

As funding levels increase, employers are increasingly considering alternative approaches to guard against the risk of a trapped surplus. For example, the use of contingent security (see section 3.2) may be an attractive alternative to making cash contributions to the scheme that ultimately may not be required to pay benefits.

Monitoring risk

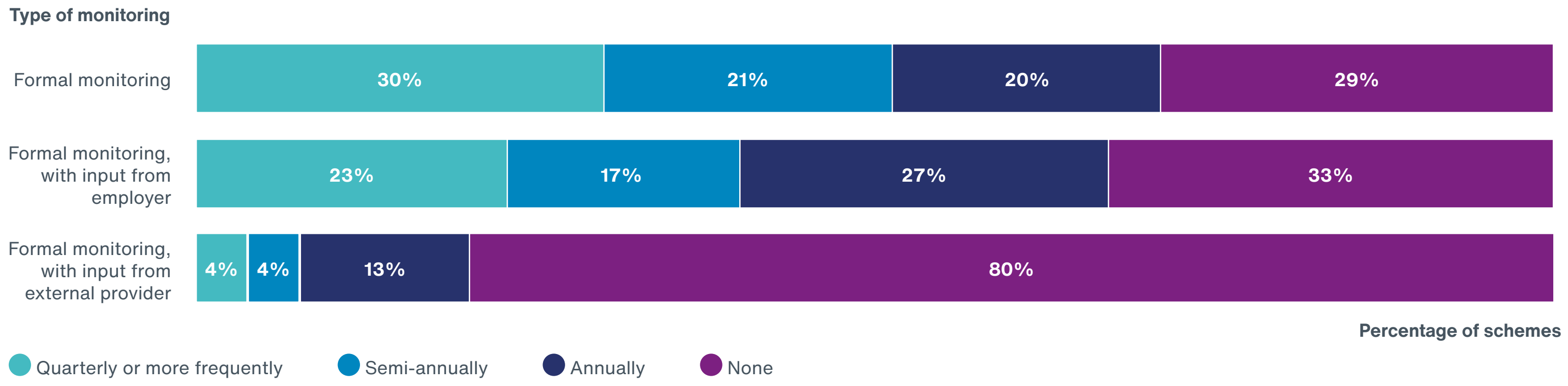
The Regulator's Code of Practice and guidance on Integrated Risk Management recognise that risk management should be an ongoing process, as material changes can occur between valuations. It encourages trustees to have a monitoring framework in place to identify quickly any changes in the scheme environment and the balance of risks. The Regulator has suggested that contingency plans can be agreed with the employer, which could include legally binding support.

Most schemes choose to receive regular updates on their funding position, over and above the statutory annual minimum. Funding updates are increasingly provided to trustees and employers automatically via the web. Our Risk Analyzer monitoring tool (from which Chart 2.5.1 above has been taken) allows the funding position of the scheme to be assessed at any time. It offers information to measure the risks being run in the scheme as well as the option to consider 'what if' scenarios, interactively change valuation assumptions and model recovery plans.

The Regulator has suggested that schemes should consider undertaking regular and focused monitoring of investment, funding and covenant risks.

Chart 2.5.2 shows that the majority of schemes (71%) with tranche 19 valuations formally monitor employer covenant between valuations at least annually. 67% of all schemes do so with the input of the employer and 20% with the input of an external provider.

Chart 2.5.2 Frequency of formal monitoring of covenant between valuations - tranche 19

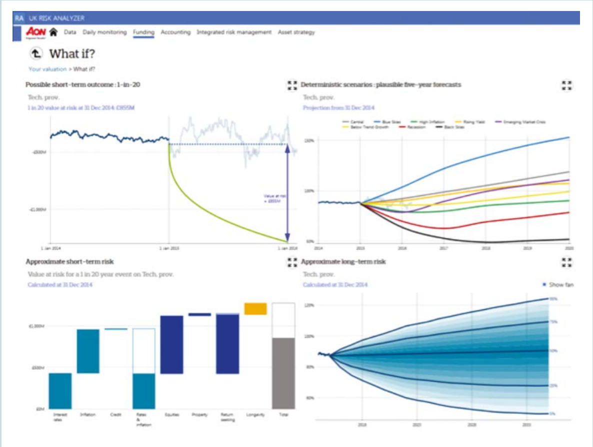


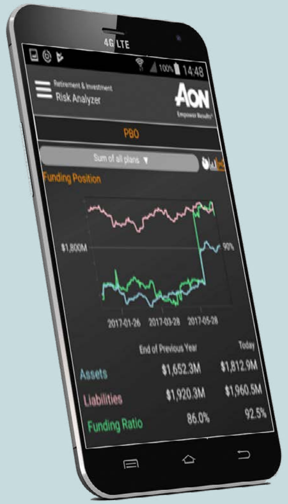
Risk Analyzer

Valuations, updates and analysis consistent with scheme actuarial and investment advice. Risk Analyzer is the system we use to advise you, delivered to you!

Key features:

- Available via a user-friendly secure website or mobile app
- Daily tracking of asset, liability and funding level on multiple measures (e.g. funding, accounting, buy-out) across multiple schemes
- Negotiate and agree your valuation basis, deficit contributions and interactively model your recovery plan quickly and efficiently
- Model “what if?” projections to see the impact of potential market environments and risks
- ViewPoints framework supports trustees in meeting Integrated Risk Management requirements – joined up analysis of covenant, investment and funding issues
- Build your scheme’s long-term strategy and model the impact of member option and settlement exercises
- Analyse your DC scheme – define scheme objectives considering the views of different stakeholders





Supporting around 900 plans with £700 billion of assets around the world.

Embedded in everything we do, Risk Analyzer is the software foundation of how Aon consults with all our clients. Whether it’s the in-house calculations done by our consultants or funding updates delivered to you over the web, you can be assured of absolute consistency of advice.

For more information or a demo of Risk Analyzer please call your usual Aon consultant or email us at **risk.analyzer@aon.com**.

Watch the Risk Analyzer video and see what the tool can do for you at **https://riskanalyzer.aon.com**.

3

The recovery plan and contingent security

The recovery period, contingent security and the recovery plan assumptions

3.1 The recovery period

Where a scheme is under-funded, the trustees must prepare a recovery plan, setting out the steps to be taken to make up the shortfall – and over what period. A recovery plan was required for 35% of tranche 19 valuations.

The recovery period is an important element of most valuations where the scheme is found to be in deficit, and is often the subject of detailed consideration by, and negotiation between, trustees and employers.

The average recovery period for tranche 19 valuations in deficit was 3.9 years, which is slightly longer than that for tranche 18 valuations (3.2 years).

The average tranche 19 recovery period was 1.9 years shorter than that for tranche 16, when many tranche 19 schemes' previous valuations were undertaken. The percentage of schemes requiring a recovery plan fell from 58% to 35%.

Chart 3.1.1 shows how the average recovery periods have changed since the introduction of the funding regime and how those of our clients compare with the average recovery periods in The Pensions Regulator's analysis (where available).

Average recovery periods have reduced significantly over recent years.

> "
> **The percentage of schemes requiring a recovery plan fell from 58% to 35%; for schemes in deficit, the average recovery period, of 3.9 years, was 1.9 years shorter than three years ago, when many schemes' previous valuations were undertaken**

Chart 3.1.1 Average length of recovery period, by tranche

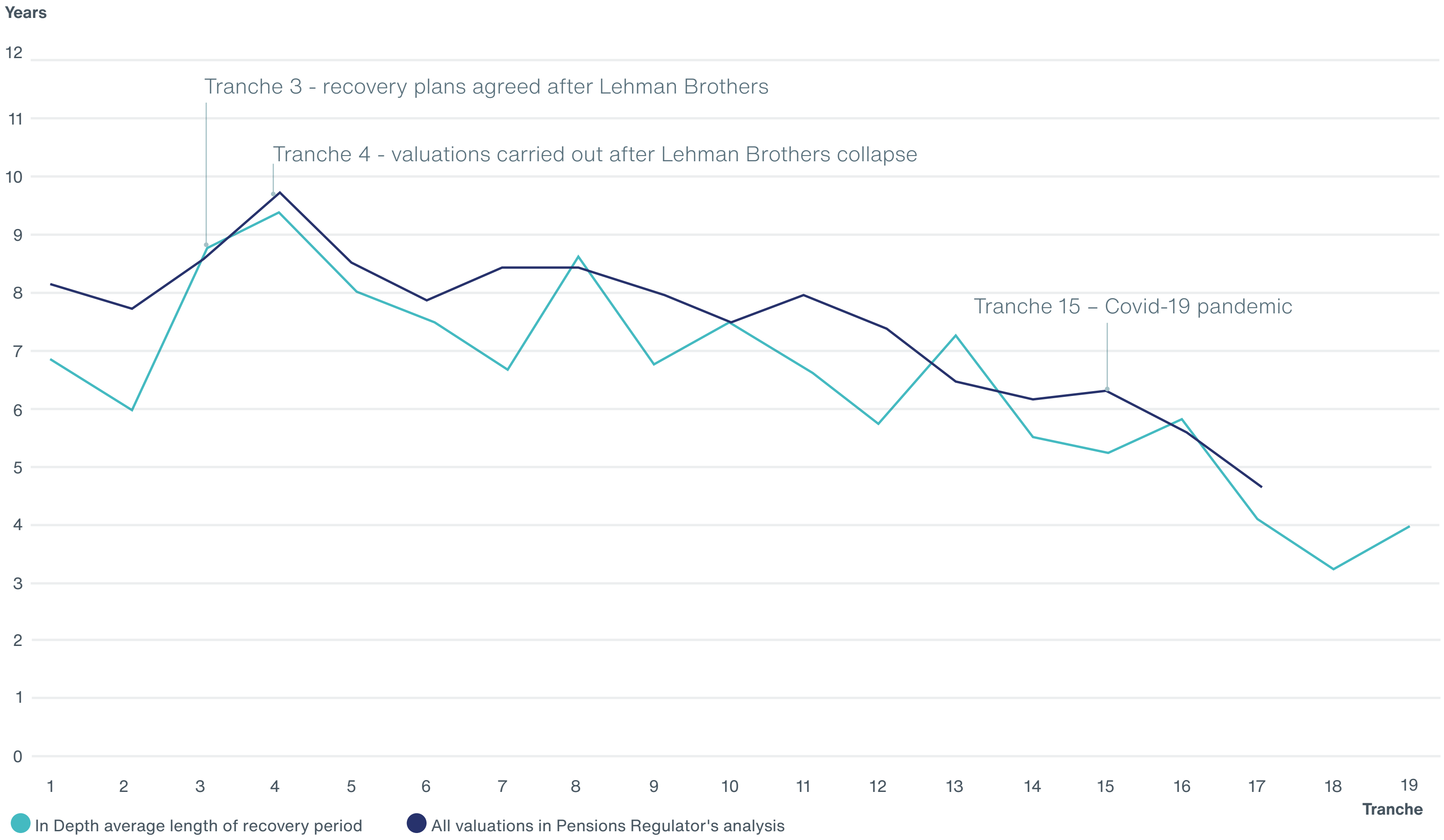


Chart 3.1.2 illustrates the distribution of the lengths of recovery periods for tranches 17 to 19. Although the average recovery period is significantly lower than in earlier years of the funding regime, there are still some schemes with longer recovery periods.

Chart 3.1.2 Length of recovery period - tranches 17 to 19

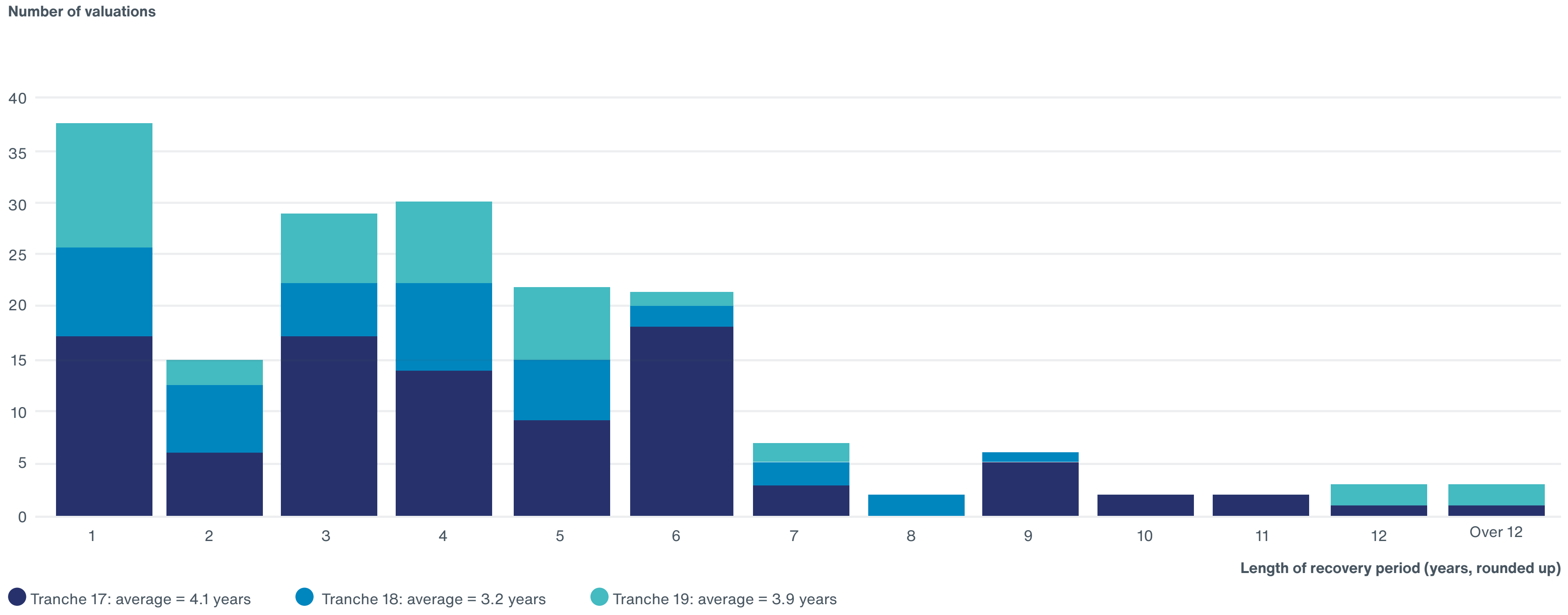
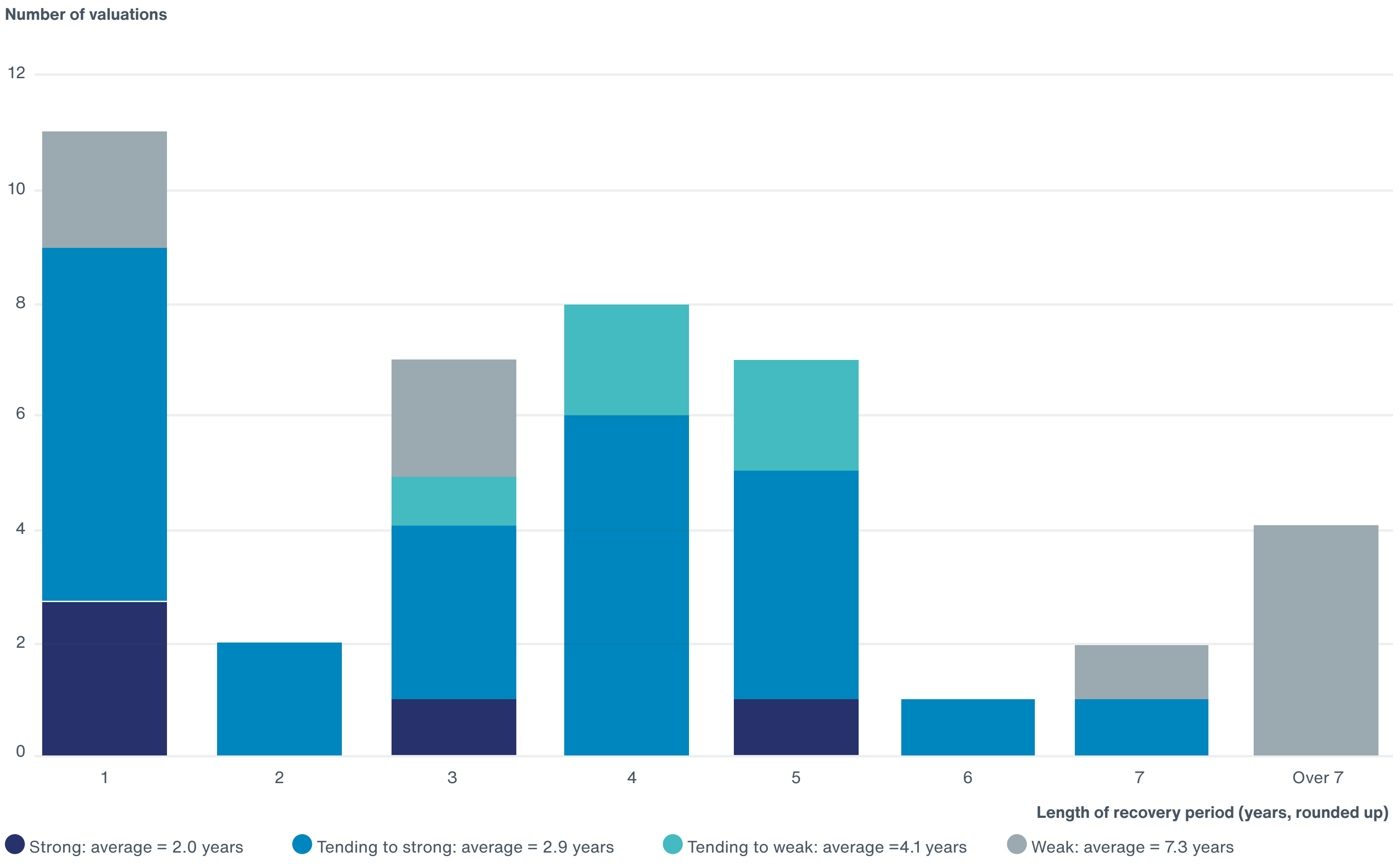


Chart 3.1.3 Length of recovery period, by employer covenant - tranche 19



The recovery periods for tranche 19 valuations only are set out in Chart 3.1.3, which also shows how the recovery period varied by the trustees' assessment of the employer covenant.

For those schemes with a weaker employer covenant, the average recovery period agreed was significantly higher than for those with a stronger covenant.

Affordability was considered a constraint on deficit reduction contributions for 48% of schemes in deficit in tranche 19, and also 48% of schemes in tranche 18. For 7% of tranche 19 valuations, the contributions agreed with the employer were lower than they would otherwise have been in order to allow for the employer's plans for sustainable growth; for tranche 18, it was 2%.

3.2 Contingent security

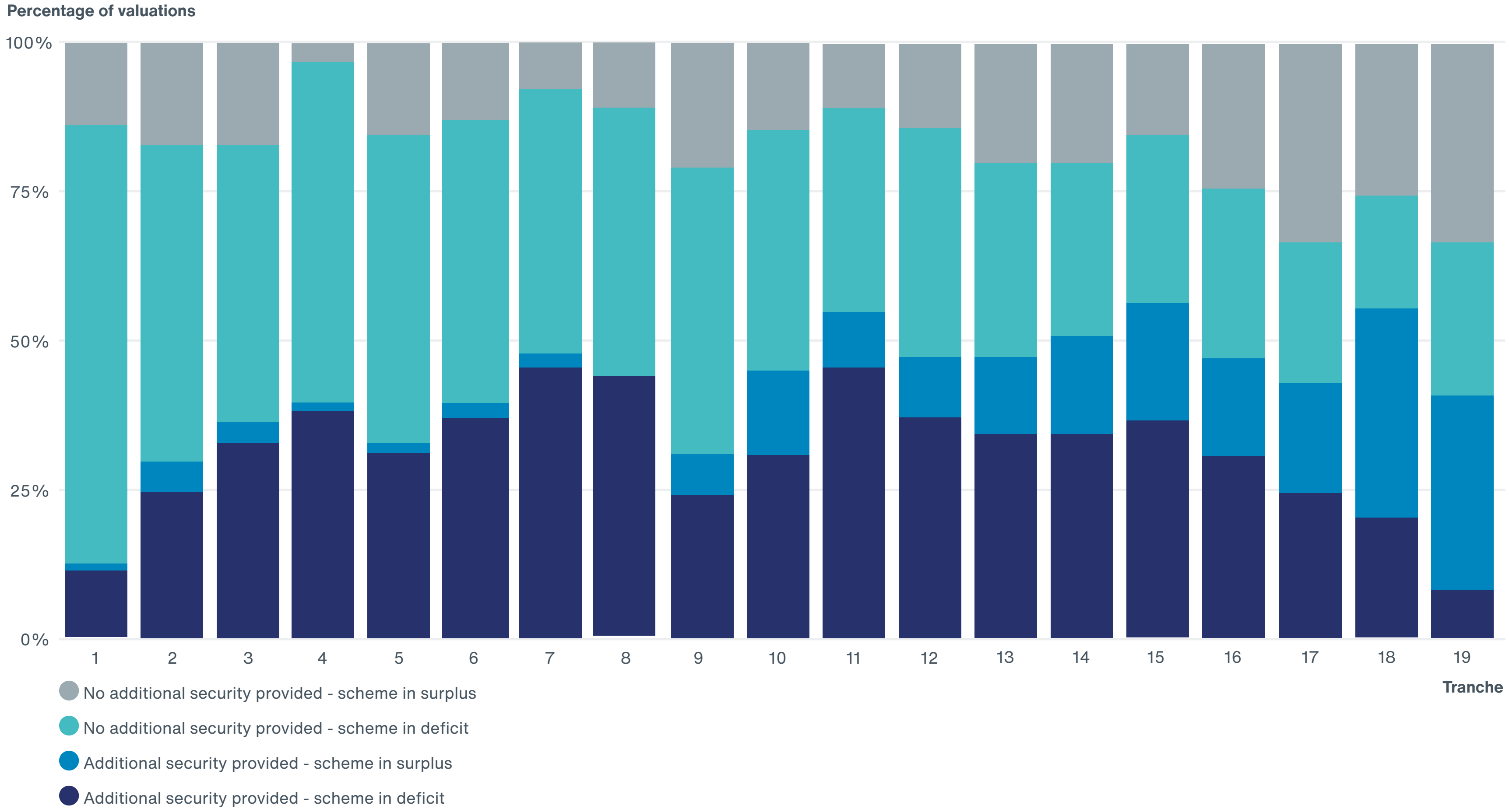
The Regulator's Code of Practice recognises that trustees may seek alternative forms of security from the employer to protect the scheme in the event of the employer becoming insolvent before the deficit is fully paid off. It states that the trustees should consider the value, terms and enforceability of any contingent security when formulating a recovery plan. The Regulator has also highlighted the use of alternative financing to manage the risk of 'trapped surplus' or otherwise provide security as part of the long-term funding target strategy. The Regulator's revised Code notes that employer covenant assessment must consider the value of legally enforceable contingent assets and includes guidance on valuing 'security arrangements'.

Contingent security options include complex arrangements such as special purpose vehicles (SPVs) and charges over assets, through to simpler arrangements such as surety bonds, parent company guarantees and escrow-style structures.

For tranche 19, 40% of schemes had put in place additional security. Chart 3.2.1 shows that the use of such arrangements is a long-standing feature of the funding regime. The chart distinguishes between schemes that were fully funded on a technical provisions basis and those that were in deficit (and so required a recovery plan). As set out in section 2.5, the proportion of schemes that are fully funded has increased considerably in recent years; the chart indicates that, despite improving funding levels, the proportion of schemes with contingent security in tranche 19 was significant (40%), although slightly lower than that for tranche 16 (47%) when many tranche 19 schemes' previous valuations were undertaken. In tranche 19, the majority of schemes with such arrangements (80%) were in surplus.

> "
> **40% of schemes had put in place contingent security; the majority of schemes with such arrangements (80%) were in surplus**

Chart 3.2.1 Additional security provided to schemes – by tranche



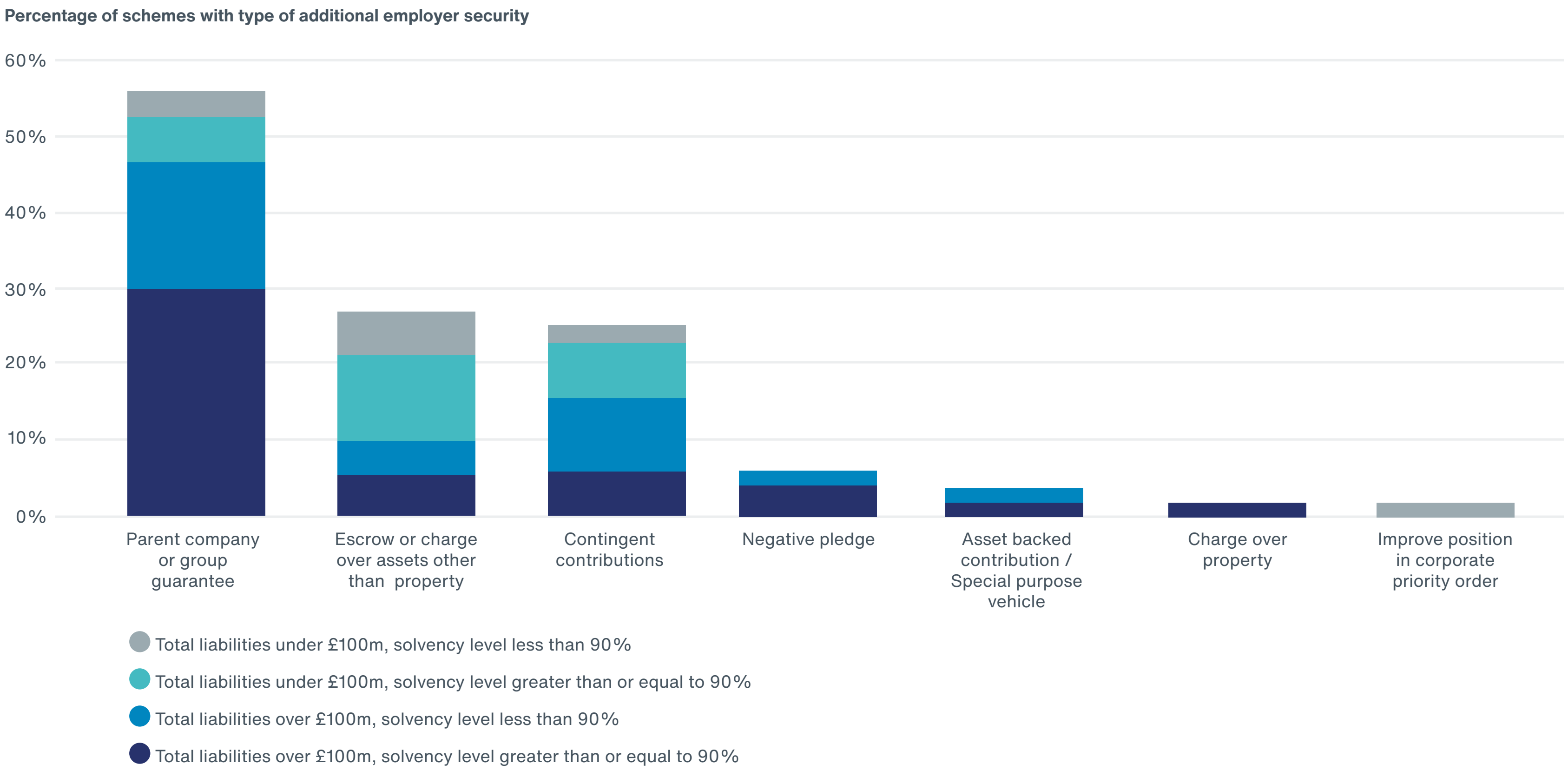
3

Contingent security was used by 48% of schemes in surplus and 23% of schemes in deficit, for tranche 19. As many schemes have moved into surplus, for some, the focus has turned to the potential for trapped surplus; non-cash security may mitigate the risk of over-funding as schemes get better funded and progress towards their long-term funding target. Contingent security can also help support continuing to run on when a scheme is fully funded on a solvency basis.

The use of these arrangements was prevalent among larger and smaller schemes in tranche 19. 47% of schemes with technical provisions of over £100m and 31% of schemes with technical provisions of under £100m had additional security in place.

Chart 3.2.2 shows that, where additional employer security was provided, for most schemes this was a parent company or group guarantee. The chart also shows the types of contingent security used based on scheme size and scheme funding level. Some schemes had more than one type in place; this is reflected in the chart (with these schemes being represented in multiple bars). Larger schemes used a wider range of such arrangements.

Chart 3.2.2 Types of additional employer security provided to schemes - tranche 19

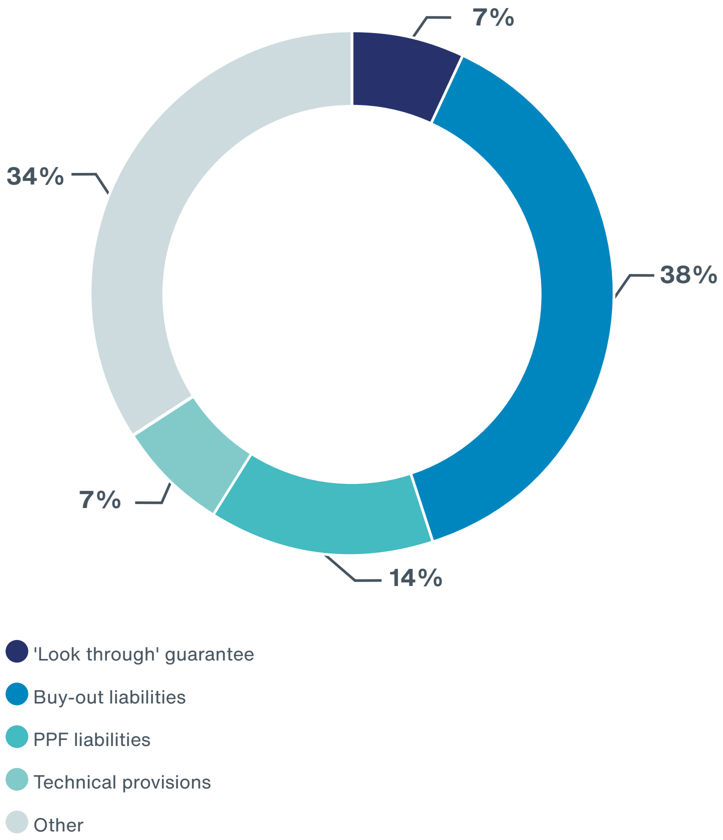


Contingent contributions included payments dependent on the funding level - on the technical provisions or solvency basis - for most schemes. We understand that, for several schemes, the payment of contributions in respect of expenses is dependent on the funding level. For one scheme, additional contributions were payable if pre-defined profit-sharing events occurred.

Where escrow was used, the primary purpose for most schemes was to avoid trapped surplus.

A parent or group guarantee can vary with regard to the measure of liabilities that is guaranteed. Chart 3.2.3 indicates that the most common type related to buy-out liabilities. 7% of guarantees were 'look through', under which a guarantor replicates the obligations of the statutory employer. The Regulator's revised Code notes that such guarantees "provide an ability for trustees to claim against the guarantor in respect of all monies owed... without restrictions or qualifications once a trigger event has taken place [and] cannot be revoked without trustee agreement". If a guarantee doesn't meet the criteria of a look through guarantee, trustees should determine the level of support a guarantee can provide by considering the guaranteed amount, the duration of the guarantee and any termination clauses, the circumstances in which a claim can be made, and the guarantor's financial ability to provide that support at the time it may be required.

Chart 3.2.3 Types of parent company or group guarantee - tranche 19



Putting in place specified contingent assets can reduce a scheme's PPF levy, if they are certified annually. These include a Type A contingent asset – a guarantee from another group company. In tranche 19, 4% of schemes had such a PPF-compliant Type A contingent asset.

For tranche 19, the primary reasons for the provision of additional security were to add security in relation to the covenant and to address the risk of trapped surplus.

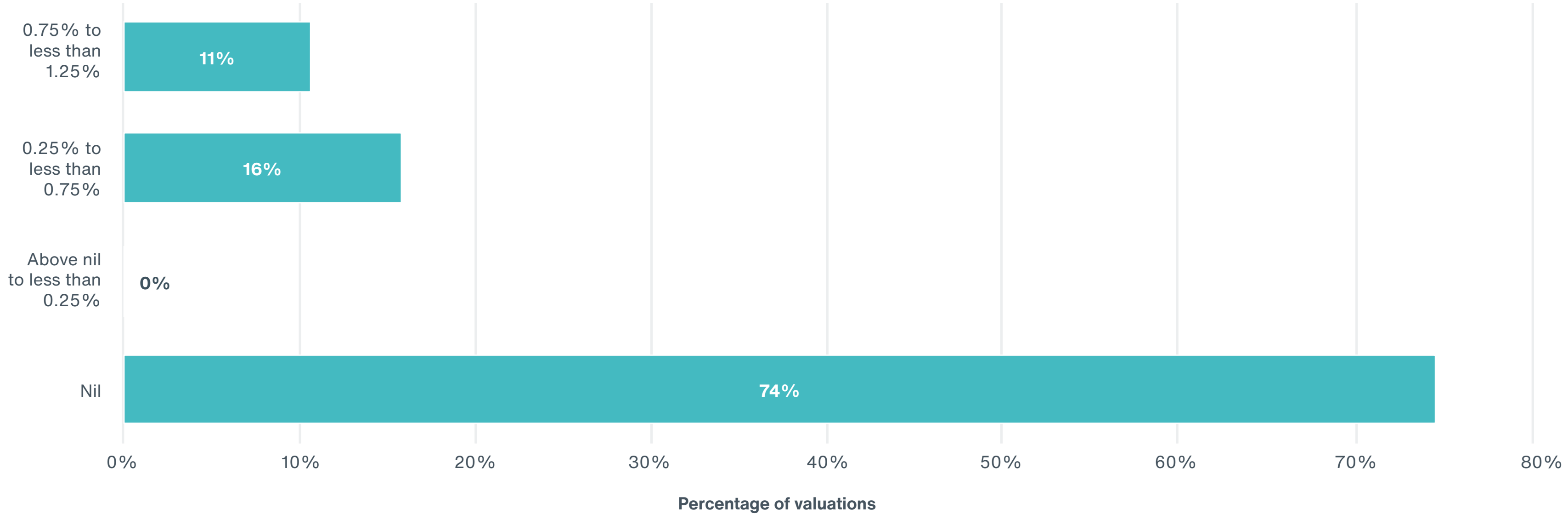
3.3 The recovery plan assumptions

When formulating a recovery plan, trustees are permitted to adopt an expected return on assets that differs from the discount rate (or rates) used for technical provisions, which the legislation requires to be 'chosen prudently'. The trustees may determine that it is appropriate to allow for most or all of the investment outperformance over gilts expected during the recovery period.

An element of additional return in excess of the discount rate was allowed for in the recovery plans of 26% of tranche 19 valuations, and the average expected return in excess of the discount rate for schemes that did make such an allowance was 0.6% p.a.. In tranche 18, 31% of recovery plans allowed for an element of additional return, which was also 0.6% p.a. on average. Although similar to last year, the proportion of schemes allowing for additional returns has reduced significantly over three years; in tranche 16, when many tranche 19 schemes' previous valuations were undertaken, 66% of recovery plans allowed for an element of additional return, which was 0.7% p.a. on average.

> **The proportion of recovery plans including an element of additional return in excess of the discount rate was 26%, which was similar to last year but significantly lower than three years ago (66%)**

Chart 3.3.1 Allowance over discount rate for investment returns in recovery plan - tranche 19



4

Looking ahead

Looking ahead to 2025 valuations, and beyond

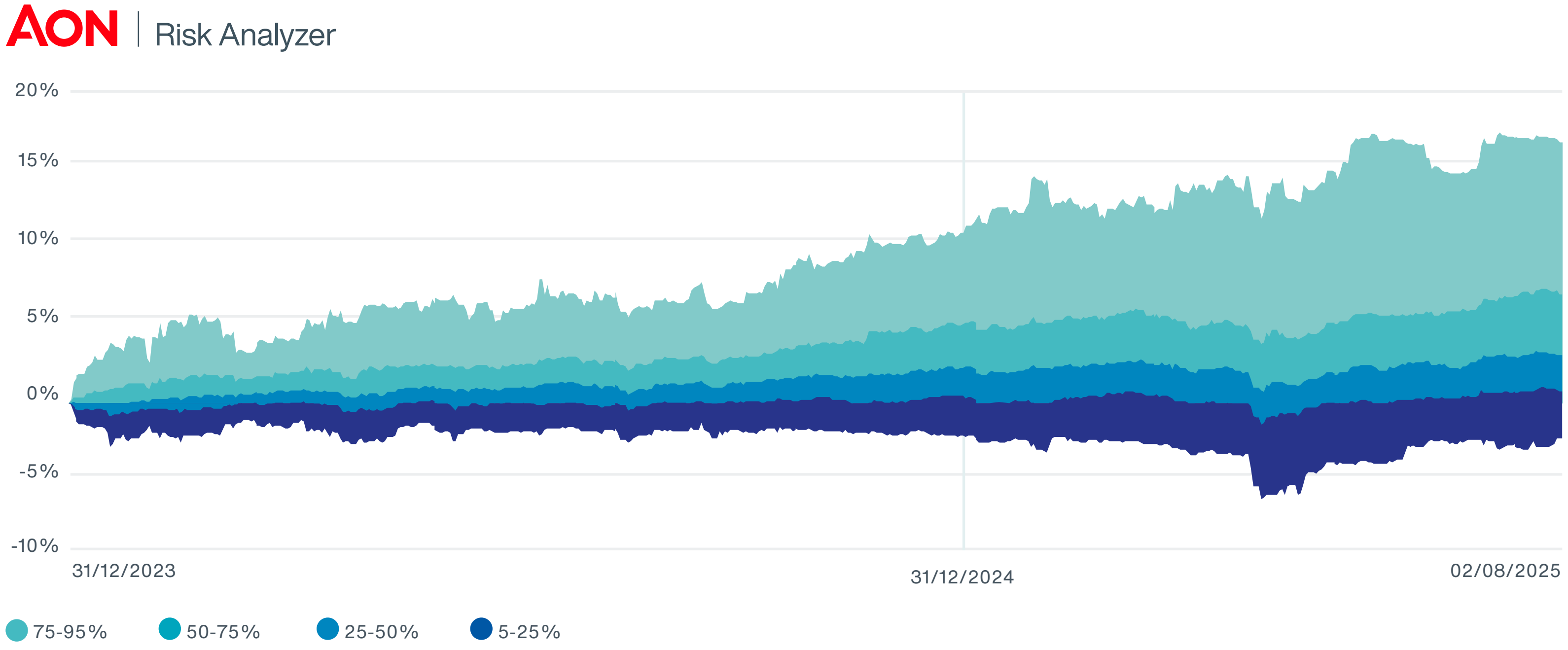
4 Looking ahead

For valuations in tranche 20, average (median) funding positions are slightly higher than those of the tranche 19 valuations analysed above. However, there is variation around this average, reflecting the differing impacts of the further increases in gilt yields, and other asset price movements, over the period on individual schemes.

Chart 4.1 shows the changes to funding levels over the year to a tranche 20 valuation date, based on a range of clients using our Risk Analyzer software, after allowing for deficit contributions.

> **Since the dates of these valuations, average funding levels have continued to improve from a historically high starting point; around half of schemes are now fully funded on a buy-out basis**
>
> **Against this background of higher funding levels, the Pension Schemes Bill includes provisions to make surplus refunds to employers easier. This is intended to make it more attractive for DB schemes to 'run on', invest in productive assets, and generate surplus which can potentially be shared with employers and members**

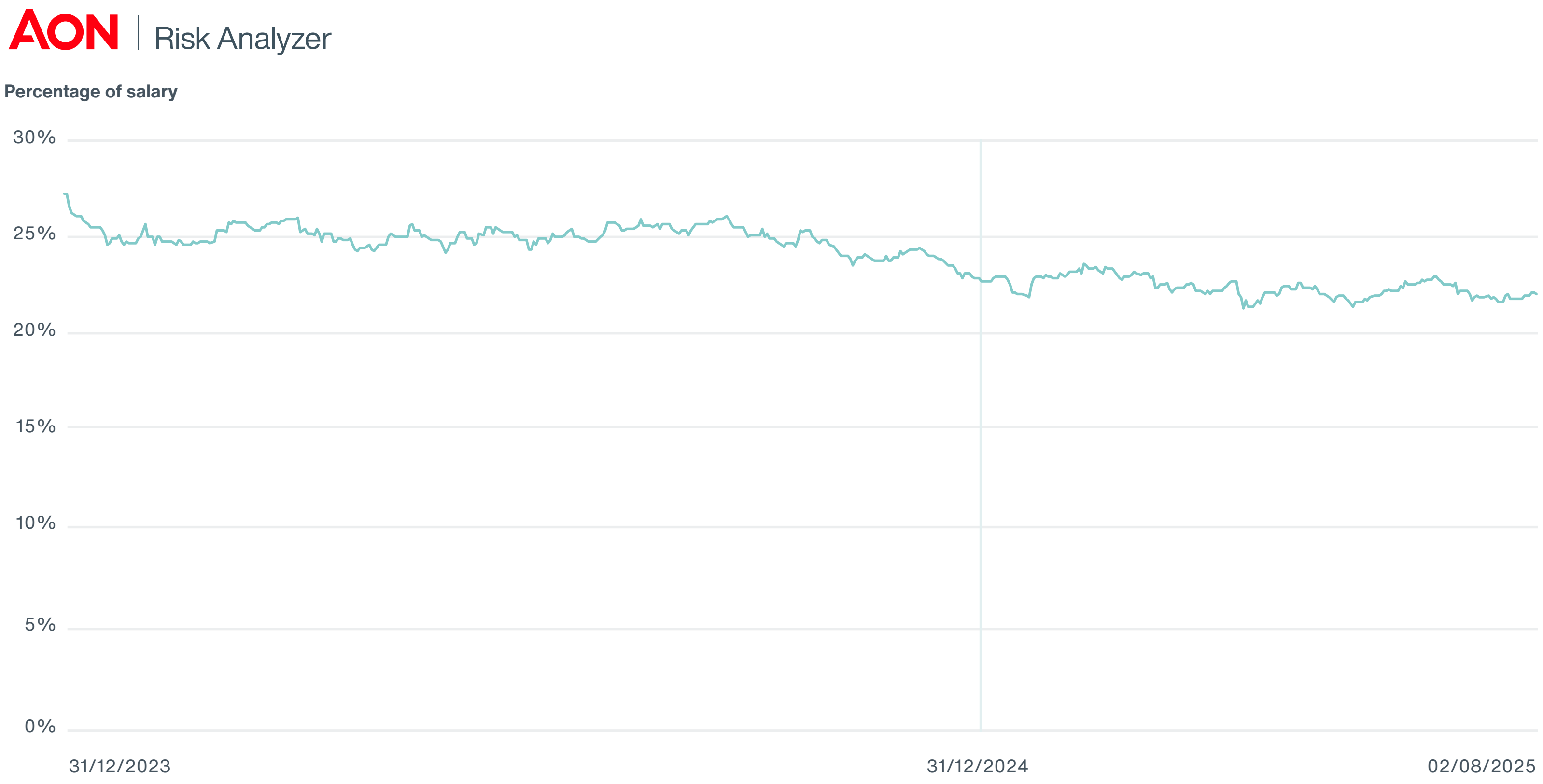
Chart 4.1 Risk Analyzer – funding level divergence by quartile, 31 December 2023 to 2 August 2025



The Pension Schemes Act 2021 requires schemes to set a strategy for ensuring that benefits can be provided over the long term, which applies for valuations with effective dates on or after 22 September 2024 - i.e. valuations from tranche 20. A key principle is that schemes must target a state of low dependency on the sponsoring employer by the time they are projected to be 'significantly mature'. Schemes that are no longer open to future accrual will be advancing towards this projected date.

Of the tranche 19 schemes analysed for this In Depth, 32% remained open to future accrual. Future service costs have continued to reduce, reflecting the further increases in gilt yields. Chart 4.2 shows the average future service cost over a range of clients using Risk Analyzer.

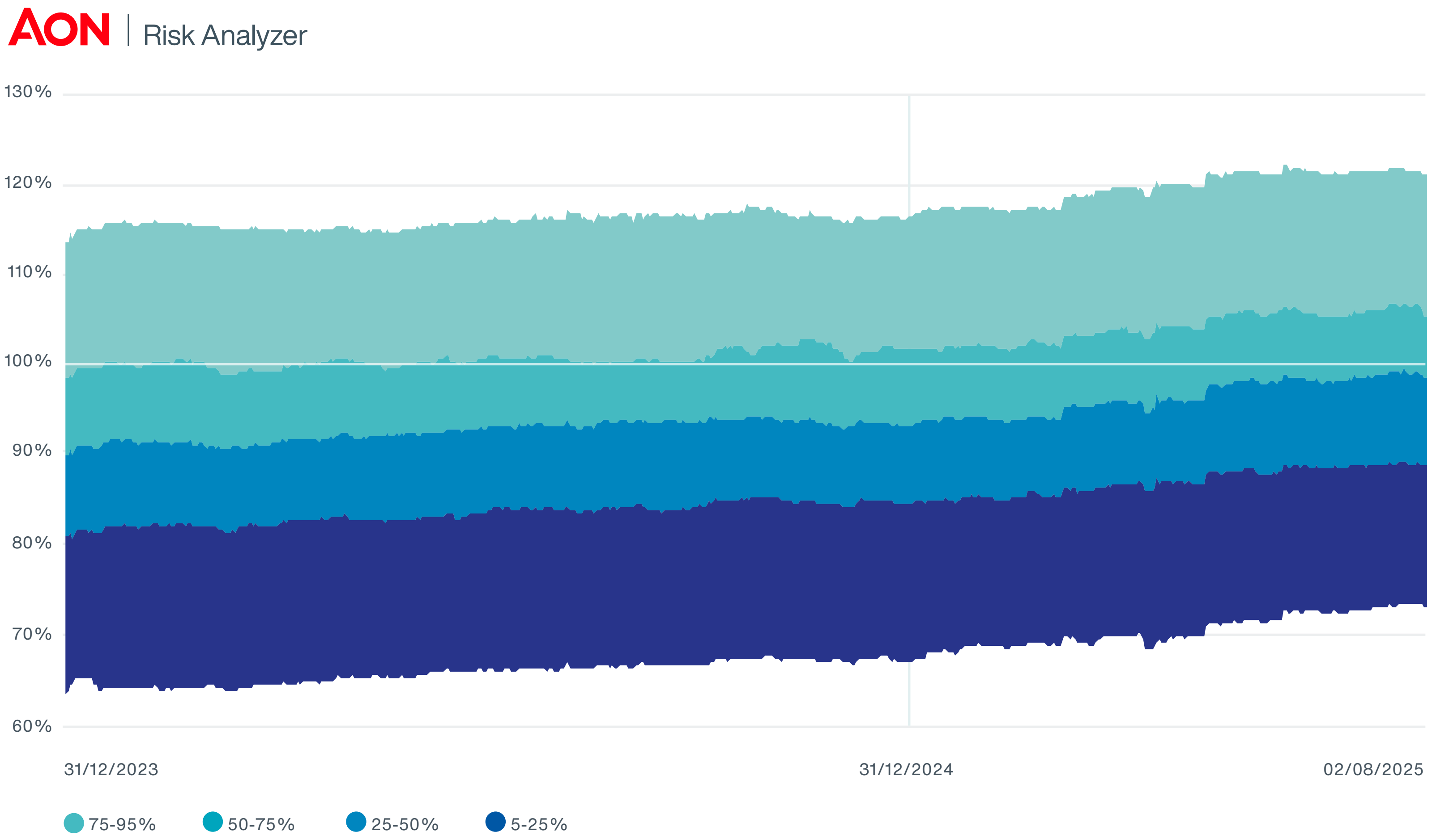
Chart 4.2 Risk Analyzer – average future service cost, 31 December 2023 to 2 August 2025



On 29 April 2025, The Pensions Regulator published its Annual Funding Statement, aimed primarily at schemes with tranche 20 valuations – i.e. with valuation dates between 22 September 2024 and 21 September 2025 (to be referred to in future as 'Tranche 24/25'). These valuations will be the first to be completed under the new funding regime. With many schemes in surplus, the Regulator expects most schemes to be shifting their focus from deficit recovery to endgame planning – on which it published new guidance, entitled "New models and options in defined benefit pensions schemes", on 3 June 2025.

We expect the majority of schemes to buy out in time. Many schemes are in substantially de-risked positions to lock in past asset gains and are close to meeting the cost of buy out; Chart 4.3 shows the solvency funding positions of a range of clients using our Risk Analyzer software. Around half of schemes are now fully funded on a buy-out basis.

Chart 4.3 Risk Analyzer – solvency level by quartile, 31 December 2023 to 2 August 2025



Discover, Develop, Deliver endgame framework

Our three-stage best practice framework enables schemes to choose and implement the right endgame strategy and to meet The Pensions Regulator's latest guidance:

Discover

Establish Objectives of all Trustee and Corporate stakeholders

We have a framework of questions enabling stakeholders' views across relevant areas to be fully captured and reflected.

Develop

Find the best fit from the full range of strategies

Alternative strategies can be evaluated against your objectives, to identify the most appropriate endgame. Our modelling tools (see below) can support trustees and employers in understanding the impact of alternative endgames.

Deliver

Plan, Implement and Monitor

Our specialists bring best-in-class planning and implementation of all types of endgame strategy. Endgame strategy should be regularly monitored to ensure that it continues to meet objectives.

TPR Expectations Regarding Endgames

In its guidance for Trustees of June 2025 on "New Models and Options in Defined Benefit Schemes", which focused on endgames, TPR expects Trustees to:

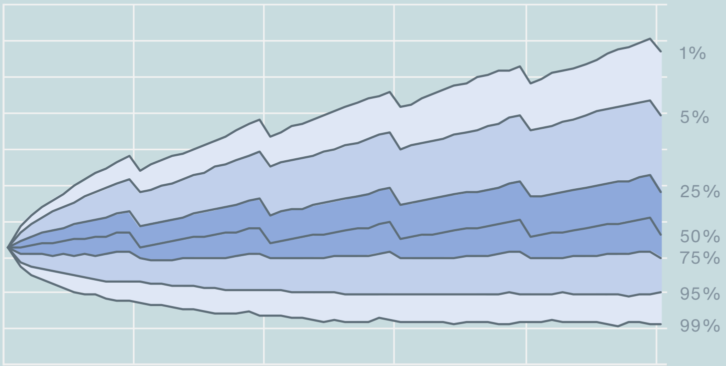
- consider "all relevant factors when comparing options"
- "work collaboratively with the scheme employer"
- "set out and understand your scheme's strategic aims"
- "ensure there is an audit trail of the rationale for any decisions taken"

For more information, insights and contact details, see **Endgame Strategies for Defined Benefit Plans | Aon**.

Supporting better decisions through modelling...

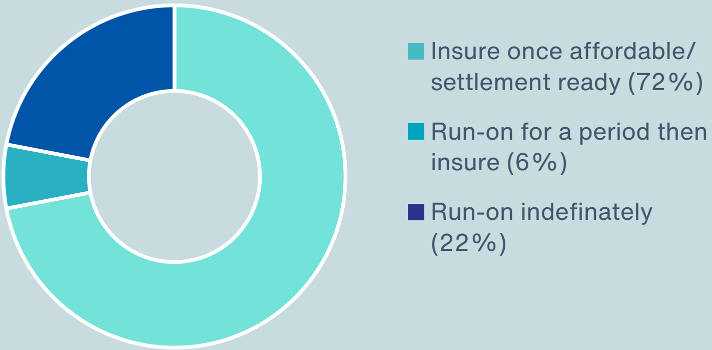
Aon's Pension Endgame Analyzer provides an analysis of potential outcomes, in terms of the benefits for sponsors and members, and also the risk involved.

Solvency funding level (%)



Understanding what others are doing...

Our 2025 survey of over 200 schemes provides unique insights into what other scheme are doing based on scheme size, industry sector and geographical region of the parent company (shown below for £500Mn - £1Bn schemes). For further details and insight, see **2025 Defined Benefit Endgames Survey | Aon**.



Bulk annuity volumes have been in the £30-50 billion p.a. range in recent years, with the market supporting an increased number of buy outs - although the market size is dictated mainly by the timing of the largest multi-billion deals. The current number of providers (11) is the highest for some years, and market conditions and regulatory developments have generally been benign for annuity providers over 2022-2025. People resource constraints in the industry can impact the timescale to buy out, with many schemes looking to reach buy out within a similar period of time.

The market for consolidation vehicles ('superfunds') is developing. The first such vehicle to meet the Pension Regulator's standards of governance and administration, Clara Pensions, was named by the Regulator in 2021. Clara subsequently announced transactions in 2023, 2024 and 2025. The Pension Schemes Bill includes provisions to replace the current interim regulatory regime for superfunds with a permanent legislative framework. The proposed 'onboarding conditions' for transfers to a superfund differ from the 'gateway principles' under the Regulator's current interim regulatory regime.

Following consultation in 2024, provisions are also included in the Pension Schemes Bill to make surplus refunds to employers easier. The objective is to make it more attractive for DB schemes to 'run on', invest in productive assets, and generate surplus which can potentially be shared with employers and members.

Trustees and employers are considering the full spectrum of endgames in order to assess which will deliver the best outcomes for pension scheme members and sponsors. Aside from buy-out and transfer to a superfund, this includes options such as running a scheme on beyond buy-out funding, using DB surplus to fund ongoing DC contributions, capital-backed solutions, and insurance company buy-ins or buy-outs reinsured back to the sponsor's own captive insurance company. The above developments may further expand the endgame options available to schemes.

Aon's DB Endgame Services

With You for Every Step of Your Endgame Journey, Whichever Route You Take.

UK defined benefit pension schemes are increasingly focused on their endgame planning.

The question for trustees and sponsors now is whether their endgame should be to secure their scheme's liabilities with an insurer or consolidator, or continue to run-on for the foreseeable future.

Aon is here to help you choose the best strategy.

For Professional Clients Only

A1 Appendix – jargon buster for the new DB funding regime

The new funding regime is in place for valuations with effective dates on or after 22 September 2024. This will apply directly to valuations currently underway, which will be analysed in next year's In Depth.
In this appendix, we set out a non-exhaustive reference for the new terminology.

Covenant longevity	How long the trustees can be 'reasonably certain' that the employer will be able to support the scheme (relevant for level of risk that can be supported over the **journey plan**, the time to **significant maturity** for an open scheme, and the choice of **long-term objective**).
Duration	In layman's terms, this is roughly the period of time until you expect around half of the scheme's remaining benefits to have been paid out.
Fast Track	A regulatory filter with a specific set of tests in relation to assumptions, investment and the recovery plan. Submissions meeting the Fast Track tests are less likely to attract The Pensions Regulator's scrutiny and less information needs to be provided in the **statement of strategy**. However, meeting the Fast Track tests does not guarantee compliance with the Regulator's Code of Practice.
Funding and investment strategy	The funding and investment strategy includes details of the **long-term objective**, **low dependency funding basis**, **low dependency funding target**, **low dependency investment allocation** and **journey plan**.
Journey plan	How the scheme will move from the current technical provisions and investment strategy to the **low dependency funding target** and **low dependency investment allocation** by the **relevant date**. The level of risk taken in determining the journey plan should reflect the strength of the employer covenant.
Long-term objective	A description of how benefits will be provided over the long-term (e.g. run on, buy out, move to a consolidator), which is likely to influence **the low dependency funding target, low dependency investment allocation** and **journey plan**.
Low dependency funding basis	A set of assumptions where, if the scheme's liabilities are fully funded on that basis, it is expected that no further contributions will be required from the sponsor (i.e. places a low dependency on the sponsor). The low dependency funding basis must be set consistently with the **low dependency investment allocation**, and it is used to define the **low dependency funding target**.

Low dependency funding target	The funding target that the trustees and sponsor are aiming to achieve by the **relevant date**. It must be at least 100% of liabilities based on **low dependency funding basis** but could be higher.
Low dependency investment allocation	A notional investment allocation set out in the **funding and investment strategy**, which would apply from the **relevant date** and helps derive the **low dependency funding basis**. The low dependency investment allocation must be highly resilient to short-term adverse changes in market conditions so that further employer contributions are not expected to be required (although the Regulator's Code of Practice allows for limited employer contributions to be considered where a "much stronger" stress test is used). The scheme is not required to invest in line with this strategy in practice.
Relevant date	The date, set by the trustees, from which the scheme must target a low dependency on the sponsor (i.e. a target of at least 100% funded on the **low dependency funding basis**). This date must be before the end of the scheme year when **significant maturity** is expected to be reached, or the valuation date if already at **significant maturity**.
Reliability period	How long the trustees can be 'reasonably certain' of the employer's projected cashflows and prospects (relevant for determining recovery plans, **journey plans**, and time to **significant maturity** for an open scheme). This will usually be shorter than the **covenant longevity**.
Significant maturity	Defined as when a scheme has a **duration** of ten years (eight years for cash balance schemes) or less. This will be, very broadly, when all, or nearly all, members have retired. Determined on the **low dependency funding basis** using economic conditions as at 31 March 2023.
Statement of strategy	A new document that trustees must produce and submit to TPR as part of each valuation. This includes the **funding and investment strategy** which trustees must agree with the sponsoring employer (except in some specific cases). It also includes further supplementary actuarial, investment and covenant information on which the trustees must consult the sponsoring employer.

Contact Us

If you have any questions on In Depth, please speak to your usual Aon consultant or contact:

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About

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