

The Pensions Regulator's 2025 Annual Funding Statement

The Pensions Regulator (TPR) has issued its 2025 Annual Funding Statement (AFS). It sets out its expectations for Trustees and Employers of Defined Benefit (DB) schemes undertaking actuarial valuations with effective dates between 22 September 2024 and 21 September 2025. And includes further clarification on its recent guidance on assessing employer covenants and supportable risk.

Background

The actuarial valuations covered by the AFS are the first to be regulated under the new funding regime and in particular TPR's new DB funding code of practice.

TPR notes that most schemes continue to report strong funding levels, and it expects them to be shifting their focus from deficit recovery to endgame planning (or securing their future for open schemes).

TPR expects around 80% of schemes undertaking valuations to be able to meet their FastTrack parameters when submitting their valuation results. As well as requiring less information to be provided, a FastTrack approach makes it less likely that TPR will want to engage with the Scheme.

TPR groups schemes into three broad categories and comments on them separately:

Group 1: funding level is at, or above, low dependency funding target

The focus should be on endgame planning (buy-out, running on, or entering a consolidation vehicle, if eligible). TPR states that it will be providing further guidance on endgame solutions in the summer. It now seems to be more enthusiastic about superfunds – possibly inspired by the idea that these can more easily be encouraged to invest in UK assets – so we look forward to seeing their views.

If schemes decide to run on, they will need to weigh the benefits against the ongoing risks and put in place suitable monitoring and management strategies. They will also need to continue monitoring the Employer covenant to ensure it continues to provide the necessary support for the risks.

Group 2: funding level above Technical Provisions (TPs) but below the low dependency funding target

The focus should be on ensuring the scheme continues on the path to achieving the low dependency objective by the relevant date.



Group 3: funding level is below TPs

The focus should be on addressing the deficit. TPs should be consistent with the scheme's journey plan to reach low dependency by its relevant date. The level of risk should be dependent on Employer covenant support and, subject to that, the maturity of the scheme. Any deficit should be recovered as quickly as the Employer can reasonably afford to.

Covenant guidance

TPR published extensive covenant guidance in December 2024. While generally positively received by the industry (accordingly to TPR), this has generated many further questions, which TPR has sought to address by providing additional clarification in several areas.

Supportable risk

There is also further guidance on how to assess supportable risk during the journey plan. TPR no longer intends to publish a formal formula for supportable risk. So, the guidance is intended to assist Trustees to approach this assessment based on the specific merits of the scheme and the Employer.

Buy-out as a long-term objective

Many schemes may have a general aim to reach buy-out at an unspecified date in the future, once they have first achieved full funding on their low dependency target. TPR clarifies that there is no legal obligation to meet the long-term objective within a specific timeframe; the legal requirement is to comply with the principle of achieving full funding on the low dependency basis by the scheme's relevant date.

Comment

Apart from the further clarifications on covenant and supportable risk, there is not much substance to this year's AFS. TPR can be expected to have more to say once some valuations have been submitted to them and analysed. And also, once the Government has decided what legislative changes, if any, are to be made on the evolving issue of pension scheme surpluses and surplus extraction.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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