

The Pensions Regulator's Annual Funding Statement 2026

What you need to know

- The Pensions Regulator (TPR) published its Annual Funding Statement (AFS) on 6 May 2026. It is aimed at trustees and sponsors of occupational defined benefit (DB) pension schemes, and particularly relevant for those with valuation dates between 22 September 2025 and 21 September 2026 (known as T25/26 schemes).
- The AFS highlights that most DB schemes remain well funded, with small improvements compared to last year. Around 90% of schemes are fully funded on a technical provisions basis at 31 December 2025. As a result, TPR notes that the focus for most schemes is shifting away from deficit recovery towards clearer endgame planning and implementation.
- The AFS also reiterates that covenant remains key, reminding trustees to align investment and funding risk to the strength of employer support.
- New legislation on pension scheme surplus sharing, introduced through the Pension Schemes Act 2026, is now in place. This paves the way for a Department for Work and Pensions consultation on the detailed supporting regulations. Alongside this, TPR will publish an initial statement outlining key considerations for trustees when assessing surplus release, ahead of more detailed guidance expected later this year.

Actions you can take

- **Ensure the focus of covenant assessments** aligns with your scheme's circumstances – improving funding positions shifts the focus to active monitoring and managing downside. Less well-funded schemes still warrant more detailed assessments.
- **Revisit your long-term strategy** to ensure it remains appropriate for your scheme and its members, particularly whether run-on, even in the short-to-medium-term, could deliver better outcomes for members and sponsors.
- Sponsors and advisers should **collaborate early and document decisions** throughout the valuation process to support robust planning and evidence compliance with the regulations.

Funding strategies

TPR has grouped schemes according to their low dependency (LD) and technical provisions (TP) funding levels, and suggested an appropriate focus for each group.

Group 1A: >110% funded on LD	Group 1B: >100% funded on LD	Group 2: >100% funded on TP (<100% on LD)	Group 3: <100% funded on TP
Endgame finalisation Buyout – lock down investments Run-on – consider employer reliance and surplus policy	Endgame planning Improve funding level including through investment risk Monitor covenant proportionately	Progress to low dependency Progress to fully funded on LD Monitor and manage downside risk	Address deficit As soon as reasonably affordable If past 'relevant date', consider contingent support

The finer detail: Clarification on covenant, supportable risk, funding and investment

The AFS 2026 arrives as the second tranche of DB schemes undertake their first valuations under the FIS regulations. While it contains little that is truly new and is more confirmatory than transformative, it nevertheless reinforces several themes that have been of particular interest to trustees and their advisors.

Covenant assessment – refocus, but stay vigilant as circumstances change	Employer covenant remains integral to determining how much risk a pension scheme can prudently take, including those in surplus. As funding improves, the focus should move from detailed assessment to ongoing active monitoring and downside risk management. However, deeper analysis is still needed where funding is weak, employer support is stretched, or risk levels are high.
Supportable risk – be realistic about downside and alternatives	Trustees must understand downside risks and reflect them in journey planning. Covenant should be marked inadequate in the Statement of Strategy where it cannot support the risk being run; misclassification is more likely to attract scrutiny. Surplus may support risk, but trustees must allow for volatility and alternative uses.
Contingent support remains important	Guarantees, even if not “look through”, are still relevant. Disclosure of all contingent support in the Statement of Strategy provides TPR with a clearer picture of covenant support.
High resilience – striking the right balance of risk and clarification on approach to test	High resilience is the central investment theme in the AFS 2026. The high-resilience test must assume 100% funded on low dependency (and not allow for any surplus assets). Trustees must always set a low dependency investment allocation (LDIA) that can recover to full funding after stress, implying a “bounceback” test. The chosen LDIA needs to strike a careful balance between taking too little and too much risk, while also demonstrating robustness through hedging and liquidity. Post-stress return assumptions can reflect changed market conditions, including higher expected returns following asset price falls. Trustees are reminded of the option to use dynamic discount rates. For schemes in deficit and past their relevant date, increasing investment risk is discouraged; resilience and increased funding should be supported through contributions or contingent support.
Expense reserve within liabilities	TPR acknowledges, that for smaller schemes in particular, the expense reserve can be a material increase in liabilities. It reminds trustees to reflect expected changes in scheme size and use pragmatic approximations where costs are uncertain and long-dated.
Fast Track	Fast Track parameters set in November 2024 will remain unchanged for T25/26 despite improved market conditions, though TPR may revisit assumptions for T26/27 if conditions persist. TPR is reviewing other Fast Track conditions and the definition of low-risk schemes, and may issue clarifications or guidance, while being mindful of the impact of any material changes on schemes.

Find out more

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