

Industry developments that could transform your DB pension strategy

This edition of XPS Express highlights *how developments anticipated in the next few months should factor into employers' decisions concerning their defined benefit (DB) pension schemes.*

Key developments: At a glance

More detail from the Government around unlocking DB scheme surpluses is anticipated in the spring, which presents an opportunity for employers to benefit from these surpluses by running their schemes on.

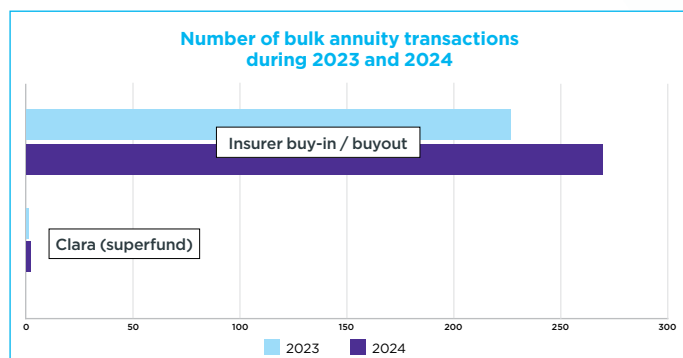
The bulk annuity market continues to be buoyant, with more insurers entering the market. Employers who are looking to settle their pension liabilities may benefit from increased competition among bulk annuity providers leading to lower insurance premiums.

Changes to National Insurance (NI) rates and the National Minimum Wage from April 2025 is leading to more use of salary sacrifice and a desire for efficiencies in how schemes are managed.

Employers should be aware of legal cases which could lead to increases in scheme liabilities, additional accounting disclosure requirements and greater auditor scrutiny.

Bulk annuity market buoyant

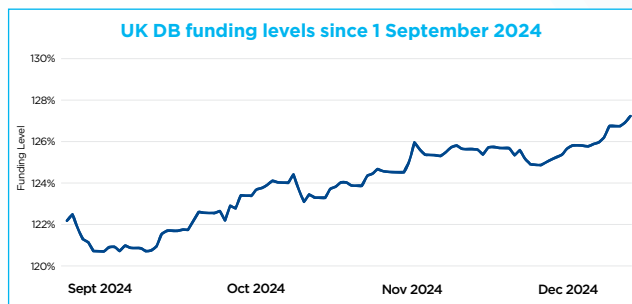
2024 was a bumper year, where 274 bulk annuity transactions, totalling £49 billion, were brokered. We anticipate this trend will continue into 2025. New entrants and alternatives (such as superfunds) may widen options available for employers seeking to settle their pension liabilities.



Funding level improvements

Despite market volatility, funding levels continue to improve across UK DB schemes.

This unlocks greater flexibility around long-term strategy decisions under the new funding and investment regime, and the potential for employers to benefit from scheme surplus.



Source: XPS DB/UK Funding Watch, on Gilts + 0.5% basis.

Actions employers should take

1. Consider which future strategy paths for your scheme align best with your business objectives.
2. Engage with scheme trustees to agree and document your scheme's long-term strategy in time for your first valuation under the new regulations.
3. Consider opportunities to introduce operational efficiencies in running your pension arrangements and consider salary sacrifice if not already used, to help to mitigate the impact of NI increases.
4. Keep up to date with developments on relevant court cases which may affect historic liabilities and require action from employers.

Outcomes from legal rulings

Case	Background	Potential impact
Virgin Media Ltd vs NTL Pension Trustees II Ltd	Affects validity of scheme rule amendments where a section 37 certificate was not obtained for contracted-out benefits.	Department for Work and Pensions is actively considering its next steps. If over-riding legislation is not issued then investigations will be needed to assess the impact on scheme liabilities and company accounting disclosures.
BBC Pension Trust Ltd	Affects amendment powers for future service benefits where scheme rules mention "interests" of members.	Schemes with such wording in their rules may need to revisit amendments and seek further legal advice.

What's on the regulatory horizon?

	NI and minimum wage increase	Statement of strategy response	Surplus consultation response	Multi-employer Collective Defined Contribution (CDC) Scheme consultation response
When will this happen?	From 6 April 2025	Anticipated in May 2025	Anticipated by June 2025	Summer 2025
What does this involve?	Business costs and cashflow needs will increase.	Long term strategy documentation confirmed by The Pensions Regulator.	The Government will respond to 2024's "options for Defined Benefit Schemes" consultation. The expectation is that legislation will be introduced to allow surplus to be distributed from ongoing DB schemes.	Response to consultation on multi-employer CDC schemes. This will pave the way for the introduction of these schemes.
What should employers do?	Explore options to manage spending on employees' pensions and investigate potential to use any surplus in your DB scheme.	Engage with trustees on long-term strategy to ensure it aligns with corporate objectives.	Consider whether running on is the right strategic path for your DB scheme and understand the level of surplus that could be generated by running on.	Consider whether CDC is beneficial in the context of attracting and retaining the best people for your business.

Find out more

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