

The Pensions Regulator's Annual Funding Statement 2025

What you need to know

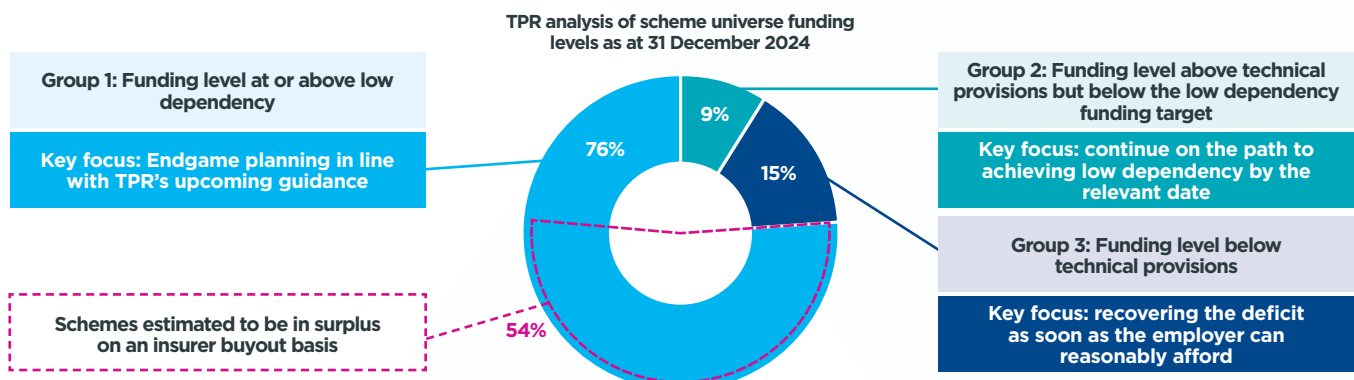
- The Pensions Regulator (TPR) published its Annual Funding Statement (AFS) on 29 April 2025. It is aimed at trustees and sponsors of occupational defined benefit pension schemes with valuations between 22 September 2024 and 21 September 2025 (now known as T24/25 schemes). These are the first valuations to be completed under the new Funding and Investment Strategy regime.
- It is relevant for all schemes as it provides further clarifications on the application of the defined benefit (DB) funding code of practice and covenant guidance (covered in detail overleaf).
- The AFS stresses that covenant assessment remains a key consideration throughout a scheme's journey, despite the substantial improvement in scheme funding positions over the last twelve months, particularly given the heightened macroeconomic uncertainty that we are currently experiencing which may impact both scheme investments and the employer covenant.
- There will be no changes to the Fast Track parameters published in November 2024 for T24/25 schemes and TPR expects 80% of the defined benefit scheme universe to be able to meet Fast Track at minimal or no funding implications to the employer.
- TPR expects to publish its final statement of strategy consultation response alongside launching the new 'Submit a scheme valuation' digital service in spring, and DB endgame guidance in early summer.

Actions you can take

- **Engage early** to enable trustees, employers and advisers to work through the key steps of the valuation and iterate the results as needed
- **Adopt a proportionate approach** to assessing and monitoring covenant, based on the level of reliance being placed on the employer and/or contingent assets.
- **Review operational processes** to enhance resilience to market shocks, reflecting recent trade and geopolitical tensions which have increased uncertainty and volatility.

Key focus for schemes based on funding level

TPR recognises that many schemes have seen material improvements to their funding levels in recent years and expects most schemes to shift their focus from deficit recovery to endgame planning. TPR intends to publish its DB endgame guidance in early summer.



Source: TPR Annual Funding Statement analysis 2025. Published: 29 April 2025.

The finer detail:

Clarifications on covenant - funding code and covenant guidance

Low dependency is not no dependency	TPR has reiterated that it expects all schemes, including those fully funded on a low dependency basis or using the Fast Track route, to carry out a proportionate covenant assessment.
Reliability period is not constrained by the forecast period	TPR does not necessarily expect the reliability period to be constrained to the forecast period; it should focus on the extent to which trustees have reasonable certainty over cash flows (whether negative, positive or breakeven) into the future.
The journey to full funding on a low dependency basis can exceed the covenant longevity	Where covenant longevity is constrained by an inability to forecast beyond a certain point in the future but is expected to be rolled forward at the next valuation, a scheme's journey planning to low dependency can exceed this period. An assessment of the employer's prospects and covenant longevity remains important to identify any material risks to the existing covenant deteriorating in the future. The outcome of this assessment should feed into the scheme's monitoring processes.
Approach to supportable risk is principle-based and not formulaic	TPR no longer intends to publish a formal supportable risk formula which allows trustees to approach supportable risk based on the specific merits of the scheme and the employer. Instead TPR is focused on the principle-based approach set out in the code.
Risk is to be assessed over the reliability period	While assessing supportable risk, TPR expects the scheme related stress event to reflect a downside event with a minimum probability of one-in-six over a time period equivalent to the reliability period. For example, if the reliability period is six years, the downside event would reflect what might happen to the scheme over six years with a probability of at least one-in-six.
Assessing non-look through guarantees	Where schemes have a guarantee that is only triggered by an insolvency of the employer or missed deficit repair contributions (such as a PPF standard guarantee), any recovery plan put in place must be based on the reasonable affordability of the statutory employers only. However, where the employer's reliability period has been assessed using a range, a non-look through guarantee could be used to support relying on the higher end of this range but should not be used to extend the reliability period beyond what is assessed based on the statutory employers.
Employers with unique business models can deviate	For employers with unique business models (e.g. charities and regulated industries), TPR provides trustees with the flexibility to deviate from covenant guidance if they can justify the approach and evidence compliance with the funding regulations and code principles.
Flexibility when describing long-term objective	TPR has allowed trustees flexibility when describing their long-term objective which should allow trustees to accurately describe their specific plans. TPR also clarified that there is no legal obligation to meet the long-term objective within a specific timeframe and trustees will need to determine if the commitment to achieve buyout is clear and settled enough for it to be appropriate to include in the funding and investment strategy.

Find out more

For further information, please get in touch with **Arabella Slinger**, **Abigail Fletcher** or speak to your usual XPS Group contact.



Arabella Slinger
Partner and Head of Covenant
 arabella.slinger@xpsplc.com



Abigail Fletcher
Senior Consultant
 abigail.fletcher@xpsgroup.com



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