Pension scheme funding - an analysis of completed valuations

In Depth

September 2024

Contents

Overview

This year's analysis shows that the average funding level was over 100% for the first time under the current funding regime; nearly two-thirds of schemes were fully funded against their technical provisions.

Since the dates of these completed valuations, average funding levels have moved slightly higher, although there is variation between schemes.

Against this background, the new funding regime will be in place very soon – for valuations with effective dates on or after 22 September 2024 - 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, the majority of schemes have already set such a target – and many have also produced a journey plan setting out how to get there.

The then Chancellor's Mansion House speech in July 2023 opened up the prospect of a wider range of endgame options for pension schemes, while encouraging investment in UK productive finance. The DWP has since consulted on plans for a public consolidator, to be established by 2026, along with measures to make the options for use of surplus more flexible - which would make it more attractive for DB schemes to 'run on', invest in productive assets and generate surplus.

The incoming Labour government's election manifesto indicated that it would adopt reforms for schemes to take advantage of consolidation and scale, and undertake a review of the pensions landscape to improve outcomes and increase investment in UK markets – which it launched on 20 July 2024. It remains to be seen whether the new government will take forward the DWP's proposals on options for use of surplus and a public consolidator. The King's speech set out the government's intention to introduce a Pension Schemes Bill, which will include developments for consolidation through commercial superfunds.

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 2024.

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

- A long-term funding target was used in addition to a technical provisions target by 67% of schemes, and 71% of those schemes had a journey plan to achieve the target by the time the scheme is significantly mature;
- 67% of schemes took an integrated approach to risk management that included consideration of downside scenarios and contingency planning;
- 70% of schemes used a third party/specialist assessment of the employer covenant;
- 94% of schemes hedged at least 70% of their interest rate risk and 93% hedged at least 70% of their inflation risk, compared to 78% and 79% respectively three years ago;
- Average discount rates in excess of gilt yields were lower than those for each of the previous three years;
- The average difference between RPI and CPI assumptions was 0.95% p.a. for the period before 2030 and 0.09% p.a. post-2030, reflecting the announced change to the calculation of RPI from 2030;
- The average assumed life expectancy was 0.3 years shorter than three years ago, when many schemes' previous valuations were undertaken;
- The average technical provisions funding level – 103% – and the proportion of schemes in surplus – 65% – were both higher than for any previous year since the start of the current funding regime in 2005;
- For schemes in deficit, the average recovery period, of 3 years, was 2.2 years shorter than three years ago, when many schemes' previous valuations were undertaken; the percentage of schemes requiring a recovery plan fell from 66% to 35%;
- The proportion of schemes with contingent security has remained reasonably stable despite improving funding levels and, for the first time, the majority of schemes with such arrangements (71%) were in surplus;
- The proportion of recovery plans including an element of additional return in excess of the discount rate reduced significantly, to 33%;
- Since the dates of these valuations, average funding levels have continued to improve from a historically high starting point – although there is some variation between schemes; and
- Against this background of higher funding levels, the Pensions Regulator has told trustees to consider whether to reassess their long-term targets, taking into account the full range of endgame options.

We comment on possible explanations for our findings, and look ahead to 2024 valuations and beyond.

1

The funding landscape

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

1 1.1 A comprehensive picture

Our analysis covers 100 completed valuations carried out by Aon consultants for our clients, under the scheme specific funding regime, covering effective dates from September 2022 to June 2023. 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** – the recovery period, contingent security and the assumptions; and
- **Looking ahead** – to 2024 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
18	22 September 2022 to 30 June 2023
17	22 September 2021 to 21 September 2022
16	22 September 2020 to 21 September 2021
15	22 September 2019 to 21 September 2020

1.2 The long-term funding target

The Pension Schemes Act 2021 requires schemes to set a strategy for ensuring that benefits can be provided over the long term, which will apply for valuations with effective dates on or after 22 September 2024 (i.e. valuations from tranche 20). A key principle is a scheme must set a **long-term objective** (LTO) and be in a state of low dependency on the sponsoring employer by the time it is 'significantly mature'. The objective 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 will be supported by the Pensions Regulator's revised Code of Practice – which was laid before Parliament on 29 July 2024. It sets out guidance on how to comply with the legislative requirements, and the Regulator's expectations. It provides further detail on the regime that will apply to valuations from 'tranche 20' but will also be of interest for valuations with earlier effective dates. This includes defining the duration of liabilities at which schemes will be considered significantly mature – which the Regulator has set at 10 years (other than for cash balance benefits, for which it is eight years). (Duration is the mean term of the liabilities weighted by the value of the scheme's future cashflows; in less technical terms, it might be considered the number of years until the 'average' payment date of the scheme's benefit outgo.)

The rationale for introducing the LTO principle now is the maturing of the typical DB pension scheme.

In its 2024 Annual Funding Statement, the Regulator encourages trustees to reassess their long-term funding targets, considering the full range of options, including buy-out, consolidation and run-on.

A long-term funding target (LTFT), in addition to that used for technical provisions, was used by 67% of schemes with tranche 18 valuations, compared to 63% for tranche 17. Of these, 65% used a low dependency funding basis (documented formally in 64% of these cases), 32% used a buy-out basis (documented formally in 40% of these cases), and 3% used another form of target. Chart 1.2.1 provides further information on the bases used for LTFTs.

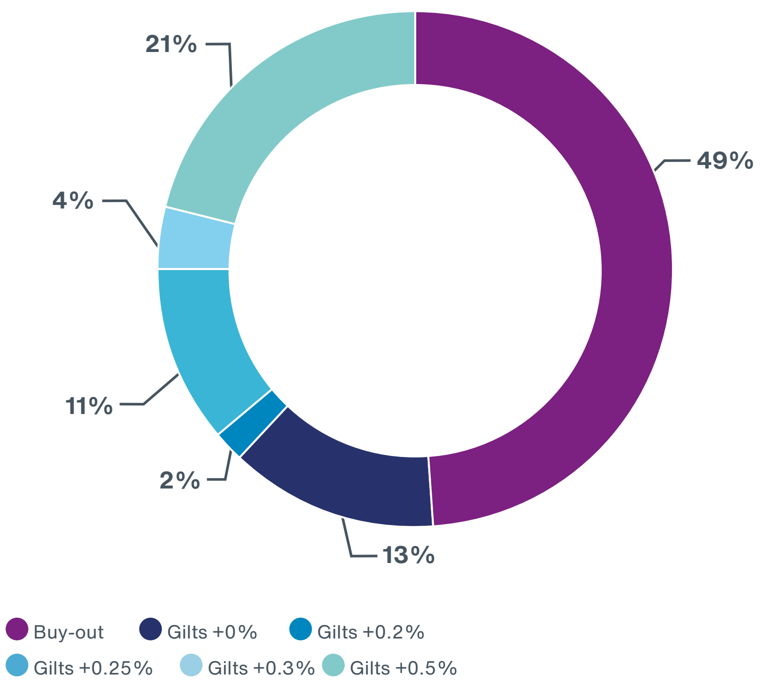
For tranche 18, the LTFT drove funding/contribution decisions for 66% of schemes: for 84% this was indirectly (for example, it was a factor considered when the funding strategy was agreed at the valuation), and for the other 16% directly (for example, contributions were contingent on the funding level measured on the LTFT basis). For 87% of schemes for which the LTFT had not been achieved, the LTFT drove investment/de-risking decisions: for 49%, this was indirectly (for example, it was a factor considered when the investment strategy was agreed), and for the other 51% directly (for example, de-risking triggers were driven by the funding level on the LTFT basis).

In addition, technical provisions were determined on a self-sufficiency basis for 11% of tranche 18 valuations.

Though a revised Code is not yet in force, these statistics indicate that trustees and employers understood the importance of setting an LTO, and that they were anticipating some of the likely changes to the funding regime. However, 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 finalised revised Code.

> **A long-term funding target was used in addition to a technical provisions target by 67% of schemes, and 71% of those schemes had a journey plan to achieve the target by the time the scheme is significantly mature**

Chart 1.2.1 Basis of long-term funding target – tranche 18



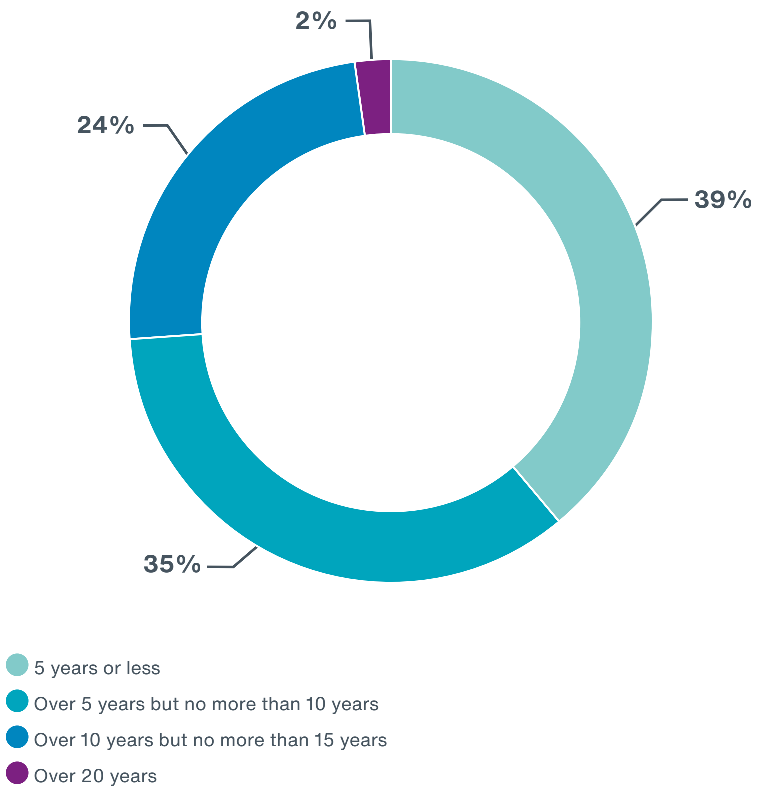
In addition to using a 'prudent' discount rate and mortality assumptions, 34% of LTFTs included an element of prudence in other assumptions; the other LTFTs used best estimate for other assumptions. 55% included an explicit allowance for expenses; the most common approach was to include an estimate of wind-up expenses.

Of those schemes with an LTO, 71% had a journey plan that aims to achieve the target by the time the scheme is broadly significantly mature.

The Regulator has encouraged trustees to consider a full range of endgame options. In the longer term, schemes might 'run on' with low dependency, secure buy-out with an insurer or target moving to a consolidator. The Regulator published guidance on the standards it expects from 'superfunds', effectively establishing an interim regime for such consolidators. In November 2021, the Regulator named Clara Pensions as the first superfund to meet its standards; Clara has subsequently announced agreements with schemes to transfer members. The forthcoming Pension Schemes Bill, announced in the King's Speech in July 2024, is intended to include provisions on commercial superfunds, to establish a permanent regime. We might expect some schemes to set an LTO based on consolidation vehicle pricing in the future.

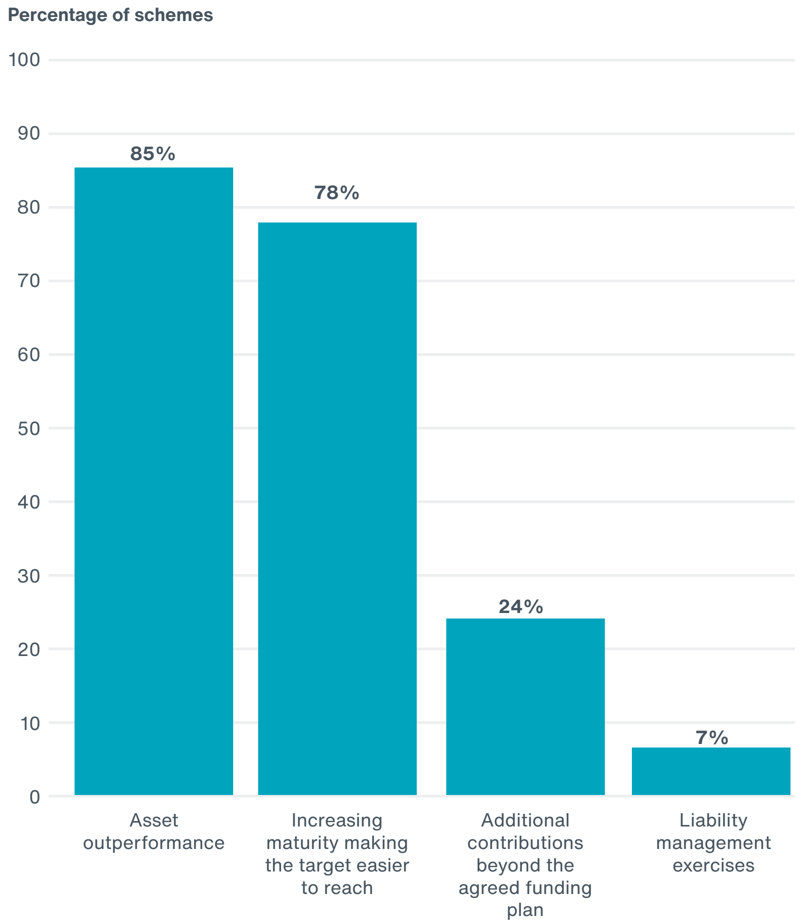
In terms of timescale, Chart 1.2.2 shows that most schemes with long-term funding targets (74%) were expecting to reach their target in under 10 years.

Chart 1.2.2 Expected timescale for reaching long-term funding target – tranche 18



For tranche 18, 24% of schemes had already reached their long-term funding target, compared with 34% for tranche 17. Chart 1.2.3 shows that a large majority (85%) 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 18



For schemes with tranche 18 valuations, where the trustees had set a long-term funding target, once they had reached that target, 40% intended to pursue a buy-out, 10% intended to run on the scheme and 50% 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 current Code – which 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 was laid before Parliament on 29 July 2024, and will apply to valuations from tranche 20 – sets out its continuing expectation that trustees adopt an integrated approach.

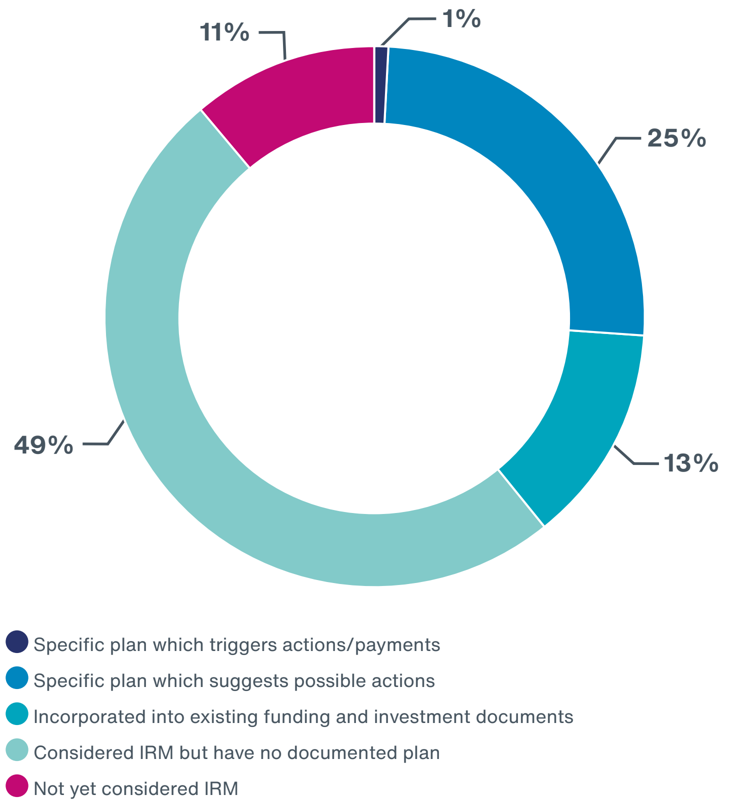
Maturity is significant because, as benefits paid out increase as a proportion of scheme assets, this can put a different complexion on the risks that need to be managed, especially investment volatility. In tranche 18, 64% of schemes were cashflow negative (not allowing for asset income). However, the average duration of liabilities was 14 years on the technical provisions basis, indicating the average scheme is some way from being considered 'significantly mature'.

> **67% of schemes took an integrated approach to risk management that included consideration of downside scenarios and contingency planning**

For tranche 18 valuations, the trustees of 67% 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 that in tranche 15 (73%), indicating that it is well-established practice for most trustees.

Varying approaches to integrated risk management (IRM) were taken for tranche 18, with only 11% of schemes having not yet considered IRM.

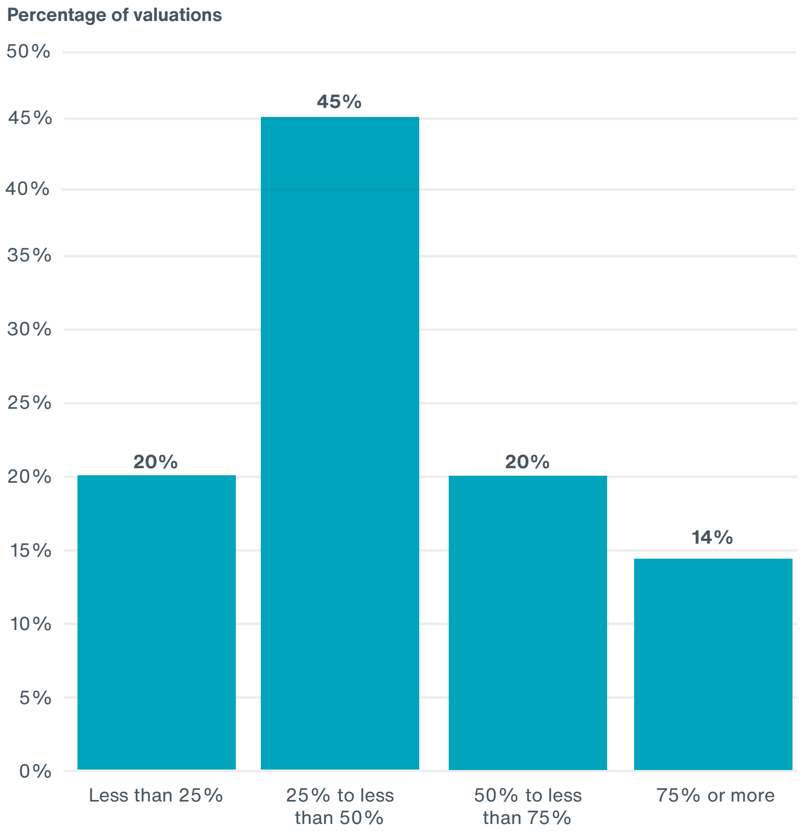
Chart 1.3.1 Approach to integrated risk management - tranche 18



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 18



Investment strategy was reviewed at the same time as the valuation for 48% of schemes in tranche 18, compared to 33% for tranche 17, and 42% for tranche 15 when many tranche 18 schemes' previous valuations were undertaken.

Employer covenant and investment: assets and employer covenant

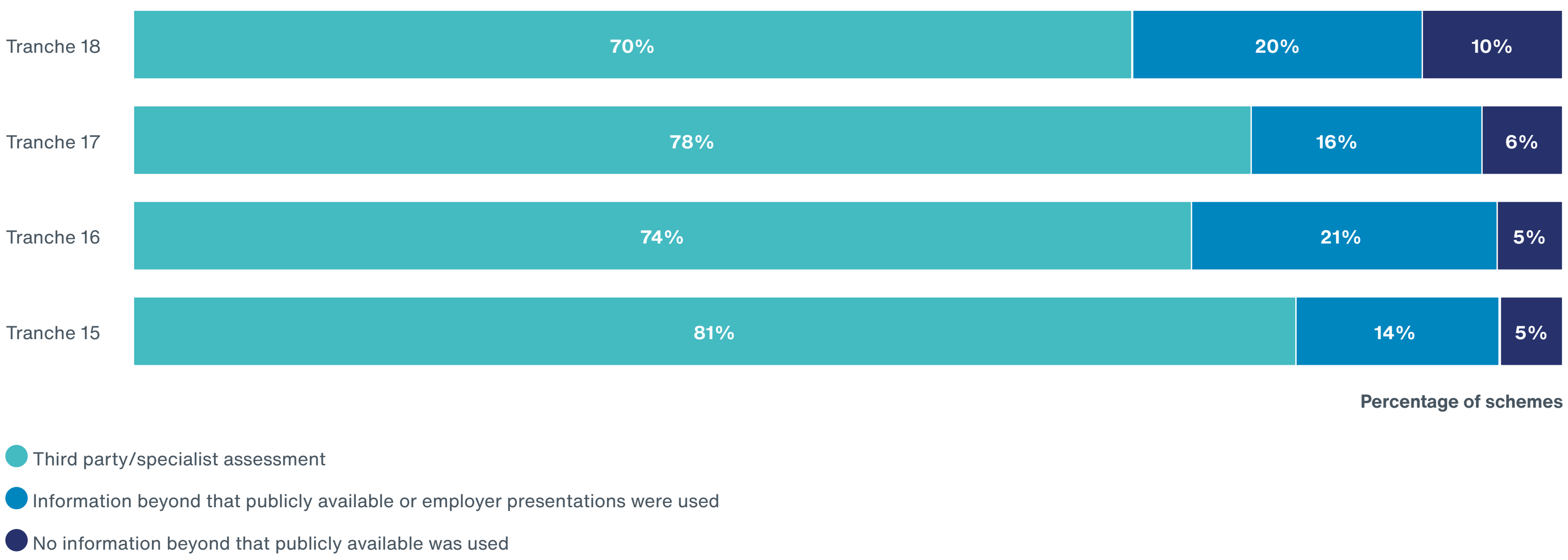
The current Code of Practice states that trustees should understand the strength of the employer covenant, which involves forming a view of the covenant now and how it could develop in the future. Advice should enhance the trustees' understanding and can be focused on areas where trustees are not already confident of the position or able to readily understand it for themselves. The Regulator's revised Code – which will apply 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 is expected to provide further detail on its expectations for covenant assessment, later this year, in updated employer covenant guidance.

Chart 1.3.3 shows that 70% of schemes in tranche 18 used a third party/specialist assessment of the employer covenant, in line with the Regulator's call for an integrated approach.

> 70% of schemes used a third party/specialist assessment of the employer covenant

> 94% of schemes hedged at least 70% of their interest rate risk and 93% hedged at least 70% of their inflation risk, compared to 78% and 79% respectively three years ago

Chart 1.3.3 Covenant assessment - tranches 15 to 18



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.

94% of schemes with tranche 18 valuations hedged at least 70% of their interest rate risk; 93% hedged at least 70% of their inflation risk. For tranche 17, this applied for 90% and 87% of schemes, respectively. For tranche 15, when many tranche 18 schemes' previous valuations were undertaken, this applied for 78% and 79% of schemes respectively.

The revised Code of Practice, published in July 2024 (see section 1.2), indicates that schemes should seek to have a minimum level of interest rate and inflation hedging of 90% in their low dependency asset allocation.

Alongside the publication of its revised Code, the Pensions Regulator published a response to the consultation on its twin track approach to assessing valuations – Bespoke and Fast Track. Fast Track will include an investment stress test with prescribed rules.

Chart 1.3.4 Interest rate hedging, by employer covenant - tranche 18

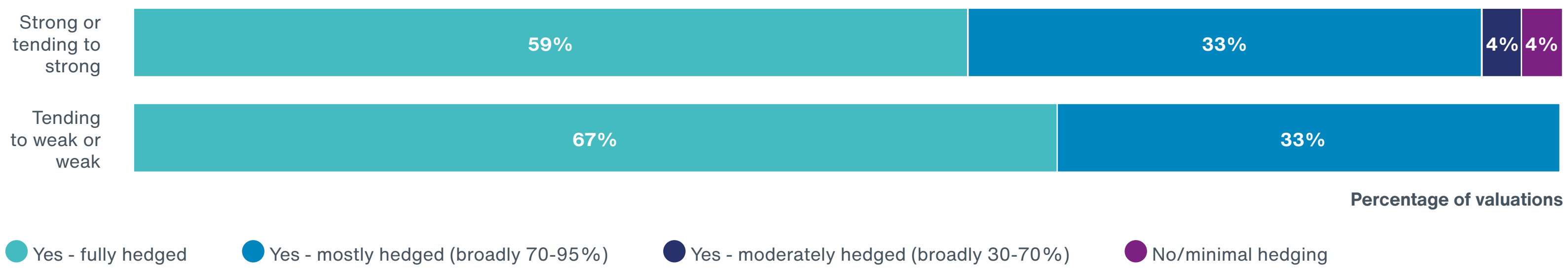
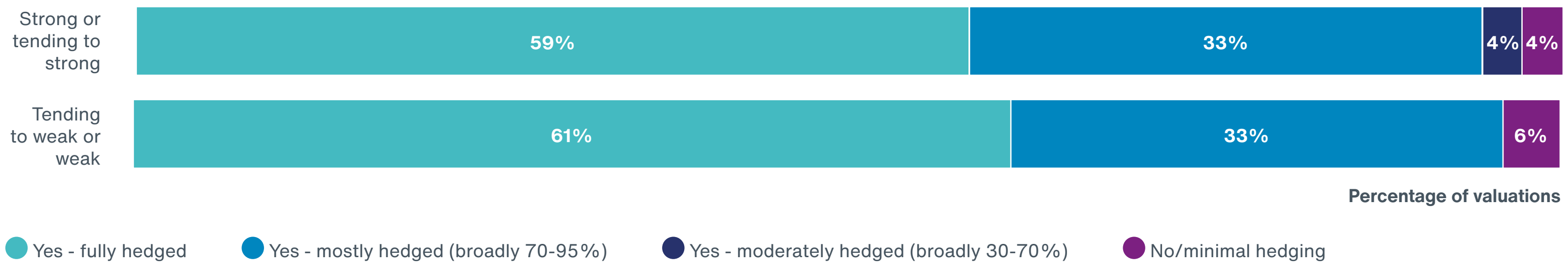


Chart 1.3.5 Inflation risk hedging, by employer covenant - tranche 18

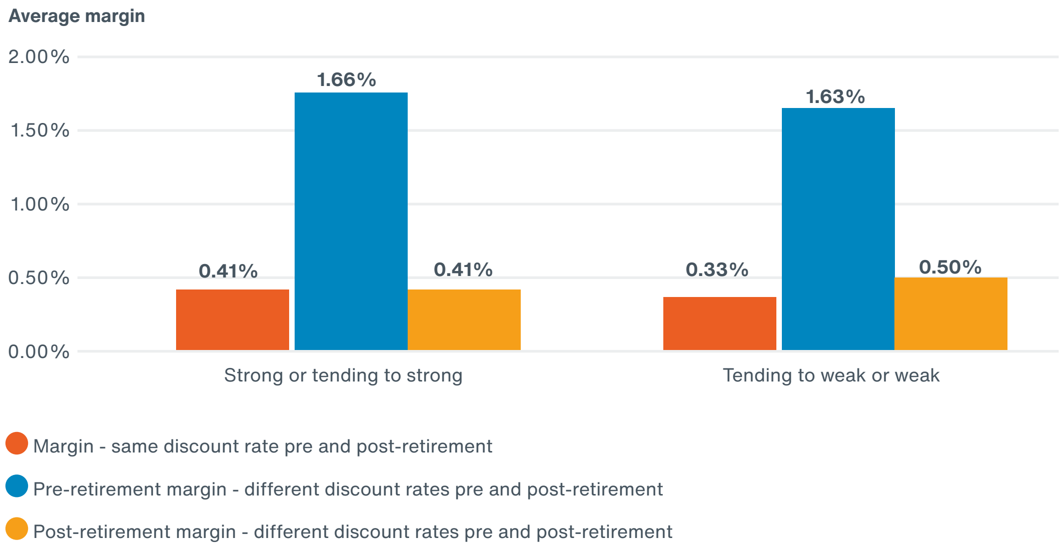


Funding and employer covenant: discount rate and employer covenant

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 18 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 does not provide clear evidence 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 18



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2

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 18 valuations, 38% of schemes derived the margin above a reference yield (gilts for all such valuations in this tranche) 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 38% any margin above (or below) the reference yield was broadly fixed, for 11% a self-sufficiency 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.

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 lower than those for each of the three previous years**

Analysis

For 99% of tranche 18 valuations, a 'yield curve' approach was adopted, whereby the discount rates varied with the term of the cashflows. The large majority (93%) of tranche 18 yield curve valuations were based on gilt yield curves.

Some schemes are using term-dependent margins for discount rates; for tranche 18, 12% 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 18, 70% of valuations allowed for the same margin; this compares to 64% for tranche 17 and 56% for tranche 15, when many tranche 18 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 15	Tranche 16	Tranche 17	Tranche 18
Margin	0.54%	0.52%	0.49%	0.39%

For schemes using a single margin, the average margin over gilts of 0.39% p.a. for tranche 18 was lower than that for tranches 15 to 17.

For schemes using term-dependent margins, 58% 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 18, 30% of schemes used different discount rate margins for pre and post-retirement. Table 2.1.2 shows the average margins, over tranches 15 to 18, for valuations that used different discount rates for pre and post-retirement. The average margins over gilts in tranche 18 were very similar to those for tranche 17, and lower than those for tranches 15 and 16, particularly pre-retirement.

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

	Tranche 15	Tranche 16	Tranche 17	Tranche 18
Pre-retirement	1.91%	1.89%	1.66%	1.65%
Post-retirement	0.48%	0.46%	0.41%	0.41%

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 18 was lower than those for tranches 15 to 17.

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

	Tranche 15	Tranche 16	Tranche 17	Tranche 18
Margin	0.69%	0.65%	0.46%	0.42%

Each year, the Pensions Regulator issues its scheme funding analysis; we expect its 2024 version, covering valuations up to tranche 17, to be published soon. The Regulator's analysis for tranche 18 will be published in 2025. 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.

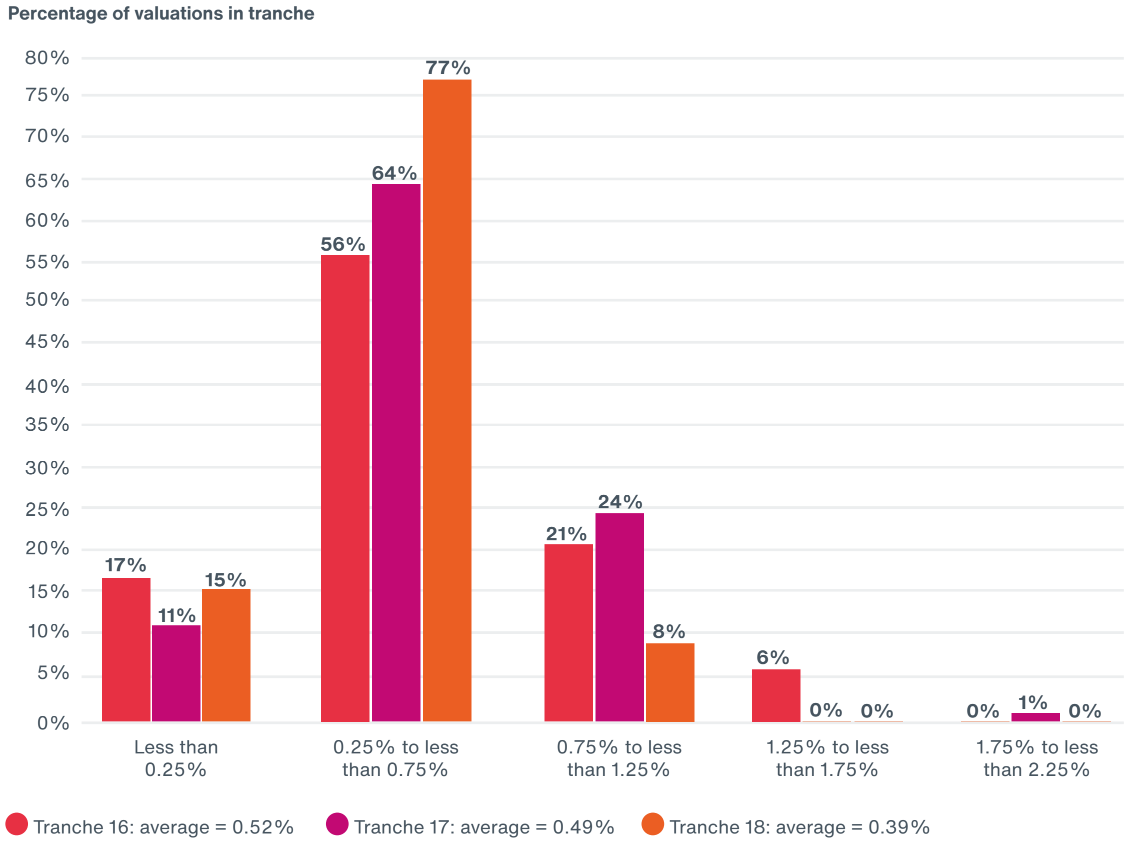
Table 2.1.4 Average single effective discount rate (all valuations)

	Tranche 15	Tranche 16	Tranche 17	Tranche 18
In Depth valuations	1.58%	1.75%	2.18%	4.27%
All valuations in Pensions Regulator's analysis	1.91%	1.86%	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 16 to 18, under the two approaches set out above.

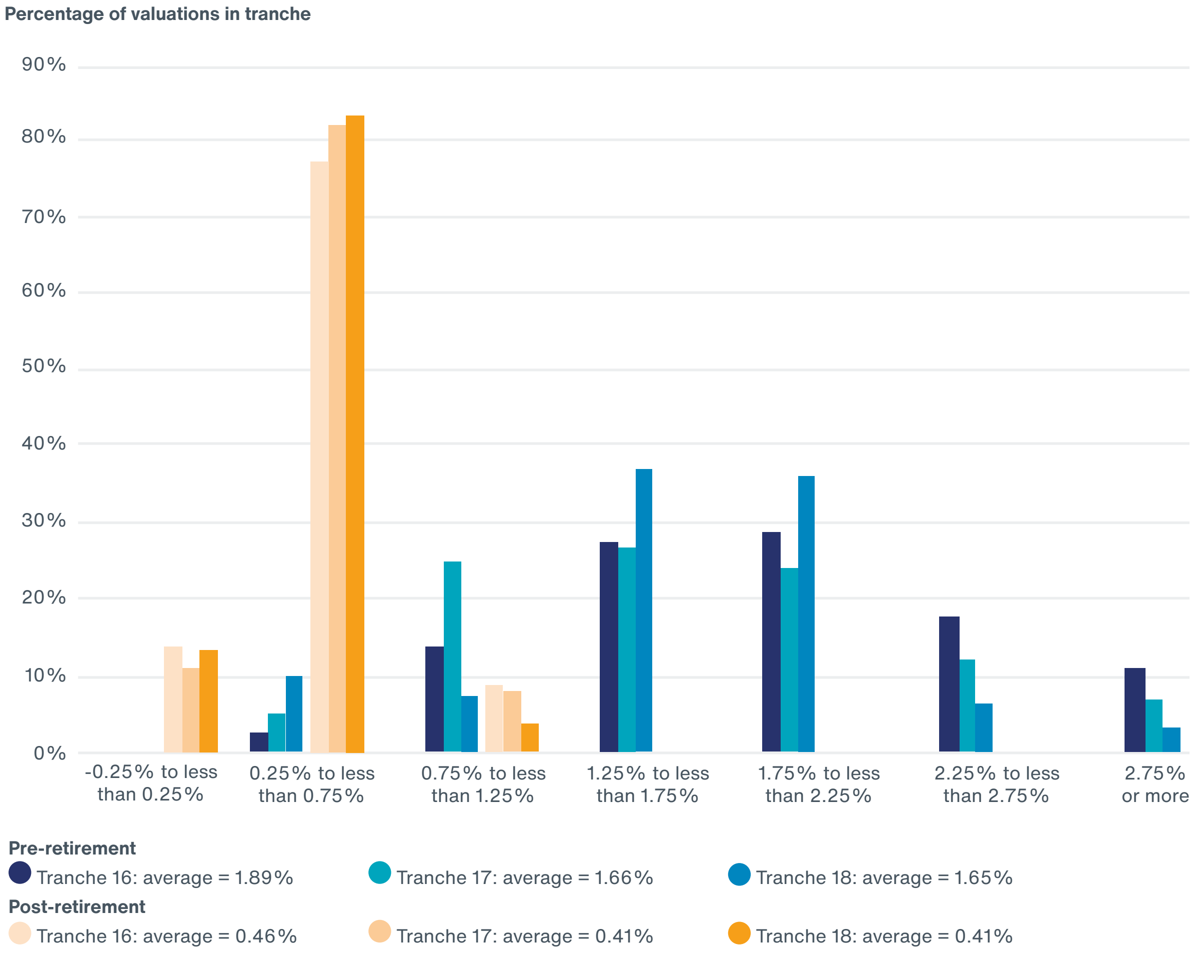
In charts 2.1.1 and 2.1.2, a convergence of the discount rate (post-retirement in 2.1.2), to around 'gilts + 0.5%', is evident over the past few years. This is consistent with the parameters for a low dependency funding basis for Fast Track compliance set out in the Regulator's July 2024 response to its consultation on its regulatory approach.

Chart 2.1.1 Margin over gilts (where single margin pre and post-retirement) – tranches 16 to 18



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 7%.

Chart 2.1.2 Margin over gilts: pre and post-retirement (where different discount rates used) – tranches 16 to 18



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'. 4% of schemes allowed for an inflation risk premium in tranche 18. This is similar to tranche 17 (5%) but lower than for tranche 15 (13%) when many tranche 18 schemes' previous valuations were undertaken. On average, where an adjustment was applied, it was 0.22% p.a. for tranche 18, 0.15% p.a. for tranche 17 and 0.18% p.a. for tranche 15.

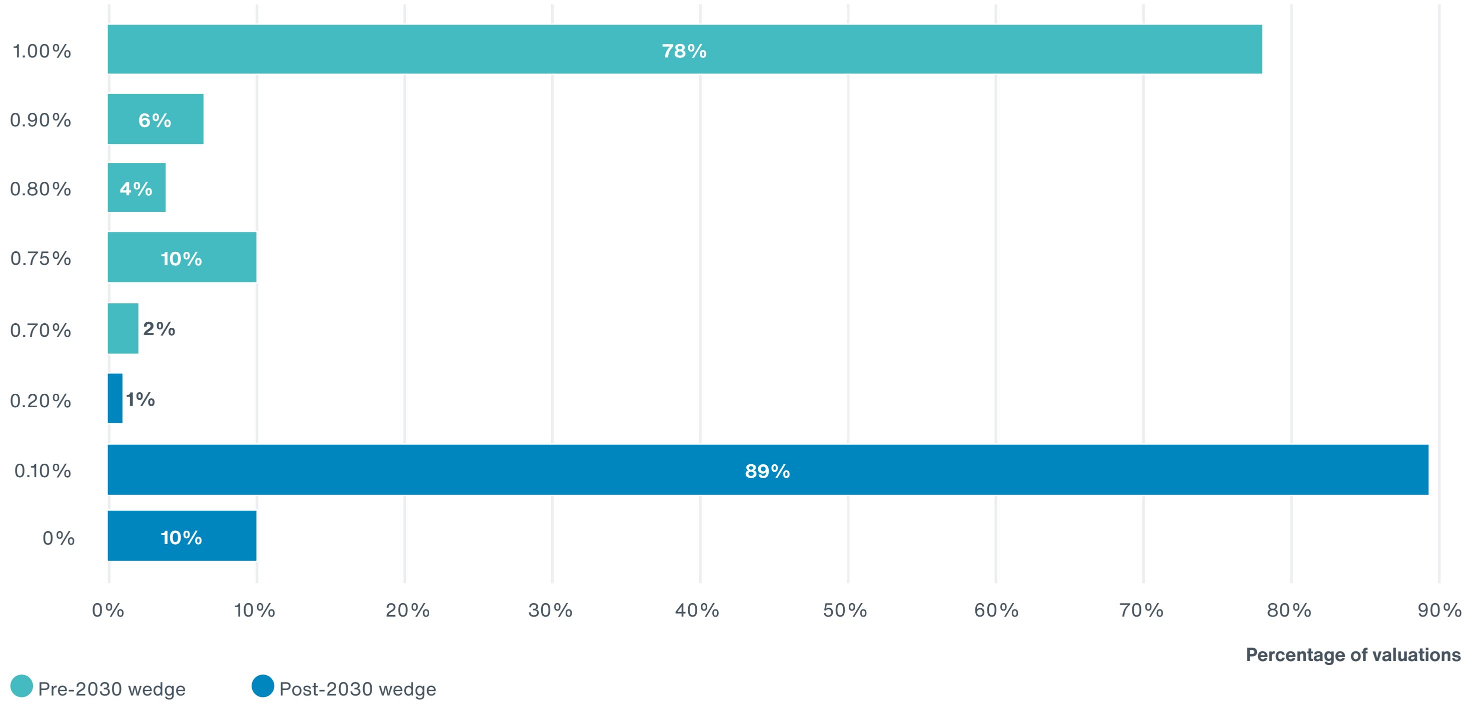
As schemes increasingly hedge inflation risk, and so can no longer justify an assumption that does not reflect a 'break-even' market rate, this may be reflected in a longer-term decline in the use of such an adjustment.

> **The average difference between RPI and CPI assumptions was 0.95% p.a. for the period before 2030 and 0.09% 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 18 valuations, the difference between the RPI and CPI assumptions (the 'wedge') averaged 0.95% p.a. for the period before 2030 and 0.09% p.a. post-2030. The assumption ranged between 0.7% p.a. and 1.0% p.a. pre-2030 and between 0% p.a. and 0.2% p.a. post-2030.

Chart 2.2.1 Difference between RPI and CPI assumptions, pre and post-2030 - tranche 18



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 2.3 Mortality

The CMI (Continuous Mortality Investigation) published the 'S3' mortality tables in 2018. The tables are based on the mortality of pensioners of self-administered pension schemes. They were used for all tranche 18 valuations. The CMI published the 'S4' tables in February 2024; we would expect these to be used for future valuations.

Where the S3 mortality tables were used, standard tables were used for 53% of valuations, 21% used 'heavy', 15% used 'mid', 10% used 'light' and 1% used 'very light'.

Aon's Demographic Horizons™ longevity model was used for 82% of tranche 18 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.

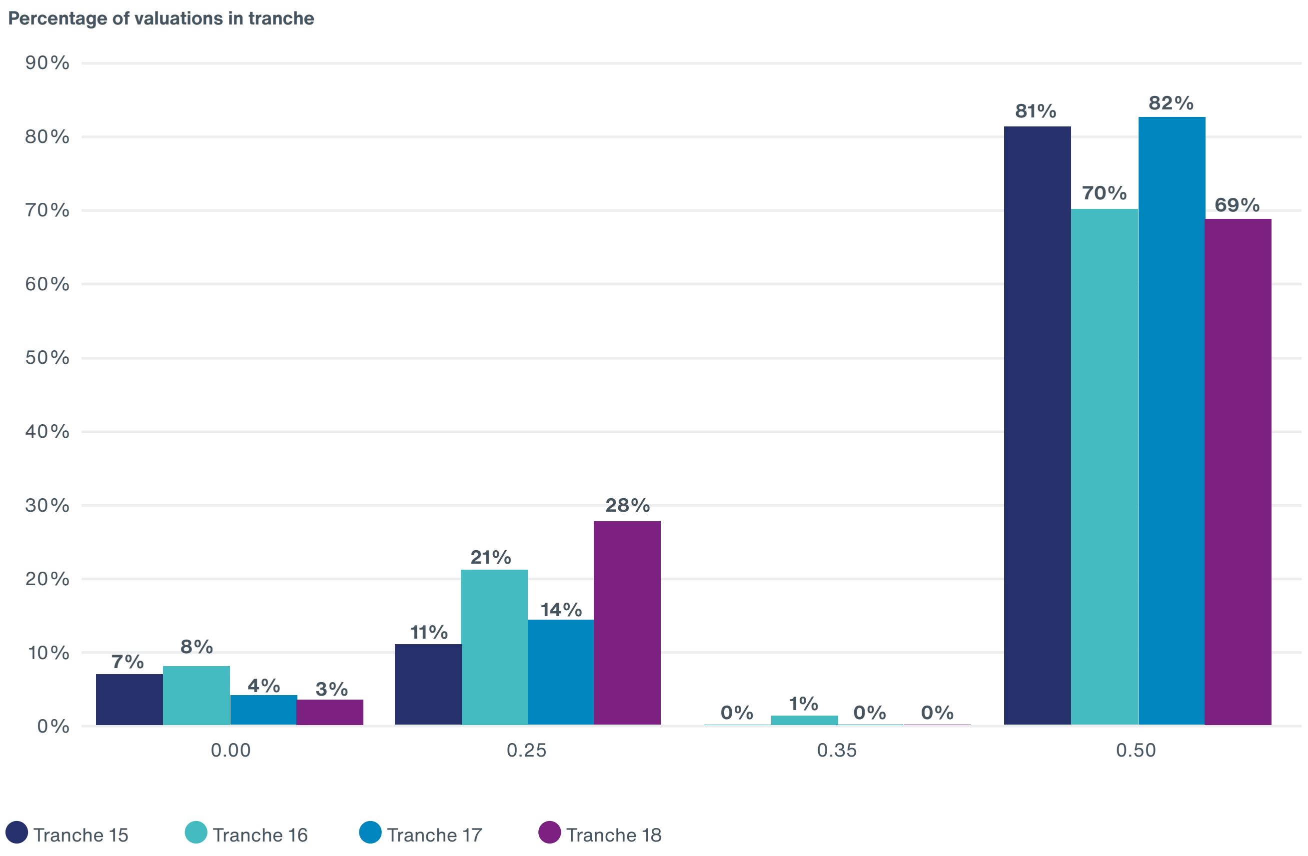
A mortality scaling factor adjustment (e.g. to reflect a change in mortality outlook allowing for the impact of Covid-19) was included in 37% of valuations in tranche 18, compared to 61% in tranche 17.

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 18 valuations. The CMI_2022 version was used for 61% of valuations; CMI_2021 was used for the other 39%.

Since CMI_2018, CMI models have allowed users to increase or decrease the initial rate of improvement by a fixed amount, using parameter 'A'. Chart 2.3.1 shows that 69% of the tranche 18 valuations used 0.50% for this parameter.

> **The average assumed life expectancy was 0.3 years shorter than three years ago, when many schemes' previous valuations were undertaken**

Chart 2.3.1 Parameter 'A' applied to CMI models – tranches 15 to 18



CMI models also allow for the input of a smoothing parameter (Sk). In tranche 18, all valuations used 7.0 for Sk (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 15 to 18. (We excluded a small number of valuations – one in each of tranches 15 to 17 - that used improvement factors that differed for males and females.)

The average long-term improvement for tranche 18 was 1.57% p.a.; it was 1.56% p.a. for tranche 15, when many tranche 18 schemes' previous valuations were completed.

Chart 2.3.2 Long-term improvements applied to mortality table - tranches 15 to 18

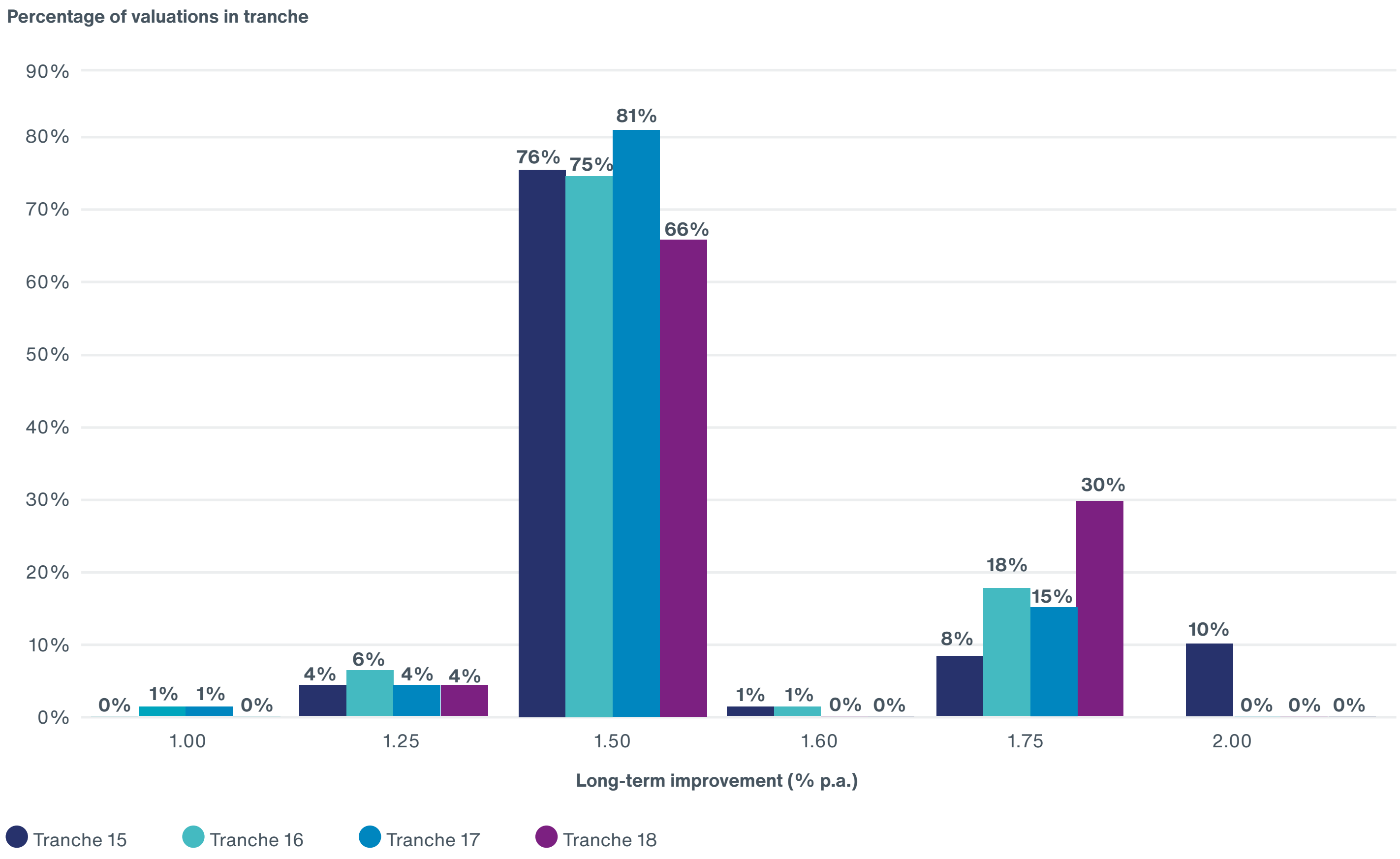
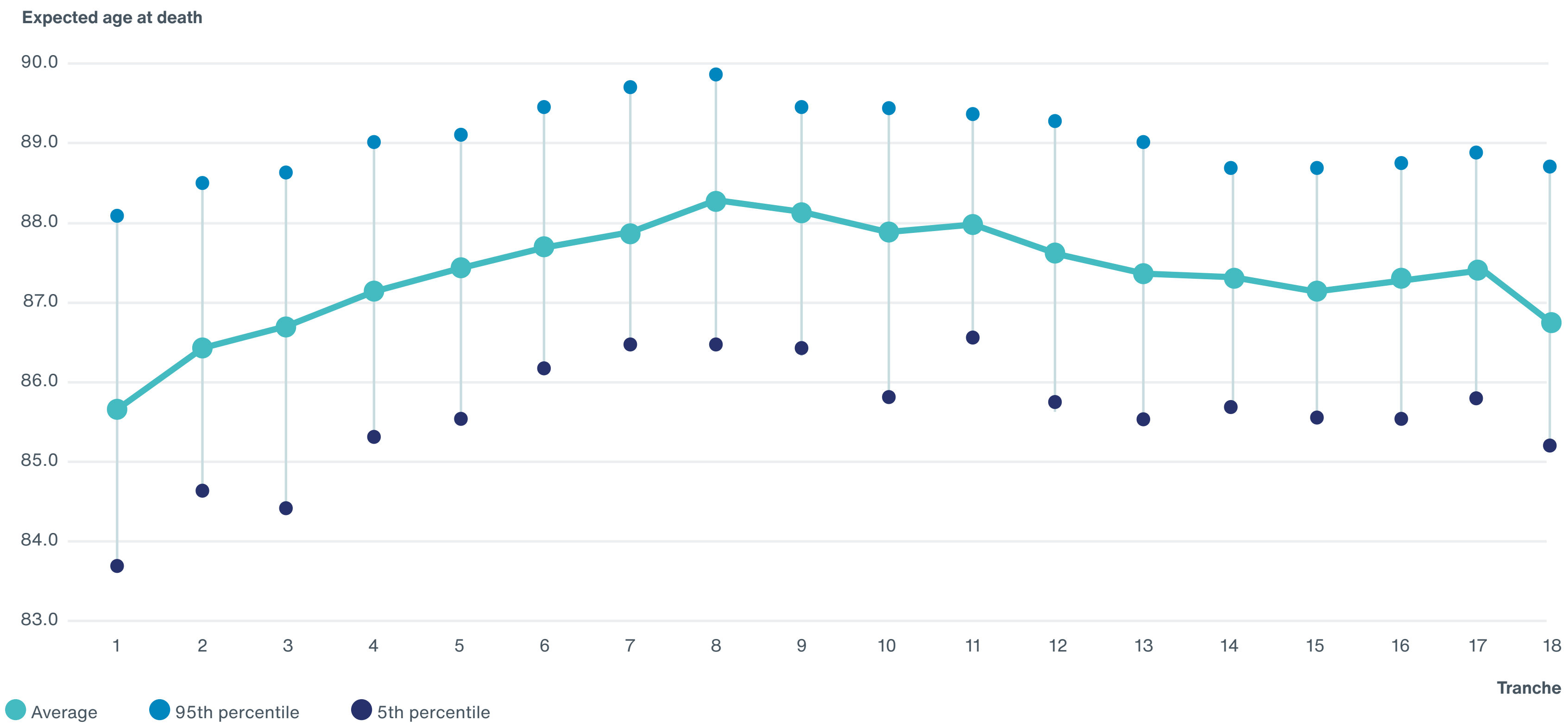


Chart 2.3.3 illustrates how expectations of longevity have been reflected in the assumptions adopted by trustees since the current funding regime was introduced. For tranche 18 valuations, the average assumed life expectancy of a male aged 65 was 1.2 years higher than for tranche 1. However, between tranches 8 to 18 (which covers over three triennial valuation cycles), 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 typically allow for an increase of around 0.2 years over a period of three years. However, between tranche 15, when many tranche 18 schemes' previous valuations were completed, and tranche 18, the average assumed life expectancy fell by 0.3 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

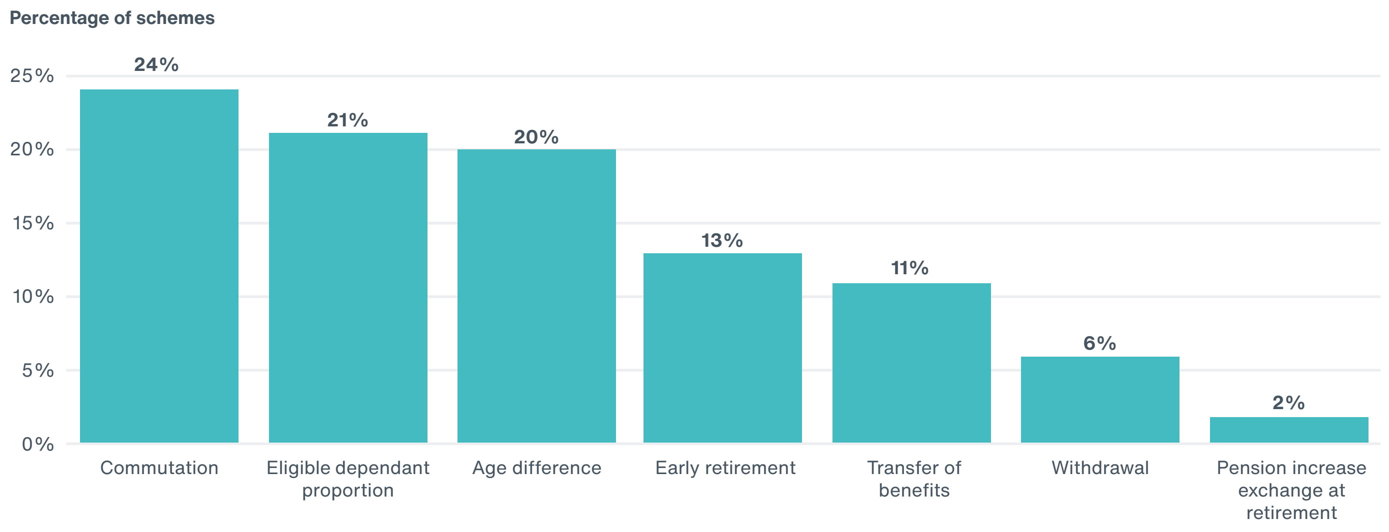
Schemes commonly carry out analysis, either alongside or in advance of the valuation, to determine how the demographic assumptions used at the previous valuation compare to the actual experience of members. For example, they may consider how many members are retiring early and at what ages, the proportion 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 30% of tranche 18 schemes, an analysis of experience was carried out in respect of one or more demographic assumptions other than mortality; such analysis was carried for 47% of tranche 17 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 18, 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 7% of schemes with tranche 18 valuations, and allowed for in the technical provisions assumptions for one valuation.

Chart 2.4.1 Analysis of experience - tranche 18



Digital support

Online modellers

Digital support has become a key part of the member journey, with an increasing number of pension schemes providing support to members through online educational tools. At Aon, we have two tools to support members in making informed choices so they have the best possible retirement. At retirement, the **Aon Retirement Options Model (AROM)** helps members compare their retirement options. For pensioners, the **Aon PIE Modeller (APM)** provides support for members who are offered a Pension Increase Exchange ("PIE").

Across our online modellers we support over **75,000 members** using pre-loaded member specific data.

Digital tools support:

- **Increased engagement from members throughout their retirement journey**
- **Improved member education and more informed decisions**
- **Consistency with increased use of technology across other areas of life.**

Aon Retirement Options Model ("AROM")

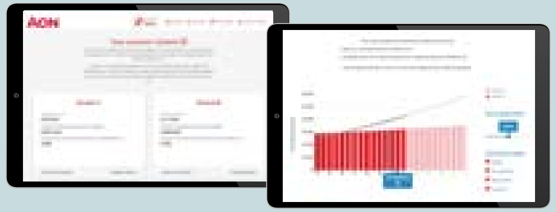
With more Defined Benefit (DB) pension schemes now offering greater flexibility for their members, members can compare the options available to them with **AROM**.

The easy-to-use, educational, online tool is designed to make complex retirement options simple. AROM is a simple side-by-side comparison of members' options inside and outside of the scheme. Members can then interactively explore the flexibilities of each option to understand which one may best suit their own personal circumstances before speaking to an IFA if they wish to explore their options outside of the scheme further.

Aon PIE Modeller ("APM")

Many DB pension schemes are carrying out bulk PIE exercises. Members value the choice these exercises provide around how they can receive their benefits. For schemes and sponsors, PIE exercises typically speed up the journey to long-term targets and can also be run in combination with GMP conversion to provide member choice and support as part of GMP equalisation.

In 2022 we launched **APM** to help pensioner members receiving PIE options understand their choices. It is designed to ensure members make informed decisions and provides a simple side-by-side comparison of pension options. Members can explore an interactive graph of their projected pension income, with the ability to change the key assumptions to better understand how their income might change in the future.



After using the tools, members are presented with clear next steps and the option to request a call back from the scheme's preferred IFA.

Here is what members think:

> *"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."*
>
> *"Good illustrations, visuals and road-mapping. Wish I'd had it sooner!"*
>
> *"Very clear and explains your options very well. Not too much jargon. A real help in making my decision."*

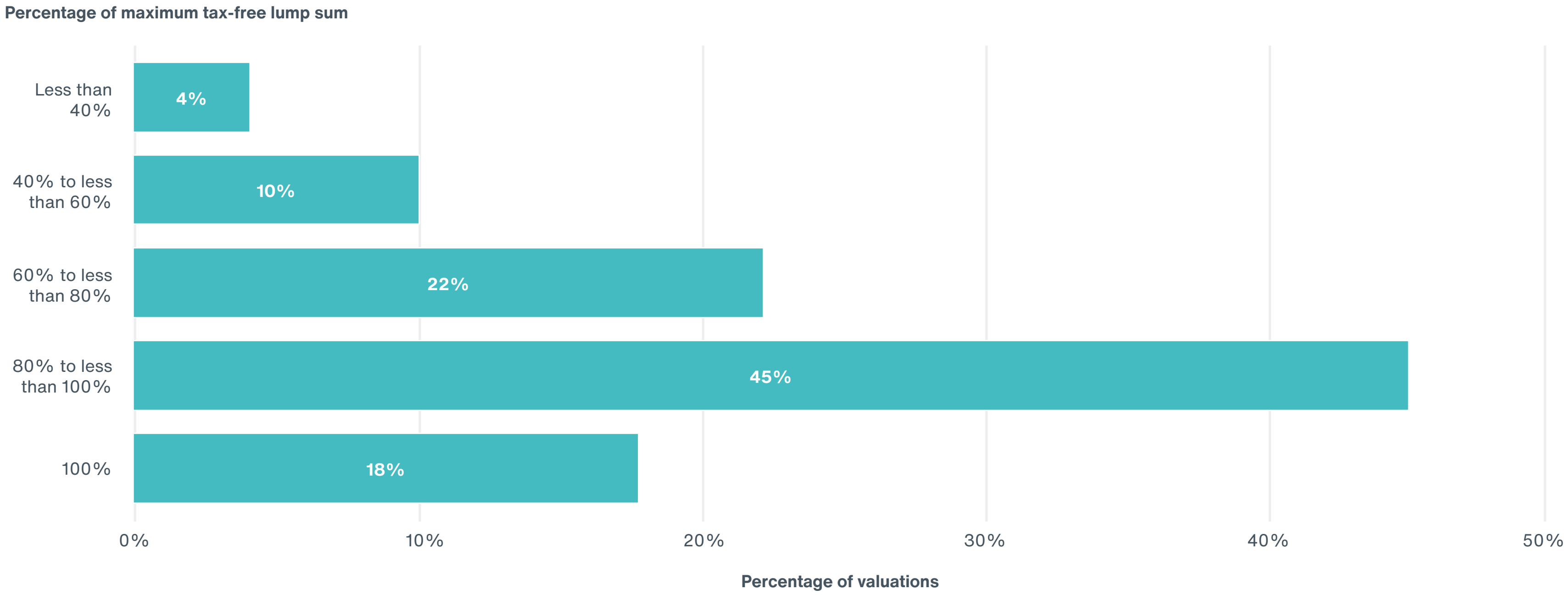
To understand how online modellers could help your members and receive a demo of the tools, please call your usual Aon consultant or email us at **memberoptions@aon.com**.

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 80% of tranche 18 valuations, and in 88% of tranche 17 valuations.

Where allowance was made for commutation under tranche 18 valuations, the average allowance, across all members of a scheme, was 78% of the maximum tax-free lump sum. Chart 2.4.2 shows the distribution.

Chart 2.4.2 Commutation allowance, where allowance made - tranche 18



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.

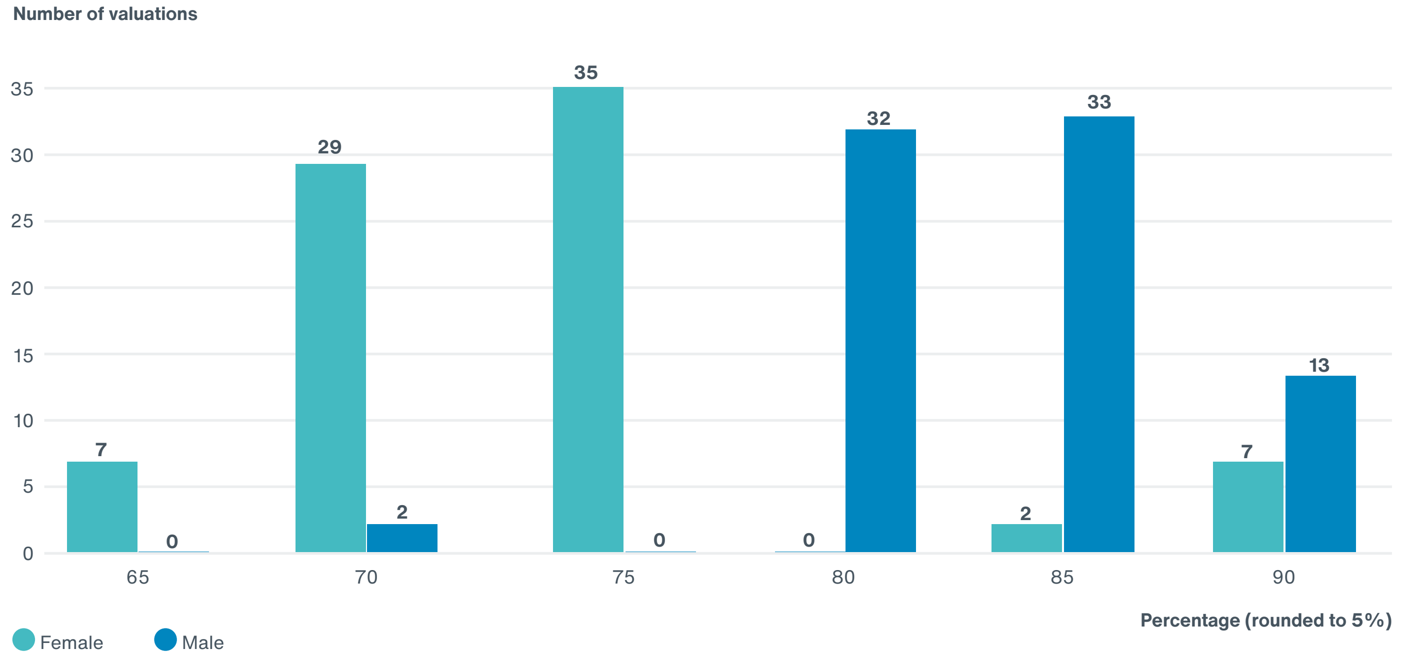
Chart 2.4.3 sets out the assumptions used in tranche 18 valuations for male and female members (rounded to the nearest 5%). The average percentage was 83% for males and 74% for females.

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 18, male pensioners were assumed to be three years older than female partners for 87% of valuations (with four years older for 9% and two years older for 5%). Female pensioners were assumed to be one year younger than male partners for 76% of valuations (with three years younger for 20% and four years younger for 1%, and the same age for 2%).

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 18



Data cleaning

Our clients often clean their scheme member data in advance of a valuation. This may involve exercises such as those set out. 45% of tranche 18 schemes carried out a data cleaning exercise in the last three years. Where an exercise had not been undertaken, one was planned for 25% 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 likely to be required 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	

2.5 The funding level

The average funding level for valuations in tranche 18 was 103% 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, and it was the first time that the average funding level was over 100%.

The change over the typical valuation cycle, from tranche 15 to tranche 18, indicated an improvement in the average funding level, from 92% to 103%, and an increase in the percentage of schemes for which the technical provisions were fully funded, from 34% to 65%.

> “The average technical provisions funding level – 103% – and the proportion of schemes in surplus – 65% – were both higher than for any previous year since the start of the current 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
Average funding level	86%	92%	88%	75%	86%	88%	84%	84%	92%	92%	89%	91%	91%	92%	92%	92%	97%	103%
Percentage of schemes fully funded	16%	23%	21%	4%	17%	16%	9%	11%	27%	31%	20%	23%	32%	32%	34%	42%	44%	65%

Chart 2.5.1 Risk Analyzer - funding level divergence by quartile - tranche 18

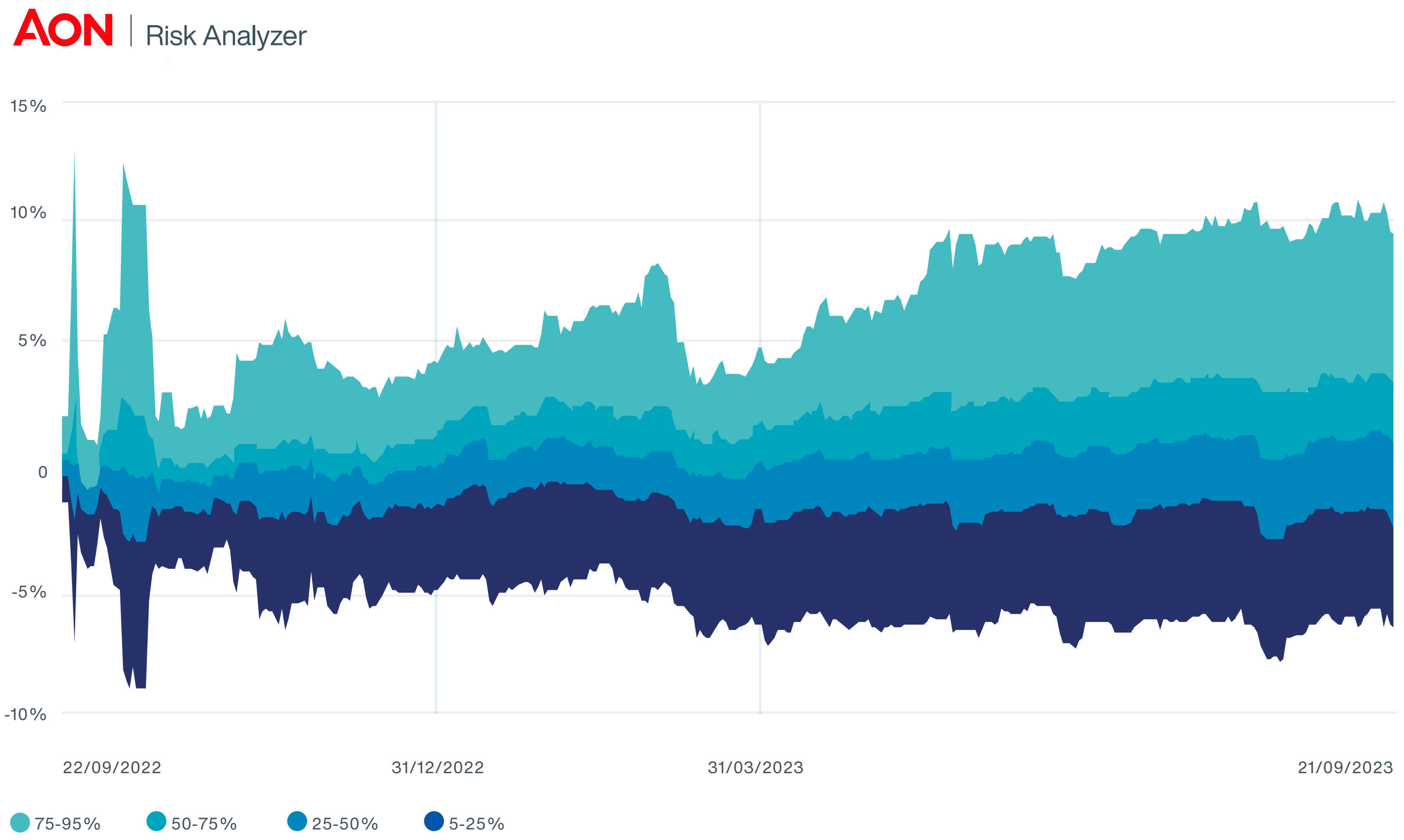


Chart 2.5.1 shows the change in funding level of a range of clients using our Risk Analyzer software over the tranche 18 period. The average (median) scheme saw little change in its funding level but there was variation between schemes.

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

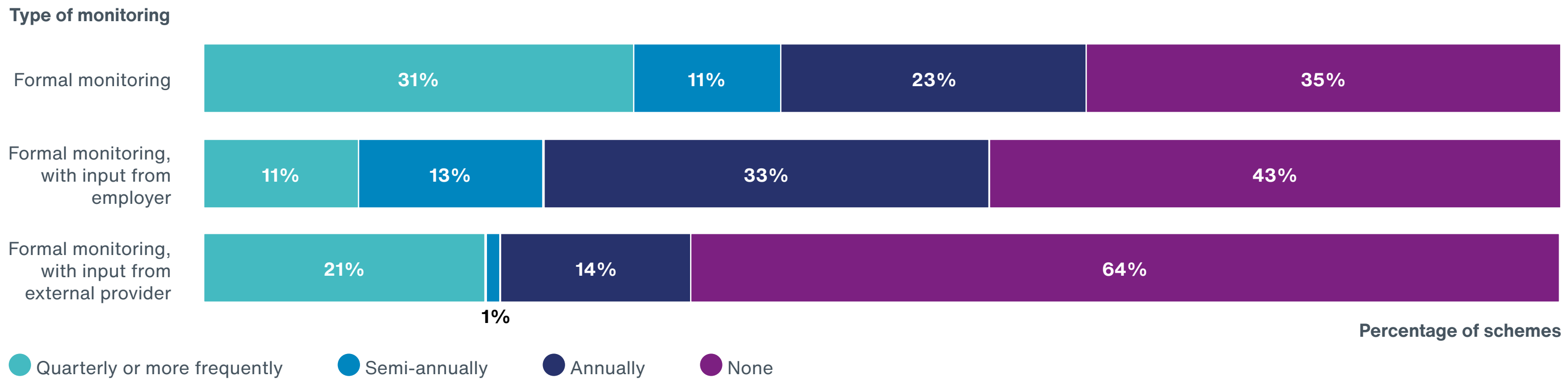
The Regulator's Code of Practice and guidance on Integrated Risk Management recognise that risk management should be an ongoing process, as material changes can occur between valuations. It encourages trustees to have a monitoring framework in place to identify quickly any changes in the scheme environment 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 (65%) with tranche 18 valuations formally monitor employer covenant between valuations at least annually. 57% of all schemes do so with the input of the employer and 36% with the input of an external provider.

Chart 2.5.2 Frequency of formal monitoring of covenant between valuations - tranche 18

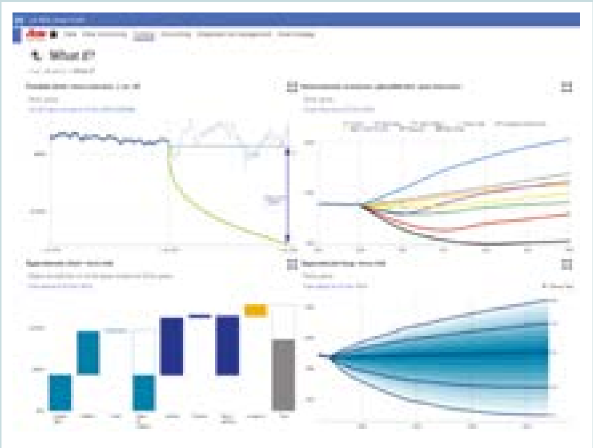


Risk Analyzer

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 over 900 plans with £750 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

The recovery period, contingent security and the assumptions

3 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 18 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 18 valuations in deficit was 3.0 years, which is shorter than that for tranche 17 valuations (4.1 years).

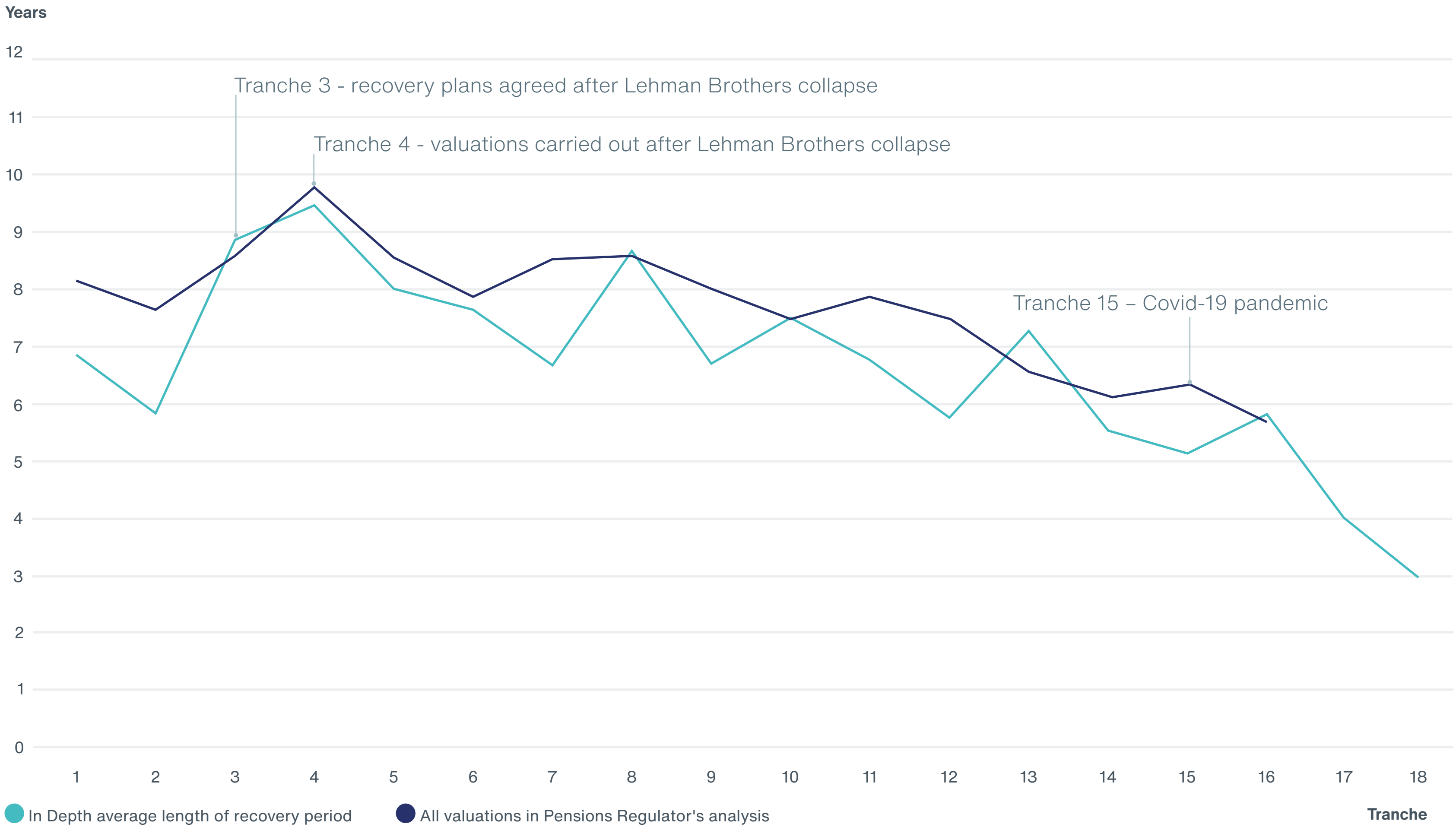
The average tranche 18 recovery period was 2.2 years shorter than that for tranche 15, when many tranche 18 schemes' previous valuations were undertaken. The percentage of schemes requiring a recovery plan fell from 66% to 35%.

Chart 3.1.1 shows how the average recovery periods have changed since the introduction of the current 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.

> **For schemes in deficit, the average recovery period, of 3 years, was 2.2 years shorter than three years ago, when many schemes' previous valuations were undertaken; the percentage of schemes requiring a recovery plan fell from 66% to 35%**

Chart 3.1.1 Average length of recovery period, by tranche



The recovery plan 3.1 The recovery period

Chart 3.1.2 illustrates the distribution of the lengths of recovery periods for tranches 16 to 18. Although the average recovery period has reduced, there are still some schemes with longer recovery periods. In tranche 18, for the first time, no scheme had a recovery period of 10 years or more.

Chart 3.1.2 Length of recovery period - tranches 16 to 18

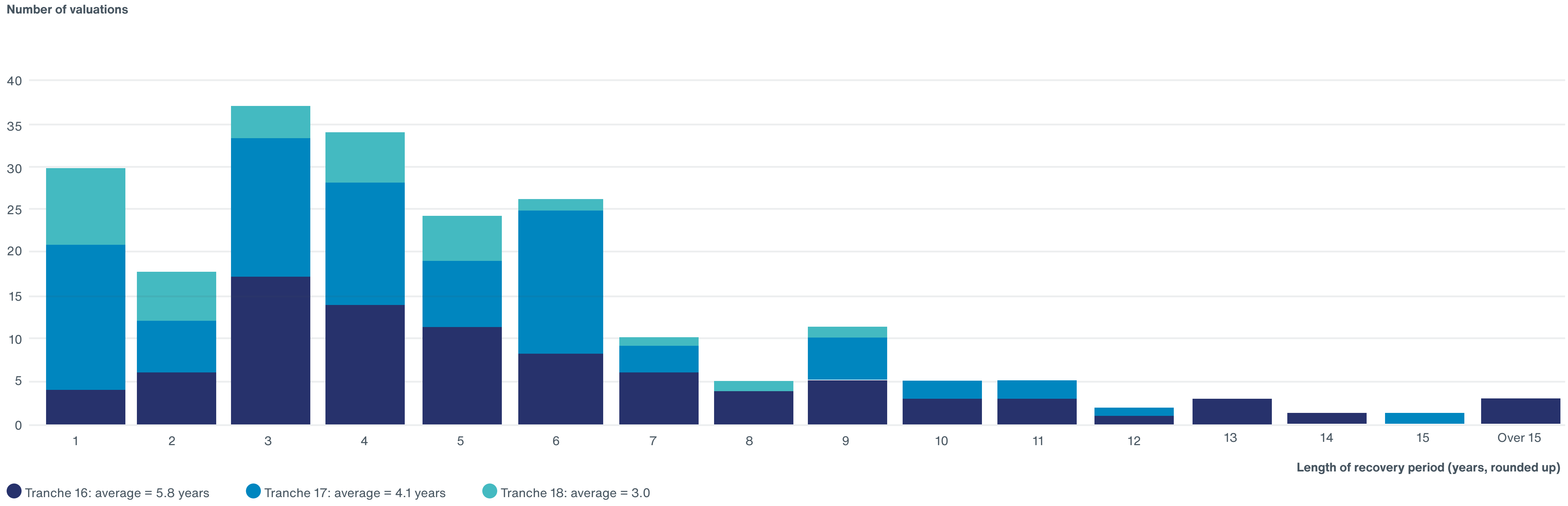
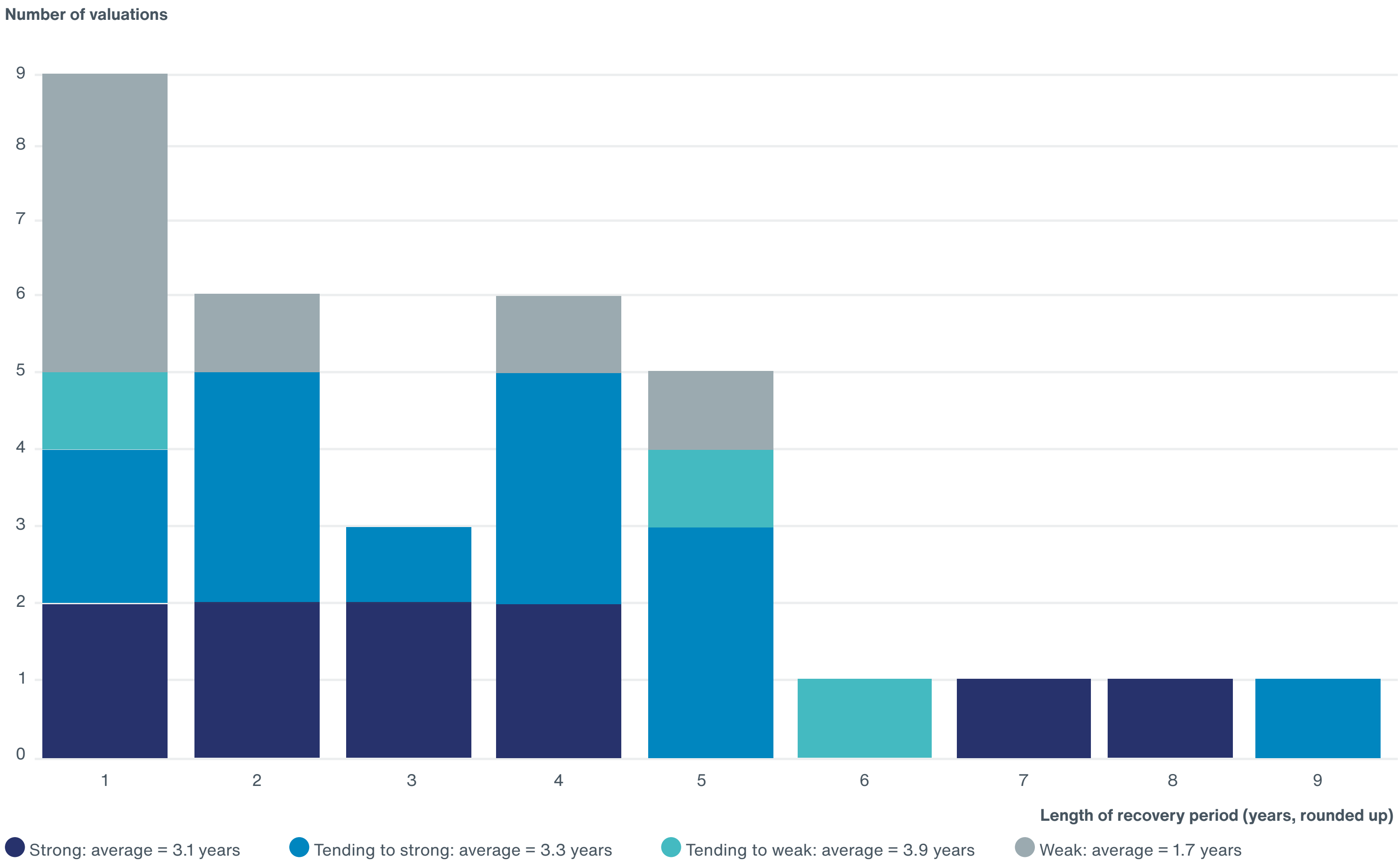


Chart 3.1.3 Length of recovery period, by employer covenant - tranche 18



The recovery periods for tranche 18 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 weak employer covenant, the average recovery period agreed was lower than the overall average. However, the number of such schemes was relatively small.

Affordability was considered a constraint on deficit reduction contributions (DRCs) for 47% of schemes in deficit in tranche 18; for tranche 17, it was 70%. For only 1% of tranche 18 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 17, it was 8%.

3.2 Contingent security

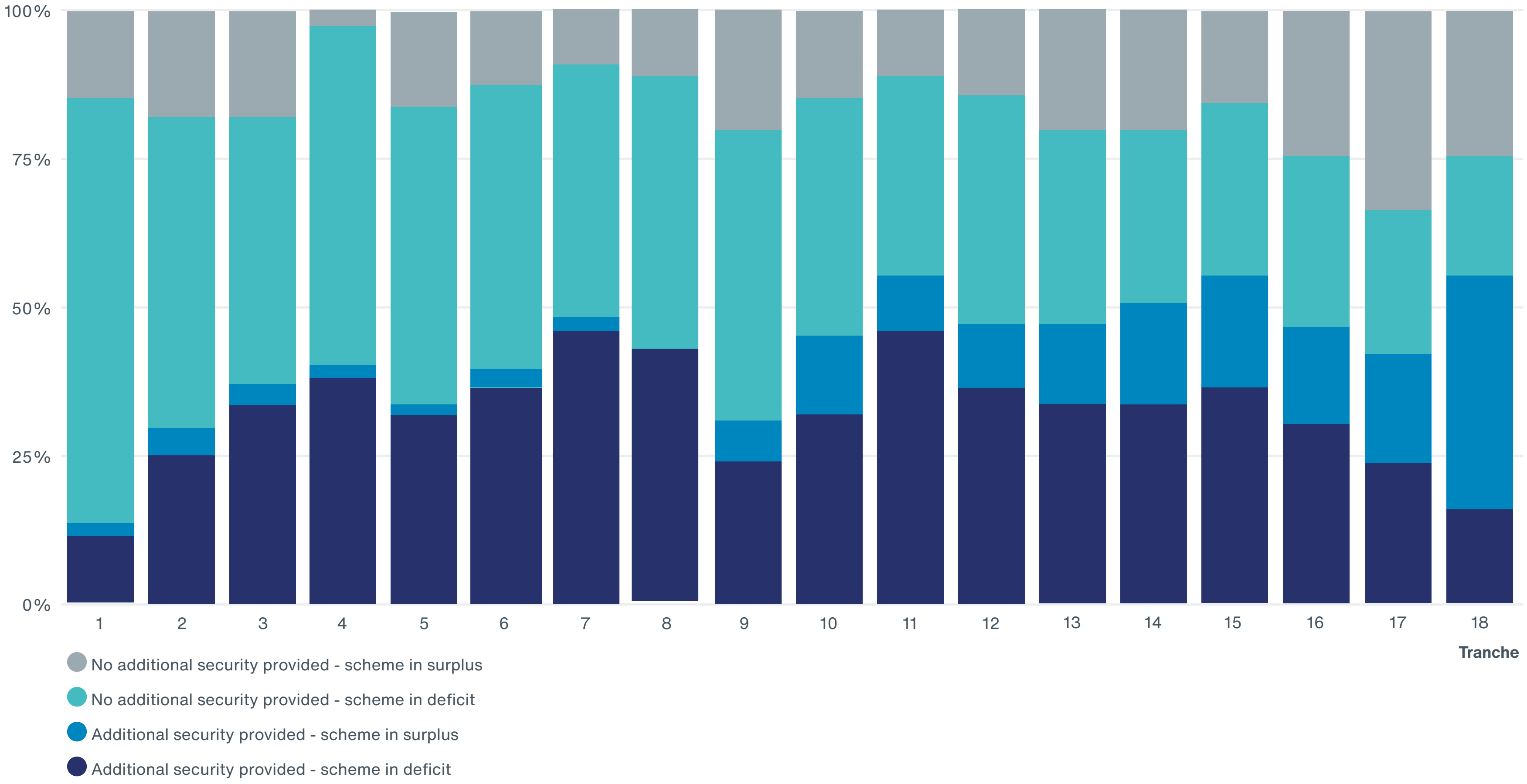
The Regulator's current Code of Practice recognises that trustees may seek alternative forms of security from the employer to protect the scheme in the event of the employer becoming insolvent before the deficit is fully paid off. It states that the trustees should consider the value, terms and enforceability 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 – which will apply to valuations from tranche 20 – 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 18, 55% 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 18 was greater than for tranches 16 and 17, and very similar to that for tranche 15 when many tranche 18 schemes' previous valuations were undertaken. For the first time, in tranche 18, the majority of schemes with such arrangements (71%) were in surplus.

> **"The proportion of schemes with contingent security has remained reasonably stable despite improving funding levels and, for the first time, the majority of schemes with such arrangements (71%) were in surplus**

Chart 3.2.1 Additional security provided to schemes – by tranche



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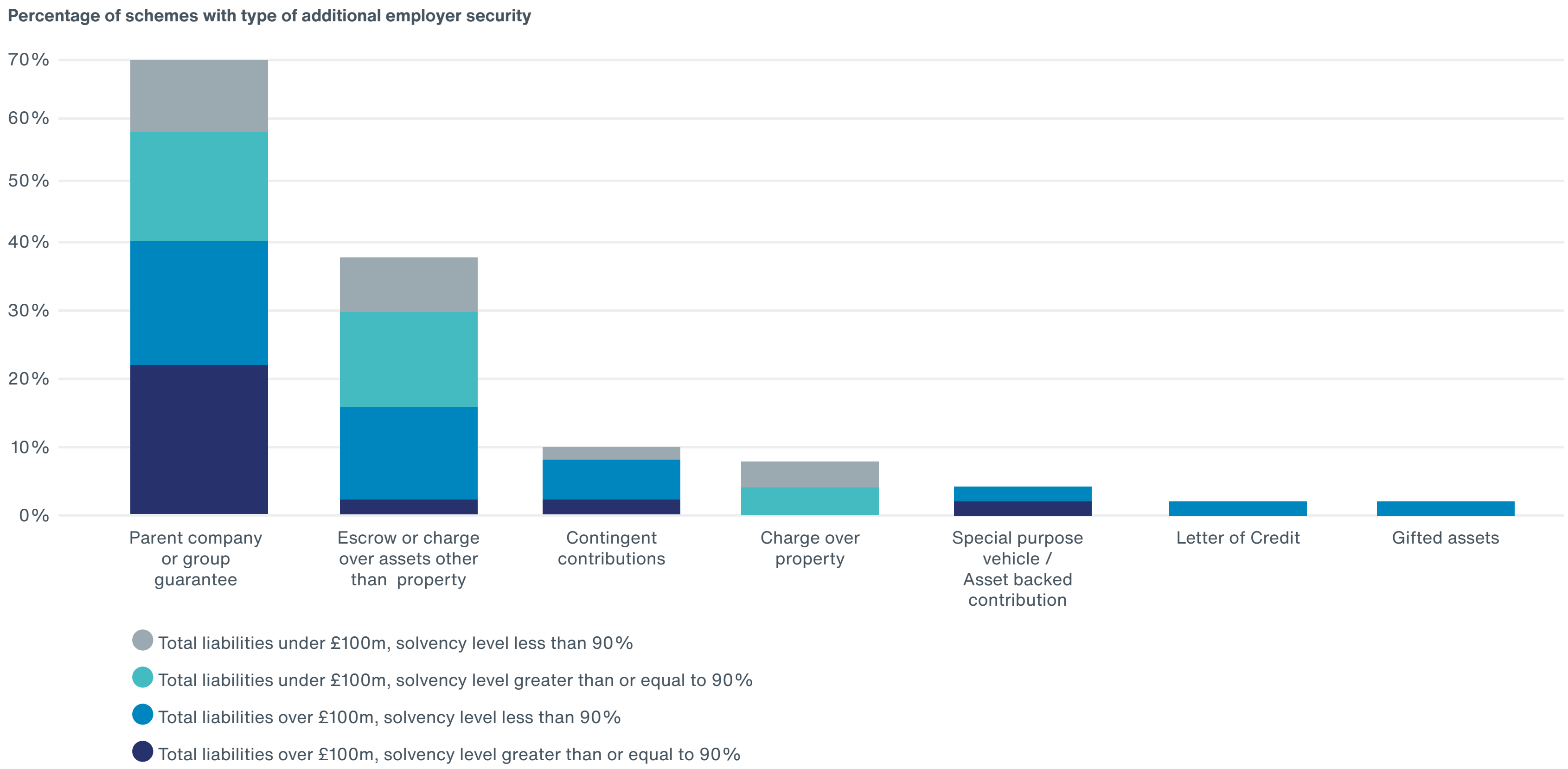
Contingent security was used by 44% of schemes in deficit and 61% of schemes in surplus, for tranche 18. As many schemes have moved into surplus, for some, the focus has turned to the potential for trapped surplus; non-cash security may mitigate the risk of over-funding as schemes get better funded and 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 similarly prevalent among the largest schemes and smaller schemes in tranche 18. 54% of schemes with technical provisions of over £100m and 56% 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 with relatively low funding levels used the widest range of such arrangements. Charges over property were used exclusively by smaller schemes.

Chart 3.2.2 Types of additional employer security provided to schemes - tranche 18

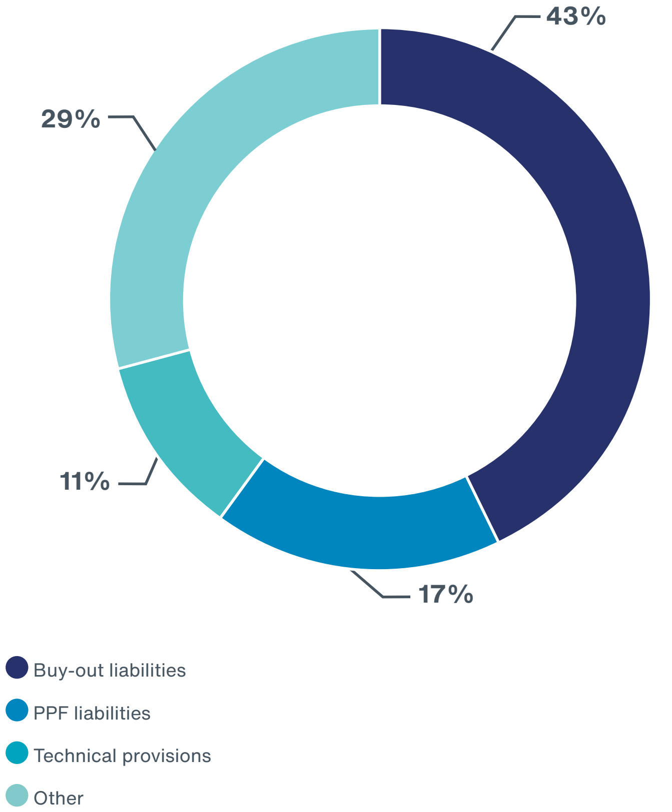


3

Contingent contributions included payments dependent on the funding level – on the technical provisions or a gilts+0% basis – or on the scheme's long-term funding target.

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.

Chart 3.2.3 Types of parent company or group guarantee - tranche 18



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 18, 9% of schemes had such a PPF-compliant Type A contingent asset.

For tranche 18, in line with previous tranches, the primary reason for the provision of additional security was to add security in relation to the covenant. However, for some schemes, the primary reason was that the employer wanted greater investment risk to be taken by the scheme.

3 3.3 The assumptions

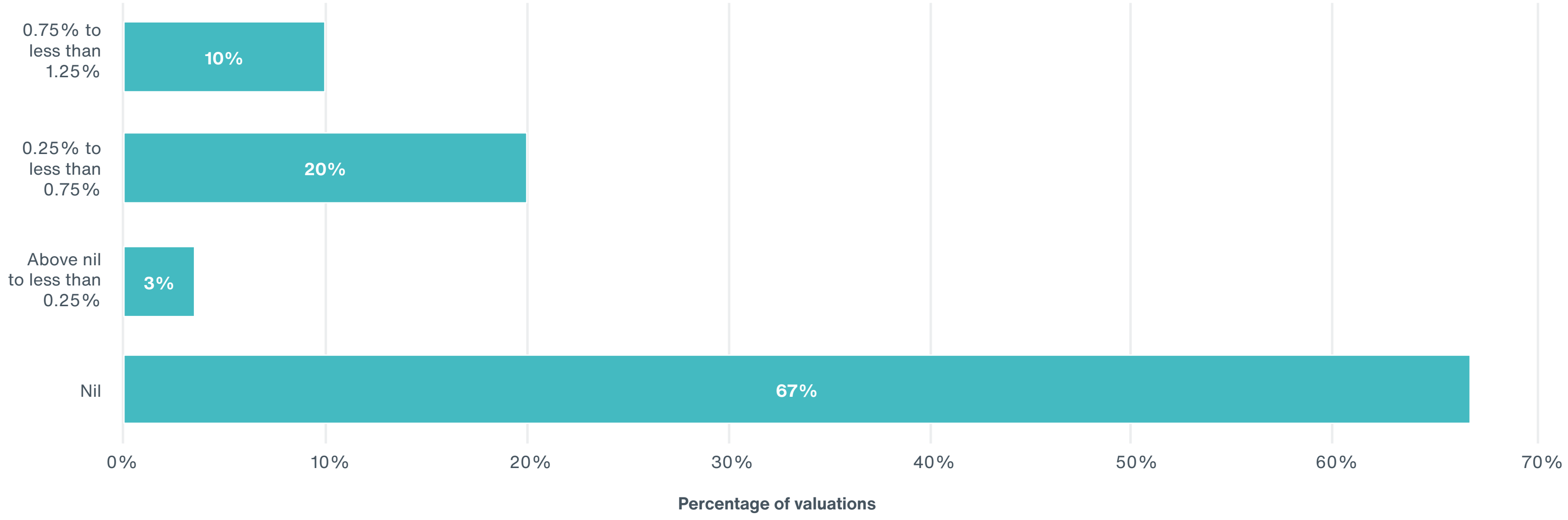
When formulating a recovery plan, trustees are permitted to adopt an expected return on assets that differs from the discount rate (or rates) used for technical provisions, which the legislation requires to be 'chosen prudently'. The trustees may determine that it is appropriate to allow for most or 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 33% of tranche 18 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 17, 57% of recovery plans allowed for an element of additional return, which was 0.5% p.a. on average. The proportion of schemes allowing for additional returns has reduced significantly. However, where such an allowance was made, the extent of that allowance has increased on average.

"

The proportion of recovery plans including an element of additional return in excess of the discount rate reduced significantly, to 33%

Chart 3.3.1 Allowance over discount rate for investment returns in recovery plan - tranche 18



4

Looking ahead

Looking ahead to 2024 valuations, and beyond

4 Looking ahead

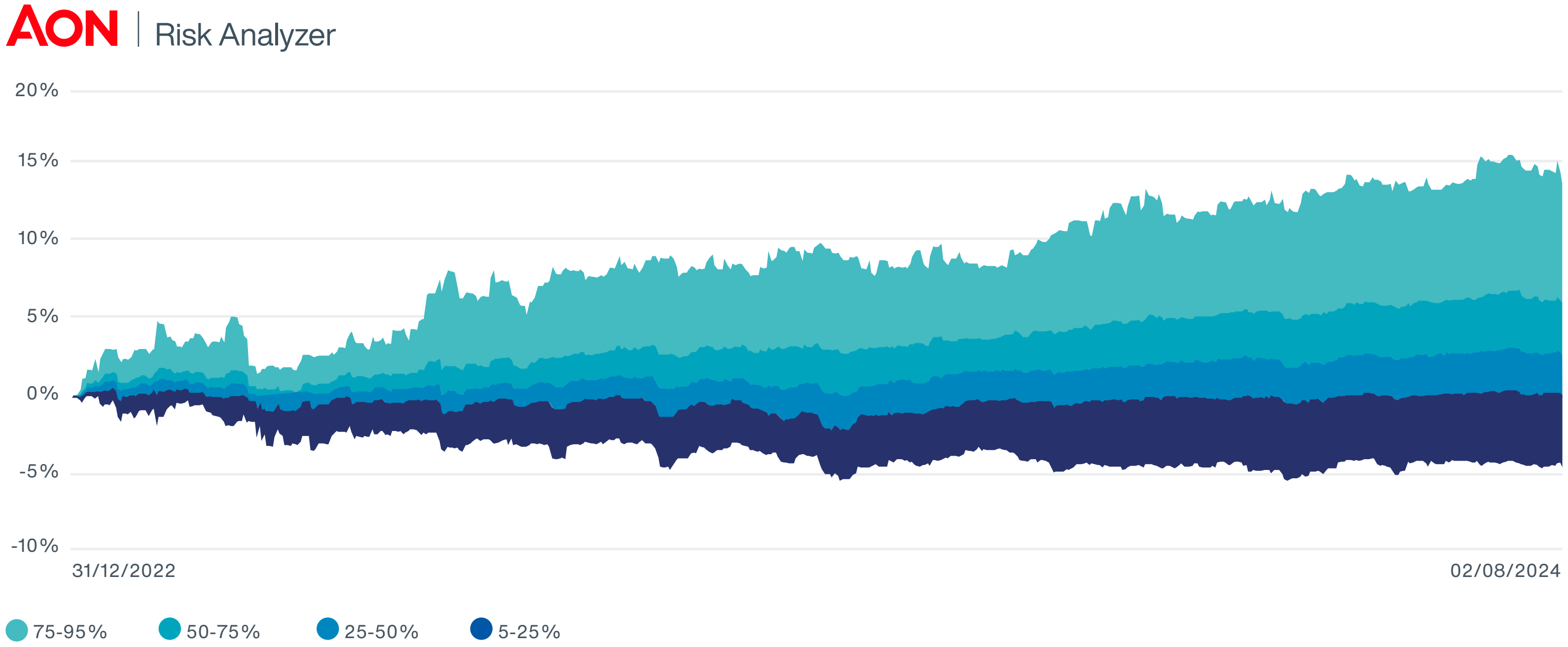
For valuations in tranche 19, average (median) funding positions are slightly higher than those of the tranche 18 valuations analysed above. However, there is variation around this average, reflecting the differing impacts of the further increases in gilt yields, and other asset price movements, over the period on individual schemes.

Chart 4.1 shows the changes to funding levels over the year to a tranche 19 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 – although there is some variation between schemes;**
>
> **Against this background of higher funding levels, the Pensions Regulator has told trustees to consider whether to reassess their long-term targets, taking into account the full range of endgame options**

Looking ahead

Chart 4.1 Risk Analyzer - funding level divergence by quartile, 31 December 2022 to 2 August 2024



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

Of the tranche 18 schemes analysed for this In Depth, 24% 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.

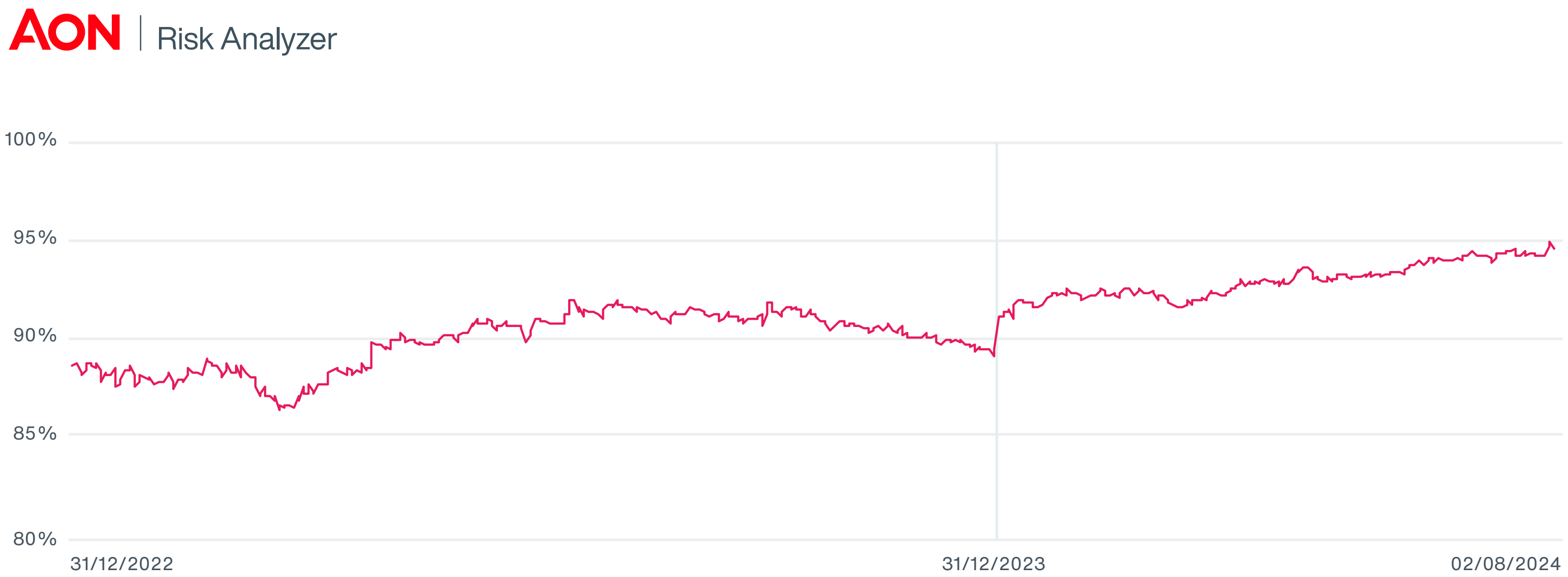
Chart 4.2 Risk Analyzer – average future service cost, 31 December 2022 to 2 August 2024

On 24 April 2024, the Pensions Regulator published its Annual Funding Statement, aimed primarily at schemes with tranche 19 valuations – i.e. with valuation dates between 22 September 2023 and 21 September 2024. The statement was significantly shorter than in previous years, reflecting generally improved funding levels and anticipating the expected publication of a revised DB funding code later in the year - while noting that the current version of the code applies to tranche 19 valuations. In particular, the Regulator stated that trustees should consider whether to reassess their long-term targets, taking into account the full range of endgame options.

We expect a majority of schemes to buy out in time. Annuity market capacity has so far supported the generally rising demand from schemes over recent years, with further providers looking to inject capital into the market. Many schemes are in substantially de-risked positions to lock in past asset gains and are much closer to meeting the cost of buy-out than in the recent past; Chart 4.3 shows the average solvency funding position based on a range of clients using our Risk Analyzer software.

Market volumes are driven mainly by a small number of multi-billion deals, the timing of which is unpredictable but have been in the £30-50 billion range in recent years. A key market capacity constraint is experienced insurer staffing capacity for the pricing and management of DB liabilities. There has been a number of changes to the UK insurance solvency regime over 2023-2024 which have generally been positive for insurers operating annuity funds.

Chart 4.3 Risk Analyzer – average solvency level, 31 December 2022 to 2 August 2024



Active Solution To Run-On (ASTRO)

ASTRO is our newly developed framework for active run-on, based on four key pillars. It is designed to enable employers and trustees to run pension schemes past the point of full solvency funding with security and confidence, whilst actively trying to build an economic surplus that delivers value to members and sponsors.

With the ASTRO framework and using our market-leading multifactor modelling, we have the tools and insight to build a run-on strategy that delivers surplus and security. Furthermore, we have the solutions and expertise to execute the strategy across all the key areas; actuarial, investment, covenant, risk settlement, DC and governance.

Our modelling shows that a scheme choosing to run-on for 20 years under the core ASTRO framework rather than buy out can do so with:

	Surplus Share	
	100% to sponsor	1/3 discretionary benefits 2/3 to sponsor
Percentage Expected Benefits Paid	>99.5%	110%
20 Year Value Release	15-20%	10-14%

Average proportion of benefits paid/insured and average after tax present value of surplus released to the employer. Based on a £1 billion scheme, 100% solvency funded with a 20-year Core ASTRO run-on.

We have analysed best practice in run-on strategies from across our client base, identifying four key features that any good run-on strategy needs to have (set out below). We expect the optimal strategy for most schemes will be a scheme-specific application of these four principles. However we have also identified a set of "core" parameters of the ASTRO framework which we believe will be a good starting point for a large number of schemes and which we use as the baseline for our modelling.

1 Stable, buyout-aware growth

- Low investment volatility versus buyout
- Conscious outperformance to deliver value

Core ASTRO: Credit, LDI & "Growth" targeting Gilts+1.5%

2 Multi-layer protection

- Strong contributing employer
- Regular covenant monitoring
- Funding buffer and/or security against default

Core ASTRO: Funding below 95% solvency, surety bonds to 105%, exit if covenant weak

3 Member benefit

- Maintain member support, options and factors
- Potential for future discretionary increases

Core ASTRO: Up to 1/3 surplus used for benefit improvements

4 Sponsor payback

- Rewarded for ongoing risk
- Expect c2% p.a. surplus generation

Core ASTRO: Net surplus over 103% to employer subsidising DC (or DB) contributions

4

The market for consolidation vehicles ('superfunds') remains in its infancy. 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 and 2024.

In February 2024, the DWP consulted on the government's plans for a public consolidator, to be established by 2026. In the same consultation, the DWP set out potential measures to make surplus extraction easier. The objective is to make it more attractive for DB schemes to 'run on', invest in productive assets and generate surplus. Both proposals originate from the then Chancellor's Mansion House speech in July 2023, aimed at encouraging investment in UK productive asset classes and boosting UK growth.

The incoming Labour government's election manifesto stated that it would adopt reforms for schemes to take advantage of consolidation and scale, and undertake a review of the pensions landscape to improve outcomes and increase investment in UK markets – which it launched on 20 July 2024. It remains to be seen whether this will mean that it will take forward the DWP's proposals on a public consolidator and surplus extraction. An outline of the forthcoming Pension Schemes Bill, which accompanied the King's Speech in July 2024, indicated that the Bill would include provisions on commercial superfunds, to establish a permanent regime (see section 1.2), with the intention of consolidating the DB market and offering greater protection to members at risk of losing benefits on the insolvency of an employer.

Your Partner from Start to Endgame

Since September 2022, funding positions have significantly improved for many UK DB pension schemes. Trustees and corporate sponsors are expected to make endgame decisions that previously seemed years away.

Should trustees and sponsors secure their schemes' liabilities with an insurer or consolidator, or continue to run-on? Aon is here to help you choose the best strategy.

For Professional Clients Only

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About

Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues provide clients in over 120 countries with the clarity and confidence to make better risk and people decisions that help protect and grow their businesses.

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