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60-second summary

DB Annual Funding Statement 2025

On 29 April 2025, the Pensions Regulator issued its Annual Funding Statement for 2025, concerning private-sector defined benefit (DB) schemes. Its main themes are endgame planning, use of surplus, and market volatility; and it provides helpful guidance on questions arising from the new funding rules on matters such as the assessment of employer covenants and supportable risk, and what 'proportionality' might mean in practice.

The Statement is most relevant to schemes producing valuations at dates in the period from 22 September 2024 to 21 September 2025, which will be the first to be conducted under the *Pension Schemes Act 2021* reforms and the new Funding Code of Practice.[1] However, many of the themes will be of interest more widely.

The state of play

Most trustees are likely to be approaching valuations from a relatively healthy funding position. Continuing the improvement trend seen in recent years, as at 31 December 2024, the Regulator believes that 54% of schemes were fully funded on a buy-out basis; 76% on a low-dependency funding basis; and 85% on the basis of their technical provisions. It anticipates that the overall funding position continued to hold broadly true on 31 March 2025. Consequently, it expects that the trustees of most schemes will shift their focus away from deficit concerns and towards endgame planning. It intends to publish guidance on endgames '*in the coming weeks*'. It also encourages trustees to draw up policies on use of surplus, and to consider how they might respond to a sponsor's request for a refund.

As a counterpoint to this generally rosy assessment of the current state of affairs, the Regulator cautions trustees about the potential effects of an extended period of geopolitical and macroeconomic instability. It expects them to understand the possible implications of continued volatility for their sponsor covenant and investment strategy. They should also consider the potential impacts of the adoption of artificial intelligence technology and transition to more-sustainable energy sources.

Submitting valuations

The online (spreadsheet-based) '*Submit a scheme valuation*' service, for valuations at dates on or after 22 September 2024, should be available shortly (in '*Spring 2025*' or '*In coming weeks*'). The Regulator intends to publish a response to its statement-of-strategy consultation exercise at the same time. Until the new service is operational, trustees should not attempt to submit Tranche 24/25 valuation documentation, and will not be penalized for late compliance; however, the Regulator says that they should not delay completion of their valuations on that basis.

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[1] The Regulator would previously have described this collection of cyclical valuations as belonging to 'Tranche 20', but has made a slight change in its nomenclature. It refers to it instead as 'Tranche 24/25', making it easier to locate a particular tranche in time than was the case under the historical sequential-numbering system.

The Regulator will be '*risk-based and outcome focused*' when deciding which schemes require further interaction. The Regulator estimates that 80% of schemes could take the lighter-touch 'Fast Track' route to valuation compliance at minimal or no additional cost to their sponsors. If a scheme adopts the 'Fast Track' parameters, it is less likely that the Regulator will engage (though it's careful to say that the Bespoke route is '*equally valid*'). It has decided against making any changes to the parameters released in November 2024.

Diff'rent strokes for diff'rent folks

The Regulator continues its practice of grouping schemes by funding when providing guidance on expectations:

Funding position	Expected area(s) of focus
Fully funded on low-dependency basis	• Endgame planning • Risks/benefits of running on • Monitoring and management strategies
Fully funded on TPs but below LDFB	• Achieving low-dependency funding by relevant date
Below TPs	• Deficit recovery as quickly as reasonably affordable • TPs consistent with journey-plan position • Risks commensurate with covenant and maturity

Supplementary guidance

Appendices to the Statement provide clarification of the new funding rules. One answers questions about the Regulator's covenant-assessment guidance, and the other explains its position on consideration of supportable risk. It's clear that a proportionate approach can be taken to covenant assessment where future reliance on the employer is low.

Detail on how the Regulator will assess the first submitted valuations is still relatively sparse. Until a clearer picture emerges, the appropriate balance to be struck between rigour and proportionality will remain somewhat fuzzy. However, although there is little in this year's statement by way of new technical guidance, there are some helpful clarifications to help put theory into practice. The Statement says that trustees should set aside sufficient time to consider the new requirements, working collaboratively with their sponsors and advisers during the valuation process, and plan upfront to focus on what's important.

More generally, trustees and sponsors should, as encouraged by the Regulator, take the opportunity to pause, take stock, and review their plans. The exercise will be most effective and rewarding if they work together. They should also look ahead to the government's anticipated easing of surplus-refund rules to inform this long-term planning.

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