Corporate pensions hot topics H1 2025

Defined benefit pensions

Endgame strategy

Regulatory changes could soon reshape how DB schemes are managed, potentially giving sponsors greater control over scheme assets and unlocking surplus to support business growth and provide members with better outcomes. On 28 January, the Government announced upcoming amendments aimed at increasing flexibility for sponsors, allowing surplus funds to be invested in the broader economy. Further details are expected in the long-anticipated response to the ‘Options for DB schemes’ consultation due in spring.

High levels of insurer competition due to new entrants and increasing insurer capacity mean a very high level of competition for schemes of all sizes and exceptional pricing. Now is a great time for sponsors to explore moving their pension risk off the balance sheet. Innovations in the market also continue to complement traditional endgame approaches. Consolidation vehicles like Clara offer sponsors a cost-effective alternative to insurance, providing a clean break from pension obligations under certain circumstances. With three transactions now completed - including its first with an active sponsor in December 2024 – Clara is proving its ability to deliver scale and security. Managing c£1.4bn in assets with around 21,500 members, it is becoming an increasingly credible alternative in an evolving risk transfer market.

Key takeaway: With regulatory changes on the horizon, an energised insurance market and new alternatives gaining traction, now is a pivotal moment for sponsors to reassess their DB scheme endgame strategy. Take an active role in setting your scheme’s long-term strategy and encourage trustees to pause and take stock of their options.

Implications of rising gilt yields

Rising gilt yields have pushed funding levels to their strongest position in years, with long-term rates now exceeding the peaks of 2022’s gilts crisis and reaching their highest levels since 2008. Unlike the sharp volatility spikes seen in 2022, this rise has been more gradual, allowing schemes time to adjust. However, sponsors should act now to capitalise on potential gains and mitigate any future risks:

- Reviewing your investment strategy and hedging levels to ‘bank’ any funding gains experienced as yields have risen and protect against the deficit growing again; and
- Making sure the scheme’s actuarial factors have been reviewed to reflect the increases in gilt yields or there are at least plans for a regular review. If not, funding could deteriorate as more than fair value is passed to members taking options on retirement.

Key takeaway: Engage with trustees on hedging levels and actuarial factors to ensure corporate views are reflected, and if appropriate funding improvements are locked in.

DB funding code

With improving funding positions, sponsors need to take the initiative rather than waiting for Trustees to drive discussions around their 2025 valuations and funding strategies. The new DB Funding Code and updated covenant guidance provide a fresh regulatory landscape that places greater emphasis on long-term strategy and the crucial role of covenant strength in strategy setting. Sponsors should consider:

- Collaboratively working with trustees to shape a long-term strategy and funding targets to align with the requirements of the DB funding code and corporate objectives.
- Engaging early to ensure covenant strength is considered throughout the valuation process, to avoid excessively prudent assumptions, with appropriate reliability and longevity periods.
- Input into the review of the investment strategy to ensure this aligns with the long-term strategy and covenant support.

Key takeaway: Sponsors should act proactively to shape the direction of their scheme’s funding plan to avoid trustees defaulting to an overly cautious approach.

Defined contribution pensions

Changes to National Insurance

In the October Budget the Government announced changes to National Insurance (NI) which will come into force from April 2025. Employer's NI contributions will increase from 13.8% to 15% and the threshold at which employers start paying NI on an employee's earnings will be lowered from £9,100 to £5,000. Cost implications for corporates will be dramatic. For example, for an employee earning £32k and sacrificing 5% into arrangements, pension, the employer cost will increase by £871. If salary sacrifice is not used the increase in cost would be £890.

Where employers offer salary sacrifice arrangements, they will make NI savings on pay that employees sacrifice hence employers should consider:

- If employers do not operate sacrifice they should consider implementing it to reduce NI costs.
- If employers already operate salary sacrifice they should consider action to drive up participation to maximise savings. This can include driving up employee pension savings via salary sacrifice; reviewing whether bonus can be sacrificed into pension or paid before April; reviewing policies where cash in lieu of employer pension contributions are offered to allow for employer NICs.

Key takeaway: With NI increases set to rise form April 2024 now is the time for corporates to consider how you can change it to mitigate the increase in NI costs

Using DB surplus in DC

As mentioned earlier, upcoming regulatory changes to DB schemes will potentially give sponsors greater control and grant them more opportunity to use their surplus. This gives sponsors an increased opportunity to consider how this surplus can be utilised, including whether the DB surplus could be used to fund DC scheme to improve member outcomes.

For example, rather than refunding the surplus to the employer, sponsors could consider whether any DB surplus can be used to 'top up' the pots of DC members. Differences in pension wealth between DB and DC members are significant and using the DB surplus to help DC could be a way to address the imbalance and help to improve member outcomes.

Key takeaway: given the push from the Government to unlock surpluses and get them invested in the broader economy sponsors should consider their endgame plans. Depending on chosen endgame strategy, sponsors should consider fi they can extract any DB surplus for use in the DC scheme to help achieve better outcomes for members

Want to find out more?

To find out how we can help you, please get in touch with your usual Hymans Robertson contact or one of our corporate experts.

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