HYMANS ROBERTSON

OpenDB

Helping open schemes thrive for current and future members

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Happy New Year, and welcome to the third edition of OpenDB, our newsletter for trustees and sponsors of open defined benefit schemes.

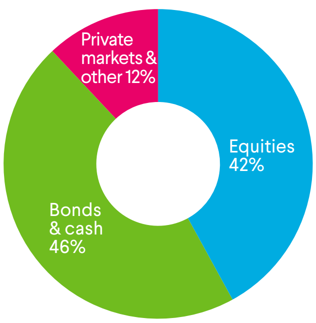
In the last issue (Open DB – August 2025 | Hymans Robertson), we looked at using a contribution stability mechanism to provide a sustainable contribution strategy. In this New Year issue, we reflect on open scheme investment strategies and first impressions of the new funding code. We'll also speculate that, after years of decline, active membership of Defined Benefit (DB) schemes may be at a turning point.

As always, we've covered some hot policy topics and provided information on upcoming events to watch out for.

Reflections on open scheme investment strategy

The Purple Book (Purple Book | Pension Protection Fund) provides a rich source of data on the universe of private sector DB schemes, and hidden away on page 26 is the asset allocation for open schemes. Although they only form 4% of the DB universe by number, at £156bn open schemes account for 15% of total DB assets. And unlike closed schemes, these open scheme assets are expected to grow in value.

The two graphs below compare the asset allocation of open schemes with the global public market. The work of William F. Sharpe would suggest that the optimal portfolio is one that holds all assets in proportion to their size – ie the global public market. While this comparison may be simplistic, the global portfolio has been used very successfully as a source of long-term real returns by many of the big university endowments and large charitable trusts.



Click Global Market Portfolio | Flourish to enlarge

Three things to consider in 2026

Strategy

Consider benchmarking your strategy against the global market portfolio to see how your strategy compares. This may help identify opportunities to diversify, allowing for tilts towards assets with more attractive medium-term risk-adjusted return potential, given current market valuations.

Gilts

With nominal and real yields as high as they've been for a long while, gilts – especially index-linked – are relatively attractive.

Equities

The global equity risk premium is lower than it has been for well over a decade, implying that equities are expensive. Investors may want to consider being underweight equities and look at doing that by tilting away from the most expensive regions.

Pension policy for open DB schemes

There are currently 0.7m active members in DB schemes, down significantly from 3.6m 20 years ago. However, the number of active members has levelled off over the last couple of years. In recent newsletters we've highlighted key policy shifts and rhetoric that are supportive of continued DB provision. Add in the excellent value for money that DB provision offers, and we could see a handful of DB schemes reopen.

Could 2026 be the first time in 20 years that we see the number of active DB members increase?

We continue to monitor key policy shifts to reflect on and consider. If you want to discuss any of those listed below (or anything else) please get in touch.

NI relief on salary sacrifice to be capped

The Autumn Budget confirmed that, from 6 April 2029, employee pension contributions made through salary sacrifice will attract National Insurance relief only on the first £2,000 each year, while employer contributions will remain fully exempt. HM Treasury has released initial guidance, with fuller detail expected in due course.

It's common for open DB schemes to make use of salary sacrifice for member contributions. This change may prompt some employers to review their benefit and contribution structures to ensure financial inclusivity and efficient use of available capital. **If you are an employer, and are concerned about this change, we would be delighted to help.**

DB surplus payments extended to members

From April 2027, private-sector DB schemes will be able to make surplus payments directly to members who are over the normal minimum pension age (currently 55, rising to 57 in April 2028). This development gives well-funded DB schemes greater flexibility in how surplus can be used and creates a clearer route for members to benefit directly from a funding surplus.

Distributing surplus is clearly a more complex issue for open than closed schemes as the impact on future members should also be considered. **If your scheme is considering distributing surplus and you need some help finding a sustainable solution, please reach out.**

Pension Protection Fund (PPF)

In 2024/2025, the PPF collected a levy of £104m despite having a surplus of £14bn. In September, the PPF announced it would not charge a levy for 2025/26. The PPF has since opened its consultation on the levy rules for the 2026/27 year and the expectation is that it will again not charge a levy. Market commentators saw this as a positive step for the PPF, but it raised the question of what the PPF's significant surplus should be used for.

In the Autumn Budget, it was announced that from 1 January 2027, PPF payments linked to service before 6 April 1997 will receive annual inflationary increases of up to 2.5%, where the original scheme provided indexation on that part of the pension. Currently, in the PPF, these pensions receive no inflationary increases, so this offers stronger inflation protection and brings PPF benefit levels closer to scheme promises. The change applies going forward, rather than retrospectively.

This is clearly a positive step for the PPF but will only use up a small amount of its surplus. So, the big question remains – what should the PPF surplus be used for?

Collective Defined Contribution

New legislation will allow the creation of collective defined contribution (CDC) schemes that can include multiple, unconnected employers, following the outcome of a 2024 consultation exercise. Providers can apply for authorisation as early as summer 2026. The Government is also seeking views on proposals for retirement-only CDC schemes.

Multi-employer CDC schemes may emerge as a competitor to multi-employer open DB schemes or an alternative for sponsors of standalone open DB schemes. If you would like to read more about CDC schemes, download our paper (CDC – the complete picture | Hymans Robertson) and if you have any questions, please let us know.

Report from our in-person workshop on 21 October on the DB funding code

We had fantastic guests from a variety of open schemes as we delved into the new funding code, for an example open scheme. We were also joined by BDO, to provide covenant expertise so we could tackle the code in an integrated way considering covenant, investment and funding strategy.

The new code came into effect for DB pension schemes with an actuarial valuation with an effective date on or after 22 September 2024. The final version of the code has a dedicated section for open schemes, which recognises that open schemes are a key part of pension provision in the UK. The code recognises that for many schemes open to new entrants, there is no intention for the scheme to close in the foreseeable future, and subsequently de-risk to a low dependency target. However, trustees are still required to set a low dependency funding and investment target if the scheme's circumstances were to change, **as a contingency plan**.

For those who missed the event, here are the highlights.

The new funding code presents a chance for open schemes to formalise contingency plans for if the scheme's circumstances are to change in the future. However, it does not necessarily mean that your ongoing strategy needs to change.

Covenant – early engagement with the sponsor is key so expectations are aligned. Open schemes can take more risk than comparable closed schemes and investment risk can be taken beyond the covenant longevity period if the trustee can demonstrate why this is appropriate.

Fast Track, by its nature isn't flexible. Changes to covenant or investment strategy could make a Fast Track valuation unaffordable. Bespoke isn't bad, and is more flexible. **It's essential trustees consider strategy first, and their regulatory route will follow.**

The following flow chart can help you plan for your next valuation.

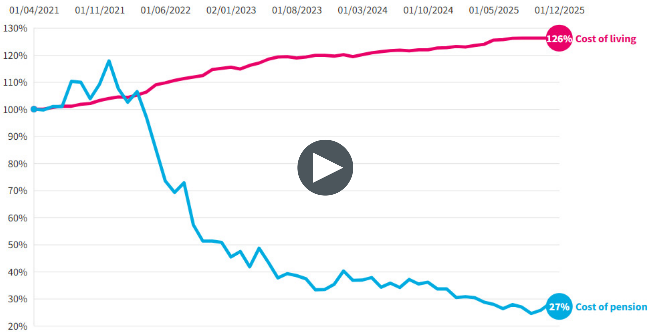
Confirm long-term objectives and constraints	Sponsor appetite to continue to provide DB benefits	Confirm the DB benefits being provided, are the right benefits	Confirm cost and risk constraints
Confirm ongoing strategy	Confirm ongoing covenant reliability and longevity	Set long term investment and contribution strategy	Test to ensure this is in line with the cost and risk constraints
Consider contingency plans	If the scheme had to close, what would the long-term strategy be?	Set an appropriate low-dependency investment and funding strategy and an appropriate timeframe, as a contingency plan	
Regulatory route	Based on the previous work, decide on Fast Track or Bespoke		

Open schemes cost of accrual (OSCA) index

OSCA compares the cost-of-living to the cost of providing a lifetime pension. OSCA uses an index linked gilt yield to determine a market-based cost of providing an inflation-linked lifetime pension. This approach is used by many DB schemes but we think there's a better way to set contributions. Using our LGPS experience, we've developed a Contribution Stability Mechanism (CSM) to keep employer costs stable and affordable through periods of market volatility.

We believe that now is a great time to introduce a CSM, as the new funding code introduces greater flexibility and autonomy for open DB schemes. Introducing a CSM now would set up your scheme for long-term success and sustainability.

% change in cost of living vs pensions for life



Source: For 'cost of living' see CPI inflation, for 'cost of pension' see long term index linked gilt prices or annuity yields, ONS, DataStream, Hymans Robertson.

EVENTS

Hymans open scheme events

In-person Sackers-Hymans workshop on open scheme governance

22 April 2026, 4pm – Sackers, London

We'll share views on the current consultation. We'll also look at initial experience under the General Code and learnings from the first submissions of the trustees 'own risk assessment'. All through the lens of an open scheme.

Dinner

June 2026 – London

Our last dinner in March 2025, covered balanced regulations, conditional indexation, the use of an enhanced PPF, productive investment and the DB funding code. As we approach our next annual dinner, we would love to know what you want to hear about, so we can tailor the event. Please get in touch to let us know.

Virtual event

September 2026

Our last virtual event covered how stochastic modelling can improve valuations and inform contribution strategies. Future sessions will dive into specific issues including (but not limited to) lessons we can learn from Local Government Pension Schemes, conditional indexation and investment strategies and beliefs for open schemes.

Other events to watch out for

Defined Benefit Pensions Conference 2026

26 March 2026

Take a fresh look at the pressures and priorities shaping DB schemes as the Pensions Management Institute brings together leading voices from across the sector. The programme covers current risks, regulatory change, and practical approaches to funding and investment. Sessions also explore developments in technology, governance and scheme management, providing useful guidance for trustees, managers and advisers.

Defined Benefit Pensions Conference 2026 - The Pensions Management Institute

Our Pensions and Retirement Conference

28 April 2026, Kings Place, London

This one-day event will bring together experts, thought leaders and emerging voices from across the private and public pensions sector.

Legacy is something we work towards every day, through the actions and decisions we make. Achieving that legacy means being ready for what's ahead. Together, we'll explore how we can advance our thinking, solve complex challenges and create an environment where pensions can thrive for decades to come.

Pensions and Retirement Conference April 2026 | Hymans Robertson

If you would like to register your interest for any of our events, please contact Jonathan Seed.

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