

60-second summary

DB Annual Funding Statement, 2026 edition

The Pensions Regulator (TPR) has issued its 2026 Annual Funding Statement (AFS) for private-sector defined-benefit (DB) schemes. The central theme is an echo of previous AFSs, with funding improvements spurring a shift of attention from deficit reduction to endgame planning.

This year's statement is primarily intended for those who will conduct statutory funding valuations at effective dates in the period from 22 September 2025 to 21 September 2026¹, but may be relevant to others. Indeed, whilst TPR notes that the '*rigour and discipline*' of the triennial valuation process remains helpful, it points to a more flexible, dynamic approach to strategic discussions.

The Regulator estimates that the aggregate funding level on 31 December 2025 was a surplus of 124%, with only 10% of schemes in deficit. It thinks that 90% of schemes were in surplus based on their technical provisions (the scheme-specific funding basis), 80% were in the black based on the Regulator's low-dependency funding basis, and 60% were above water on a buy-out basis. It anticipates seeing a similar overall funding picture at the end of March 2026, despite economic turmoil, with reduced liabilities keeping pace with lower asset values.

The Regulator intends to provide some initial thoughts on surplus release to coincide with the Department of Work and Pensions' consultation on draft regulations, with more-detailed guidance to follow in 2027, when those regulations come into force.

Valuations

The Regulator says that, with the improvements in funding, the valuation process is changing from a budgeting exercise to an opportunity for endgame-strategy and journey-planning reviews. The AFS estimates that 80% of schemes could use the Fast-Track (FT) approach to valuations at minimal or no cost to the employer. No immediate changes are being made to the FT parameters set in November 2024, but they will be reviewed and may, if necessary, be amended for T26/27 valuations (those between 22 September 2026 and 21 September 2027). The other FT conditions and submission tests are also under review, and there may be updates to documentation and guidance as a result.

The Regulator wants to see early and ongoing collaboration among trustees, sponsors and advisers. It expects them to start by defining their long-term objective and journey plan, then deciding whether to take the FT or Bespoke approach. The AFS contains signposting to existing guidance on various valuation and covenant related subjects—from cyber risk through to sustainability issues and data quality—as well as appendices covering common questions about the application of the Funding Code and contents of valuation submissions.

¹ Under the naming system adopted by the Regulator last year, these are known as Tranche 25/26 (T25/26) schemes; they would have been Tranche 21 according to the old nomenclature.

Statements of strategy

The AFS highlights the centrality of trustees' long-term objective, as described in their statement of strategy (SoS). It encourages them to treat the SoS as a live document, updating it between valuations and using it as a driver of the valuation process rather than merely a derivative of it. It is reviewing its definition of the 'low-risk' SoS category (which brings reduced information requirements), and particularly how it applies to schemes that are fully 'bought in'.

The Regulator will publish an analysis of T24/25 SoS submissions—the first under the new Funding Code—to show the different approaches taken, and in the longer term use the SoS data to help identify and respond to emerging risks and legislative changes.

Strategy expectations

The Regulator again sets out its expectations of trustees according to schemes' funding positions. This year, however, there's some additional granularity in Group 1 (the most well-funded category), based on how comfortably they sit above their low-dependency (LD) funding targets (and perhaps giving some indication of how TPR will approach the DB surplus guidance).

Group	Funding	Areas of focus
1A	110% or more on LD basis	<ul style="list-style-type: none"> If objective is buy out, minimize funding volatility. If objective is run on, may take additional risk appropriate to degree of covenant reliance, whilst monitoring covenant, and considering surplus policy.
1B	100 – 110% on LD basis	Endgame, may take limited investment risk to get there, subject to covenant reliance and monitoring.
2	<100% on LD basis, but >100% of technical provisions	Monitor and manage downside risks to reach LD by relevant date.
3	<100% of technical provisions	Recover deficit as quickly as reasonably affordable, align journey plan to LD with risk level appropriate to covenant and scheme maturity.

We welcome recognition of valuations as an opportunity to refine plans and assess progress; we would go further, recommending that trustees and sponsors seize the day regardless of whether a valuation is underway. We note that the Regulator emphasizes an objectives-first approach to the choice between Fast Track and Bespoke, echoing our view that strategy should lead and compliance follow.

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