HYMANS ROBERTSON

OpenDB

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Welcome to the first edition of OpenDB, our quarterly newsletter, for trustees and sponsors of open defined benefit schemes. Our aim is to keep you up to date with news, ideas and events and help your schemes to thrive for current and future generations of members.

As part of our launch, we're delighted to introduce our new and unique Open Scheme Cost of Accrual (OSCA) index. We've also covered some hot policy topics and provided information on upcoming events to watch out for.

Open Scheme Cost of Accrual (OSCA) Index

In recent years, the cost of living has risen significantly. But at the same time, the cost of providing a pension for life has fallen by even more. Our Open Schemes Cost of Accrual (OSCA) Index shows how cost-of-living changes compare against the cost of providing a lifetime pension. As you can see from the chart, OSCA shows a near 70% fall in the cost of providing a good quality DB pension, compared to a 23% rise in the cost of living.

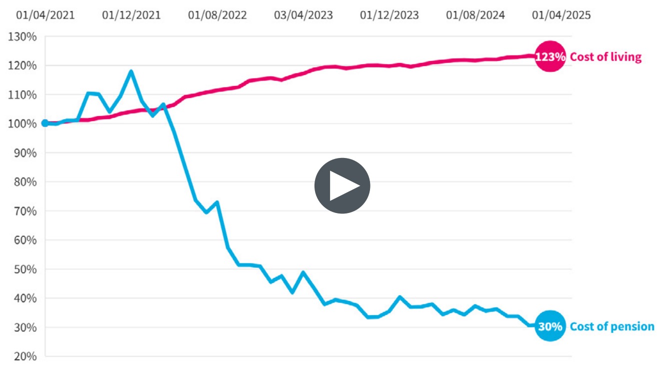
Since 1 April 2021, inflationary pressures have added nearly 25% to the cost of living, putting financial pressure on individuals and employers across the UK. By contrast, we've seen a sharp fall in the cost of providing DB pensions as long term interest rates have risen from 1% to over 5%.

That means the cost of providing a DB pension is now just 30% of what it was four years ago.

All schemes have different benefit designs and age profiles but to provide some context, if your cost of benefit accrual was 50% of salary in April 2021 valuation, it would be just 15% now!

Despite the sharp fall in costs, DB pensions are still viewed by employees as the Rolls Royce of benefits. That means they provide excellent value for money as a tool for recruitment and retention.

% 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.

Sponsors of open schemes may want to take advantage of this shift in market conditions and pay reduced contributions, especially given the rise in National Insurance costs from 1 April 2025. As a trustee, you may be concerned that reducing contributions by too much will make it challenging to increase them in the future, if required.

At Hymans, we've developed a **Contribution Stability Mechanism** (CSM) to keep employer costs stable and affordable through periods of market volatility.

In our next edition, we'll take a look back to 2008 and show how a CSM can deliver sustainable contributions through a prolonged period of record low gilt yields. If you've got a valuation coming up soon and you want to find out how your scheme could benefit from a CSM, then please reach out.

Future for Open DB Schemes – Pension Policy

Currently only 4% of DB schemes are open to new members with a further 19% are open to future accrual. However, these schemes do offer a rare pocket of adequacy in UK pensions, compared to standard auto enrolment DC arrangements.

In March 2024, the Work and Pensions Select Committee concluded that DB pension schemes are still of critical importance to both UK savers and the UK economy. The Committee also warned that current regulations and policy caution, leading to a low-risk approach to investments could 'finish off' open DB schemes.

At Hymans, we think DB schemes should be about reward as well as risk.

We believe that The Pensions Regulator (TPR) should set an enhanced objective of improving pensions for workers. A change in TPR's mandate would give employers and the pensions industry freedom to innovate and provide new saving designs (such as hybrid DB-DC arrangements). These would give DB schemes a longer-term investment horizon and open the door to investing in more productive assets, securing higher pensions and reducing the cost of sponsoring DB schemes.

We are starting to see a shift in policy – but there's a long way to go. In future editions, we'll provide a summary of key policy shifts to reflect on and consider. If you want to discuss any of them, then please reach out.

Key policy shifts to watch:

Funding

TPR's new DB Funding Code has a separate section for open schemes that recognises the importance of these schemes and provides significant flexibility. This section recognises the unique characteristics of open schemes and considers new entrants and future accrual in any de-risking requirements.

The Government has confirmed plans to liberalize 'how well-funded, occupational defined benefit pension funds that are performing well will be able to invest their surplus funds.' The press release says that the Government will provide policy details in the spring, as part of its response to the February – April 2024 consultation exercise on Options for Defined Benefits. For now, the messaage is that:

> 'Where trustees agree to share a portion of scheme surplus with a sponsoring employer, the employer may choose to invest these funds in their core business... and/or provide additional benefits to members of the pension scheme.'

Covenant

In December, TPR released it's guidance on formal covenant assessments under the new DB Funding Code. When assessing the reliability period and covenant longevity, trustees should consider how this impacts any assumptions made for future accrual and new entrants.

If you want to read more about the new DB Funding Code, we have a dedicated area on our website.
The new DB Funding Code | Hymans Robertson

Investment strategy

The Mansion House reforms encourage pension schemes to support UK infrastructure and growth assets, providing an opportunity for open DB schemes with long investment horizons to invest in productive assets. We're waiting to see whether there will be any incentives or regulation to support the Mansion House aims.

Report from our open schemes dinner on 4 March 2025

We had nine brilliant guests from a cross section of open schemes and we had some great discussion and debate on what's needed for DB schemes to start re-opening.

Here are the highlights...

Incentivising schemes to invest in UK productive assets will help, but more balanced regulations are just as important. For open schemes especially, the Regulator needs to apply the new code through a long-term growth lens rather than focussing on downside protection. We also talked about the use of conditional indexation to provide an extra lever for managing risk alongside an enhanced PPF to underwrite full scheme pensions (giving trustees and employers the confidence to take a long term approach).

We also agreed that although we've got the right conditions for open schemes to thrive, we need a common voice and proactive engagement with policymakers. If we can do that, we might just take open schemes from endangered species to a once again thriving community.

On the new funding code, it was about embracing the new flexibilities alongside the lessons we've learned from the last 20 years to re-design funding and investment strategies.

EVENTS

Hymans open scheme events

Our bi-annual virtual roundtable

June 2025 (date TBC)

Our six monthly virtual roundtables will dive into specific issues including (but not limited to) how stochastic modelling can improve valuations and inform contribution strategies, the new code in practice, lessons we can learn from Local Government Pension Schemes, and lessons from overseas.

Details to follow in April.

Our first 'Deep Dive' roundtable dinner

September 2025 (date TBC)

We are interested in finding out what topics you would like to hear about. We've suggested a few below but please add your suggestion here.

- Conditional indexation case study
- Applying the new Funding Code in practice
- Practical open scheme lessons from LGPS

Other events to watch out for

Current issues in pensions (IFoA)

20 May 2025

A full day of engaging discussions tailored to the needs of pensions actuaries, featuring expert insights, thought-provoking debates, and plenty of opportunities to ask questions.

PLSA DB Forum

1 May 2025

Hear from the PLSA policy team about the issues on the horizon for DB schemes in 2025 and beyond, before discussing the best use for surpluses in our group conversation.

Meet our team

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