HYMANS # ROBERTSON

OpenDB

Helping open schemes thrive for current and future members

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Welcome to the fourth edition of OpenDB, our newsletter for trustees and sponsors of open defined benefit (DB) schemes.

In previous editions, we've looked at the improving economics of DB accrual, contribution stability mechanisms, investment strategy and the first practical implications of the new funding code. In this edition, we focus on an issue that now sits at the heart of long-term decision-making for many open schemes: **how surplus might be shared safely and sustainably.**

Surplus sharing

The surplus debate has moved on significantly. The Department for Work and Pensions published draft regulations on 10 June 2026 setting out the conditions for trustees of DB schemes to make surplus payments to sponsoring employers. The consultation is open until 2 September 2026. The regulations are expected to sit alongside the new surplus flexibilities introduced by the Pension Schemes Act 2026.

The new regulations should make it easier for well-funded DB schemes to access surplus, but they do not remove the need for careful trustee decision making. The Pensions Regulator's statement on new DB surplus flexibilities emphasises that trustees' independence is unaffected, and that trustees must still be satisfied, in line with their fiduciary duties, that any surplus release is appropriate.

The key action is for trustees and sponsors to start developing their surplus policies now, so they are ready when a surplus distribution decision is on the table. That policy should cover the scheme's long-term objective, the funding buffer to be retained, the circumstances in which surplus might be used, and the potential balance between employer value and member value.

For open schemes, the policy should also address the impact on future accrual and future members. In some cases, the most valuable use of surplus may not be one-off payments, but a contribution strategy that supports affordable, stable and sustainable DB provision.

This is not simply a question of whether surplus can be extracted. It's a bigger strategic question: **how can surplus support current members, future members and the long-term sustainability of DB provision?**

Questions for trustees and sponsors

Surplus distribution is more complex for open schemes than closed schemes, because trustees and sponsors need to consider not just past accrual but the ongoing purpose and sustainability of their scheme.

What is surplus for

Is the objective to improve current member outcomes, improve future benefits, support the sponsor through reduced future contributions, share value directly with the sponsor, or some combination of these?

How much buffer is enough?

The draft regime is expected to move the funding threshold for direct surplus extraction from buy-out to a low-dependency basis. However, open schemes will also be able to continue to share value through reduced contribution rates, set with reference to the technical provisions basis and the scheme's ongoing funding strategy.

Cross generational fairness and sustainability

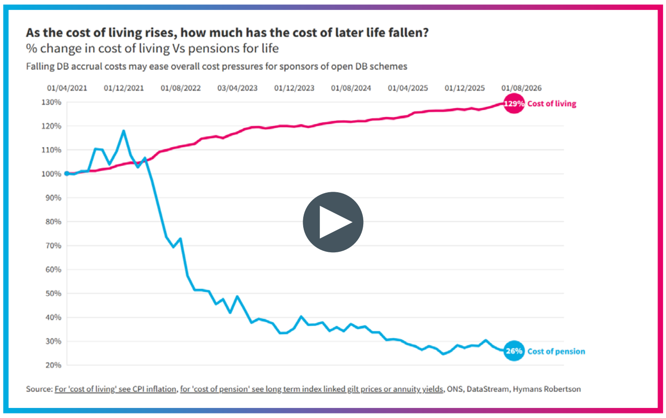
The balance between past and future benefits should also be considered. For example, are pre-1997 benefits inflation-proofed? Has the value of benefits been reduced over time to help control costs? How should today's decisions reflect the interests of current pensioners, deferred and active members as well as future members?

These considerations can help answer the first question: what is surplus for? Any surplus sharing needs to support long-term sustainability. Some strongly funded open schemes may even be able to fund future accrual using the return on surplus assets, moving towards a more self-financing model. This is something we are actively considering for some of our open scheme clients.

If you're interested, please let us know.

Opens schemes cost of accrual (OSCA) index

OSCA provides a useful lens on the cost of providing lifetime inflation-linked pensions compared with the cost of living. It continues to show that DB accrual may be much more affordable than many sponsors expect. It also provides helpful context for the surplus debate: if the cost of providing future accrual remains attractive, surplus may be used to support the future sustainability of DB provision as well as rewarding members and employers for past funding success.



Community perspective: DB as an opportunity, not just a risk

Peter Cameron Brown, a regular member of our open scheme community, recently shared a thought-provoking reflection on the value of UK DB pensions.

His central challenge is that DB has too often been viewed through a risk lens, with legislation, accounting and regulation focusing heavily on downside protection rather than the opportunities that well-run schemes can provide. Peter argues that DB remains a highly efficient way of delivering secure retirement income, particularly where employers already have an existing pool of scheme assets.

As surplus flexibility develops, he suggests trustees and sponsors should consider whether surplus could be used to support present and future DB accrual, rather than simply being extracted. This raises an important question for open schemes: could DB assets be used more strategically to support long-term workforce reward, pension adequacy and employer cost stability?

It's exactly the kind of debate open schemes should now be having.

Report on April event

We ran a joint roundtable event with Sackers back in April to consider the question "Are admin and governance issues becoming more challenging for open schemes?"

The session was very well-attended with lively discussion focussed on three key areas:

- The main area of discussion was administration and member support and why the challenges might be different for open schemes. Here we discussed the open scheme member journey from onboarding through to retirement and how technology is driving innovation with increasing use of apps, videos and AI bots. With open schemes of all shapes and sizes, it was very much about finding the right balance of in-person and on-line support.
- We also discussed how the latest trusteeship consultation could change the governance of open schemes in terms of trustee skills and member voice. Here, the key areas of discussion were around what open schemes look for in new trustees, ensuring close interaction with the employer, maintaining the right balance of skill, and encouraging diversity and inclusion.
- Last but not least, we talked about the ever-growing threat from data breaches and cyber attacks. Here, we discussed potential weak points including third parties, authentication and legacy technology. The key takeaways were: Humans are the weakest link; make sure you rehearse your incident response plan on a regular basis, high-quality ongoing training is key.

EVENTS

Hymans open scheme events

Three by OpenDB: a longevity tasting menu - 21 October 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.

This year's theme is longevity risk in open schemes, and we're delighted to be joined by Jill Jamieson and Amy Walker from longevity specialists Club Vita, who support pension schemes, advisors, (re)insurers and asset managers across the UK, Europe, US and Canada in understanding and quantifying longevity risk.

Virtual event - December 2026

Our last virtual event covered how stochastic modelling can improve valuations and inform contribution strategies.

Our next sessions will cover surplus sharing for open schemes, with some insights from the LGPS.

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

Other events to watch out for

SPP Conference 2026 Delivering Pensions of the Future 17 September 2026

The Society of Pension Professionals' in-person conference will consider how pensions should evolve to meet future challenges, with sessions on investment strategies, equity in pension outcomes and the future of the pension's profession. The first session looks particularly relevant for open DB schemes, exploring how investment approaches may need to adapt as pensions policy, scheme design and pensioner needs change.

PMI Pensions Investment Forum 2026 26 November 2026

This forum will consider the investment issues shaping pension scheme decision-making, including stewardship, private markets, volatility, scenario planning, ESG implementation and fixed income strategy. For open DB schemes, the event should provide useful context for trustees and sponsors reviewing long-term investment strategy, resilience and the role of investment returns in supporting sustainable future accrual.

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