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OpenDB

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Welcome to the second 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.

Last quarter, we introduced OSCA, our new Open Scheme Cost of Accrual index. In this edition, we are looking at a more sustainable way of setting a contribution strategy.

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

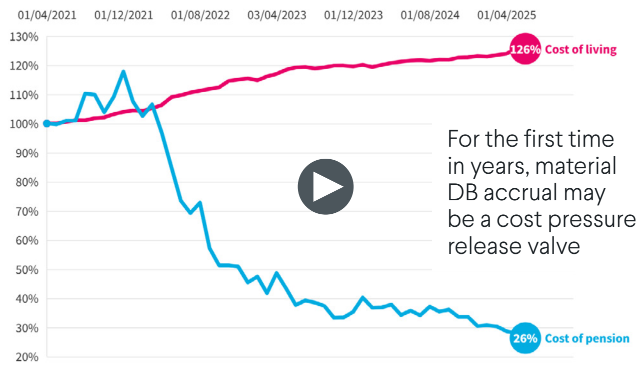
In our previous quarterly newsletter, we released OSCA comparing the cost-of-living to the cost of providing a lifetime pension. Since April, we have continued to see the market-based cost of providing pensions fall compared to the cost of living.

OSCA uses an index linked gilt yield to determine a market-based cost of providing an inflation-linked lifetime pension. This approach is still used by many DB schemes and by insurers providing personal annuity policies. 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. And it's been a real success story – helping our open scheme clients in both the public and private sectors keep their schemes open.

If a CSM was used over the last 20 years, a sponsor's contributions could have been as much as 50% lower than under a typical 'gilts plus' funding approach. This improves the sustainability of an open DB scheme during a period of market volatility.

As the cost of living rises, how much has the cost of later life fallen?

% 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.

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.

If you are interested in learning more, please read our blog and reach out if you have any questions.
Contribution stability in any environment | Hymans Robertson

Future for Open DB Schemes – Pension Policy

Currently, only 4% of all private sector DB schemes are open to new members, with a further 19% 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 April 2025, the Work and Pensions Committee provided the Government's response to a special report on DB schemes. Defined Benefit Pensions Schemes: Government Response.

Recommendation 4 of the response highlighted the continued importance of open DB schemes in providing adequate retirement income and investment in UK productive finance.

So, we're continuing to see a shift in policy and rhetoric that is supportive of continued DB provision. But there's still a long way to go before open DB schemes can thrive again.

Key policy shifts to watch:

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.

Surplus extraction reforms under the Pension Schemes Bill

As widely anticipated, the Bill confirmed a move to modify rules on surplus extraction for well-funded DB schemes. The Pensions Bill will allow rule changes to facilitate employer surplus payments. However, it did not cover the minimum funding conditions for a payment to be permitted. This is expected to be covered in emerging regulations. From what we've seen, the Government is minded to set the threshold at fully funded on a low dependency funding basis.

This is good news for sponsors of open schemes, as this provides more flexibility for employers to benefit from having a well-run, sustainable DB scheme. It's also good news for members, as the government highlights that the potential for members to benefit from surplus should remain a key consideration for trustees when approving surplus extraction.

PPF levy potentially reduced to zero

Many open schemes may be well funded on an on-going basis, but may have a deficit on the PPF basis, and subsequently be paying an annual PPF levy.

In 2024/25, the PPF collected a levy of £104m, despite having a surplus of £14bn and a funding position of 184%. Annual Report 2024/25 | Pension Protection Fund.

Provisions in the Pension Schemes Bill now allow the Pension Protection Fund (PPF) to reduce the levy to zero. In anticipation, the PPF has delayed issuing invoices for 2025/2026. If the amendments are carried out, this will result in a noticeable saving for many schemes.

Inheritance tax (IHT) changes

During the Autumn Budget, the government announced that from 6 April 2027 unused defined contribution funds and lump sum death benefits in DB schemes will be included in the value of estates for IHT purposes. The initial announcement proposed that pension scheme administrators would be responsible for the application of IHT to these benefits.

However, many respondents to the consultation, including Hymans Roberston, pointed out that this approach introduced considerable complexities and relied on unrealistic timeframes. Following the consultation, HMRC has relented on plans to make pension scheme administrators responsible for the application of IHT to death benefits. Pension rights are still being brought within the ambit of IHT, but the primary role in the process will be played by the deceased member's personal representatives. There are details yet to be settled and kinks to be ironed out of the proposals before they come into effect, on 6 April 2027.

We believe that this change provides an unintended boost for DB schemes relative to DC arrangements, as spouse/dependant pensions from DB schemes are not in scope of IHT from 6 April 2027. Death in service benefits provided within a DB scheme are also not in scope.

You can read more here

The Autumn Budget: an unintended boost for defined benefit schemes | Hymans Robertson

Report from our virtual round table on 29 July 2025

We had six great guests from a variety of open schemes and had a great technical deep dive into funding strategies for open schemes and how stochastic modelling can be used to inform contribution strategies as part of a CSM. We also discussed the new funding code, including how to apply a CSM within this new framework.

Here are the highlights...

It's essential to consider strategy and goals as these are critical to success. Take time to make sure you have right goals and strategy for your circumstances, then build your valuation and choose your regulatory route around your strategy. Then, you will develop a strategy that is well thought out and meets regulatory requirements, while not being driven by them.

The CSM could be a great option for sustainability of open schemes. However, careful explanation is essential so that trustees and employers understand the mechanism and can give it proper consideration alongside other funding approaches.

Aligned with our dinner in March, the consensus is that the new funding code provides greater flexibility and autonomy for open DB schemes. It's now about embracing these flexibilities and applying the code in a way that aligns with your strategy.

EVENTS

Hymans open scheme events

Our first 'Deep Dive' roundtable dinner

21 October 2025

As we approach our first 'Deep Dive' roundtable dinner, we are excited to announce the session will be an interactive workshop on how to apply the new funding code in practice for an open scheme

This workshop will be led by funding, investment and covenant experts, to ensure we explore a joined up approach to setting a contingency plan – the main requirement for open schemes under the new code

If you would like to register your interest, please contact Jonathan Seed.

Our bi-annual virtual roundtable

January 2026 (date TBC)

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

Details to follow in our next newsletter.

Other events to watch out for

Defined Benefit Summit

2 October 2025

With a seismic policy shift in the pensions sector following the recent introduction of the Pension Schemes Bill, join the Professional Pensions Defined Benefit Summit to gain expert insights, explore the future of DB schemes, and ensure you're prepared to navigate this dynamic and busy landscape.

Defined Benefit Summit 2025 – Home Page

Pensions Investment Forum 2025

27 November 2025

Hear valuable insights into innovative investment strategies and sustainable growth through discussions in the key issues impacting UK pension schemes.

Pensions Investment Forum 2025 – The Pensions Management Institute

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Or visit our website at Open DB scheme consulting | Hymans Robertson

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