

Corporate pensions: more options, new opportunities, what next?

November 2026

Helping corporate sponsors

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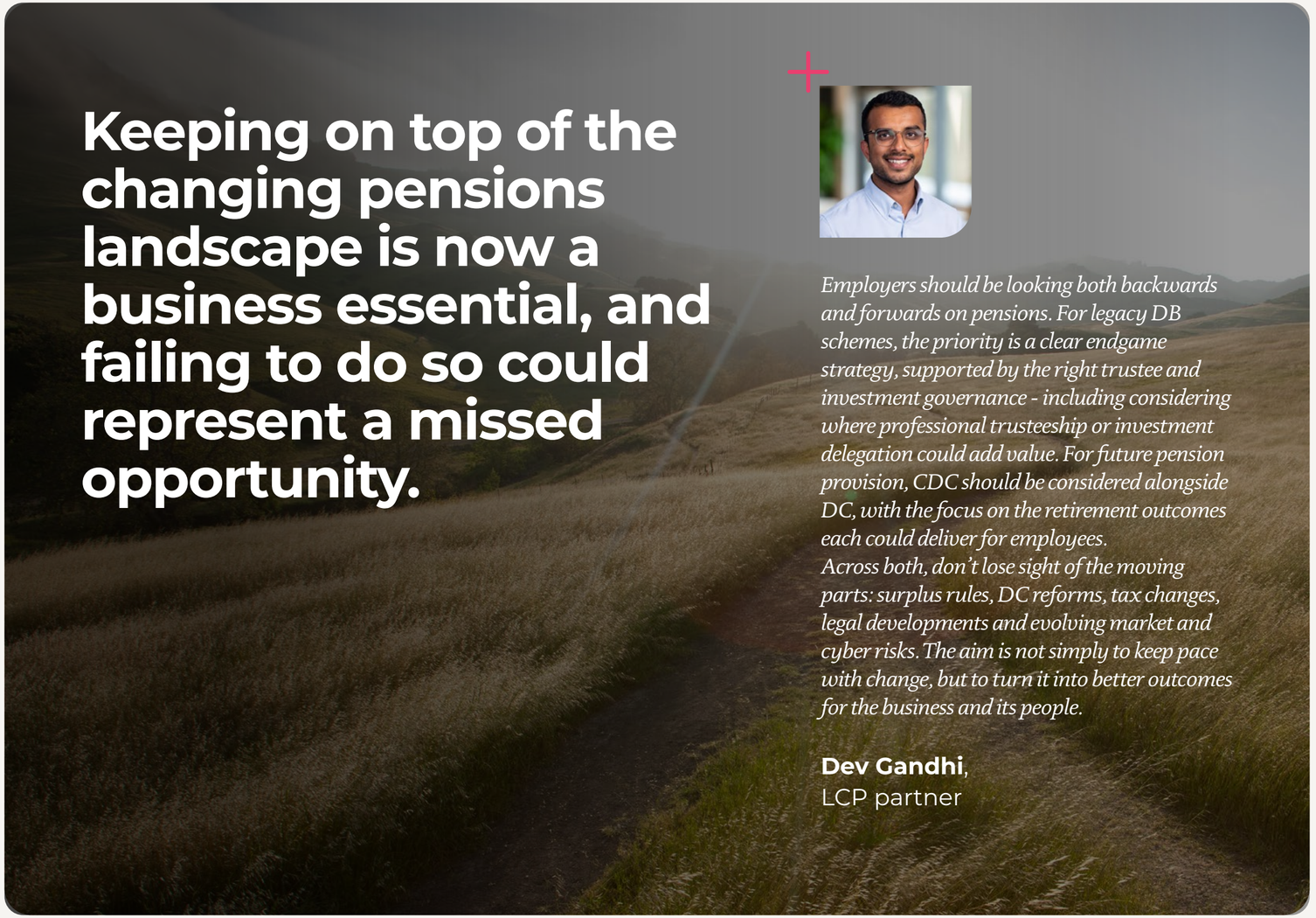
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Corporate pensions: more options, new opportunities, what next?



Sir Steve Webb

LCP partner and
Pensions Minister 2010-15

The world of workplace pensions is undergoing a quiet revolution.

Legacy Defined Benefit schemes are turning from a millstone to an opportunity, with the majority of schemes currently in surplus or set to reach surplus soon. And the 2026 Pension Schemes Act sets out new powers for schemes to use those surpluses 'in live running' without needing to wind up the scheme to access those funds.

Alongside the traditional option of de-risking with an insurer – where pricing is attractive and competition intense – schemes have a range of new 'endgame' options including a run-on strategy with the potential to grow surplus, or consolidation into one of a growing number of DB superfunds.

At the same time, Government and regulators are increasingly focussed on making sure that pension scheme assets are working hard, and have warned against schemes – even those in clear surplus – simply drifting along with no clear strategy and direction.

But it is not only in DB where the pace of reform has been accelerating.

Assets in workplace DC schemes are set to overtake those in DB within the next five years or so, and there is a huge drive towards consolidation into a smaller number of larger schemes – so-called DC 'megafunds'.

The Government is keen to see the assets of all schemes delivering more for members. It is implementing a new Value for money framework which will result in all DC schemes receiving a ranking which will be publicly available to members and the media alike. There are also new duties for schemes to make provision for members not just up to retirement but to design good default journeys through retirement as well.

Innovation is happening at pace in the DC world, with new industry-wide 'collective' DC schemes set to offer companies new options and the potential to combine some of the best features of both DB and DC.

Companies standing behind workplace pensions, whether DB or DC, could be forgiven for thinking that they have enough on their plate running their business, and dealing with economic headwinds, without having to devote much attention to their pension arrangements. But the fast pace of regulatory reform and economic change means that keeping on top of the changing pensions landscape is now a business essential, and that failing to do so could represent a missed opportunity.

We hope that this short report gives you a flavour of the key issues you will need to consider depending on your own pension arrangements. Our experts stand ready to help you navigate how best to capitalise on the wide range of new opportunities that are on offer.



For the first time in history, with well funded DB schemes and more flexibility than ever, now is a time for DB schemes to support sponsors after decades of the reverse. Well designed and managed frameworks can provide sufficient protection for members whilst offering significant value to sponsors and a return on investment – whether that be getting rid of pension risk altogether to free up resources and management time or an intentional strategy to access value from the scheme over time.

Gordon Watchorn,
LCP partner and Head of Corporate Consulting

1. Scheme surpluses – from opportunity to action

Surplus moves into the mainstream

For many DB schemes, whether or not there is yet a meaningful surplus, conversations have already moved beyond whether a surplus exists to how it might ultimately be used.

Current legislation permits use of surplus to fund discretionary increases, improve the security of benefits, fund other employee benefits or give surplus back to employers if in members' best interests, subject to the scheme's rules and circumstances.

Until now, the clearest route for a sponsor to realise value from surplus in closed DB schemes has been through scheme wind-up, with a number of schemes already implementing or exploring this approach. While these approaches can deliver meaningful value, they have often constrained strategic flexibility.

However, as surpluses become more widespread and enduring, sponsors are increasingly considering how pension assets could contribute to broader business goals while maintaining appropriate protection for members. This shift in thinking is being reinforced by an evolving legislative and regulatory framework that is expected to provide much greater flexibility over how surplus can be used in the near future.

From legislation to implementation

The long-awaited Pension Schemes Act 2026 has provided a clearer framework for schemes looking to run on and make use of DB surplus. The new flexibilities mark a significant shift and are expected to make it easier for surplus to be released where a scheme is funded above its low-dependency basis, although we expect different schemes will agree different thresholds above which surplus will be passed to the sponsor. In addition, the upcoming changes will no longer require a refund to the sponsor to be "in the members' best interests", resulting in a significant easement in the threshold to pass value back to the sponsor. TPR's early guidance has encouraged trustees and sponsors to agree clear policies for surplus use as part of their wider endgame planning.

From April 2027, schemes will also be able to make lump sum surplus payments to eligible members. Where sponsors and trustees agree to share surplus, this will provide an option that members may value more, and one without the risks that additional DB liabilities bring.

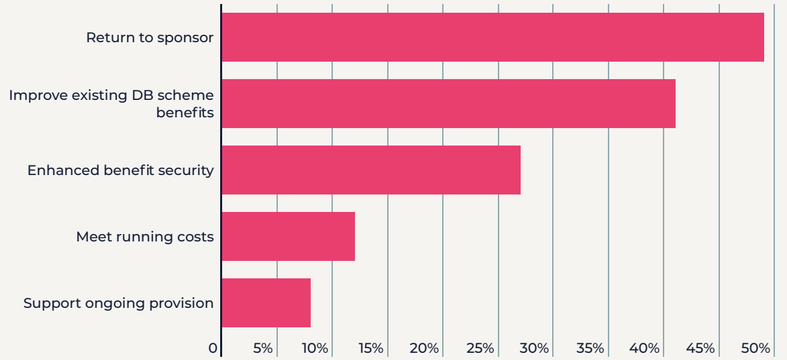
For sponsors, this new regime therefore creates a real opportunity to move from discussing surplus in principle, to considering practical options for its long-term use. But the low-dependency threshold is not an automatic trigger for payments: trustees will rightly need to consider the strength of the employer covenant, investment risks and the level of protection retained for members.

Further regulations and formal TPR guidance are expected ahead of the new regime coming into force in April 2027, providing greater clarity on how these tests and safeguards will operate in practice. The sponsors best placed to benefit will be those that engage early with trustees and set out a clear long-term plan (see our checklist of actions overleaf).

Increasingly sophisticated surplus strategies

Our **2026 DB pensions priorities survey** shows just how quickly surplus is moving up the agenda. 69% of schemes are actively considering how best to put surplus to use, and importantly, schemes are rarely looking at just one home for that value. Of those considering surplus use, 71% expect to use it in at least two different ways.

Figure 1: What is your strategy for DB surplus over the coming years? (where schemes expect to use surplus)



Note our survey was issued before DWP released their draft surplus regulations, and TPR their accompanying statement.

Of the survey respondents, 91% were trustee-side. Almost half anticipate some value being returned to the sponsor, with a slightly lower proportion expecting surplus to improve DB members' benefits.

Sponsors and trustees have an opportunity to develop a framework that balances member security, benefit improvements, future pension provision and value for the sponsor. For sponsors, the question is moving from "will we have a surplus?" to "what do we want the surplus to achieve?", even if that surplus doesn't exist yet.



The next chapter for DB schemes isn't just about spending surplus. It's about how you can generate more of it, with a clear plan to use it in a way valued by stakeholders and without introducing disproportionate risk.

Steve Hodder, LCP partner

1. Scheme surpluses – from opportunity to action Continued

What is needed for a successful surplus and run-on strategy?

To make the most of the new rules and maximise value, there are a number of areas that will need careful attention.

Investment strategy: For schemes looking to run on, an intentional investment strategy will play an important role in generating additional value over time, with TPR explicitly saying that schemes should ensure their funding and investment strategy is aligned with their surplus policy. See pages 13-14 for more thoughts here.

Covenant: A strong covenant will give trustees comfort in releasing value from the scheme. Contingent funding and other forms of covenant support can also help create the capacity to deliver upside potential. Contingent assets may give trustees greater confidence to support additional expected investment growth whilst maintaining appropriate member security.

Member options: An effective member options and communications strategy can be a win-win, with members receiving additional flexibility and an enhanced experience, and the potential for reduced funding cost and risks. This may mean a review of existing terms and how they are communicated, or looking at potential new options such as pension increase exchange (PIE) or bridging pension.

Governance: A robust framework will be needed with clear responsibilities across the sponsor, trustees and advisers. This might include delegated authorities for timely action, conflict management processes and succession planning. Professional trusteeship can bring valuable expertise and wider experience, and investment delegation or consolidation may make sense depending on your scheme's circumstances and objectives.

Data and benefits: Many schemes are likely to want a health check on their data and benefits as part of establishing a framework for surplus use and run-on. For trustees, this gives reassurance that any surplus is a true reflection of the position, and sponsors are also likely to value comfort that any money that comes out will not have to be returned at a later date if something new comes to light.

An agreed downside plan: A surplus-sharing framework should also cover what happens if funding deteriorates. Sponsors and trustees should agree when distributions would pause, when the investment strategy would be reviewed, and when additional employer support or contributions might be needed. This can help avoid difficult negotiations later and facilitate swifter action.

Other considerations: Sponsors should also consider the accounting and tax implications of any potential strategy at an early stage, as these can materially affect the value of contribution offsets, benefit improvements or payments to the business. See page 11 for some comments on accounting treatment of surplus usage.

And of course, sponsors will have to weigh up many other considerations, including how any DB surplus strategy fits into wider business objectives, and how any sharing of surplus with DB members might fit with remuneration and benefits for current employees.

Checklist of actions to take:

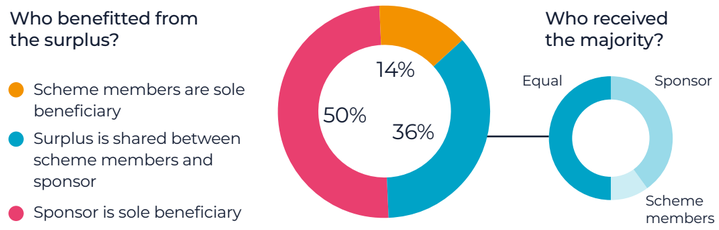
- **Check the legal position:** Understand what the scheme rules say about entitlement to surplus and the powers available to use it.
- **Set a clear surplus strategy:** Understand your starting position and then agree what success looks like, including the various elements discussed above, plus the potential role of payments to the sponsor, increasing member benefits, paying for future benefit provision and reduced future funding costs. Consider the accounting and tax implications.
- **Engage with the trustees early:** Agreeing shared principles around security, investment strategy, funding buffers and use of expected future surplus is easier before a specific payment is being requested.
- **Build in flexibility:** Design the framework so that the balance between generating, protecting and distributing surplus can evolve as funding, covenant and market conditions change.

How has surplus been used so far?

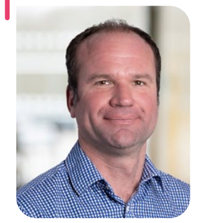
Drawing on our experience of supporting 150+ schemes through the post-transaction phase, we looked at cases where surplus was ultimately distributed in our recent blog, **A question of surplus**.

Our analysis shows there is no one-size-fits-all approach. In around half of cases, the sponsor was the sole beneficiary of the surplus. Members were the sole beneficiary in 14% of cases, and 36% of the time the surplus was shared between both parties.

Where surplus is shared, it is most commonly (but not always) shared equally between members and the sponsor.



It should be noted these cases are for schemes that have wound up, and will have been influenced by the particular scheme rules in each case. Experience for ongoing surplus release under the forthcoming regime may therefore prove to be different.



Sponsors should already be starting to think about how any scheme surplus should be accessed and used once the new regime comes into force. In many cases the starting point should be a full refund of the surplus to the sponsor.

Alex Whitley, LCP partner

2. Developments in endgame options

Endgame is now a strategic choice

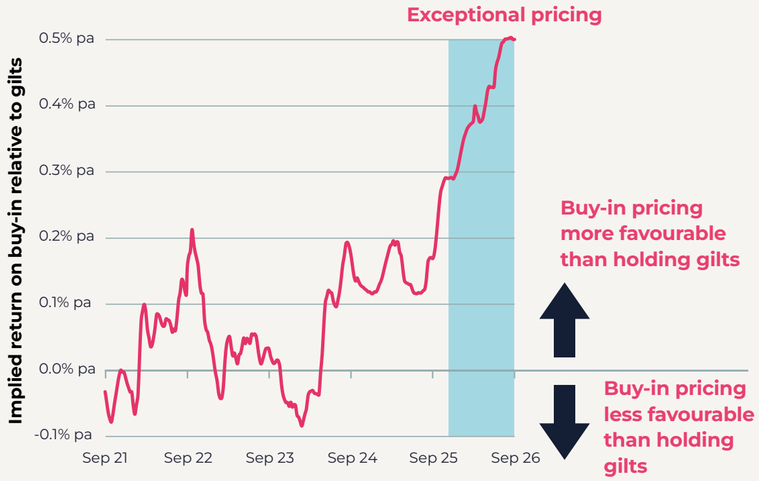
Strong funding, competitive insurer pricing, and a maturing market for other endgame solutions give sponsors and trustees more ways to manage pension risk, release value, and secure members' benefits.

The right option should therefore start with the desired outcome, rather than the solution or product that happens to be most readily available.

Insurance: certainty remains valuable

Bulk annuity pricing is currently at exceptional levels, supported by insurer capacity and strong competition for well-prepared schemes.

Figure 2: Combined buy-in pricing vs UK credit spreads



Source: LCP insurer pricing model for a full buy-in with a 50:50 split of non-pensioners and pensioners, which is calibrated against actual transaction pricing.

For many sponsors, insurance remains the clearest route to a clean break from pension risk. For trustees and members, it provides long-term benefit security with a regulated insurer.

But insurer selection is not just a price exercise. Execution, administration, member communications, and the post-transaction member experience matter too - and insurers are increasingly differentiating themselves in these areas.

Following a transaction, significant work remains, and sponsors should get involved to help manage this efficiently and effectively. The sponsor may also need to make important decisions, particularly in relation to indemnities.

A clear plan for managing any remaining surplus is equally important, and discussions should ideally begin well in advance of the transaction.

Other endgames provide genuine choice

Run-on, superfunds and other options like a "sponsor swap" or capital-backed structures can offer a different balance of:

- Risk removal and corporate flexibility
- Upfront cost and future value
- Access to surplus and accounting outcomes
- Member security and governance

These routes are now credible strategic options — particularly where the sponsor wants to reduce pension risk without paying the full cost of immediate insurance, or where a well-funded scheme has the capacity to run on and generate further value.

The superfund market is gaining momentum. Clara has now announced eight transactions to date, totaling near £2bn, including transactions for solvent sponsors. TPT has recently become the second superfund to pass TPR's assessment, offering a run-on model with potential for surplus sharing with members. Other new entrants, with providers working through TPR's assessment process, could further increase competition, choice and innovation.

"Sponsor swap" transactions like the Aberdeen / Stagecoach deal (see case study on page 7) are an example of how innovative structures can support a clean corporate exit while targeting secure member outcomes. This will add to the range of credible endgame options.

Readiness creates options and opportunity

Funding is not the only barrier to endgame. In a recent LCP survey, more than 70% of respondents identified barriers beyond funding level – including poor data, complex benefits, GMP equalisation, unresolved legal issues, and illiquid assets.

These issues can delay a transaction, narrow the range of available options, and increase cost. Addressing them early is valuable whatever the eventual destination.

Being ready does not commit a scheme to a particular endgame – it gives sponsors and trustees the freedom to act when the right opportunity arises.



The endgame debate has moved well beyond a simple choice between 'buy-out now' or 'wait'. Sponsors and trustees have more options — and more reason to be clear about the outcome they want for both the business and members.

Jonathan Griffith, LCP partner & Head of Endgame Innovation

2. Developments in endgame options Continued

Case study

Stagecoach Group Pension Scheme transferred to Aberdeen Group

Background:

Stagecoach wanted to simplify its business while supporting the long-term security of its £1.2bn pension scheme and 22,000 members.

Outcome:

LCP advised the Company through an extensive review of its endgame options and on the commercial aspects of an innovative agreement announced in December 2025.

Under the agreement, Aberdeen has replaced Stagecoach as sponsoring employer, taking responsibility for funding as well as the management of the Scheme's assets. Rather than moving to insurance, the scheme will continue to run on, with robust safeguards to protect its financial security.

The arrangement included an initial uplift to all members' benefits, better inflation protection and opportunities for further pension increases. It also provided Stagecoach with a swift and clean break from their DB scheme. This demonstrates how a tailored strategy can help align business objectives with better outcomes for pension scheme members, and how a scheme's strong funding position can be used to create long-term value.

Operational strategy

Schemes and sponsors should develop their operational strategy alongside their endgame strategy to ensure they have the resources and expertise needed to deliver it effectively.

This includes deciding which responsibilities to retain in-house and which to outsource — for example, to an Outsourced Chief Investment Officer (OCIO). As part of this, sponsors should assess current and future resourcing needs and develop a succession plan in case of change.



Elevate: A flexible, active run-on strategy framework helping our clients turn DB pension schemes into real assets

Find out more →

What should sponsors be doing now?

With endgame options continuing to evolve, sponsors do not need to make a definitive choice today. Instead, the priority should be to put in place a robust decision-making framework that preserves flexibility and allows the strategy to adapt as circumstances change.

Our LCP Elevate framework is designed to support this approach:

1. **Establish your starting point.** Get a clear understanding of the scheme's position and rules, alongside stakeholders' objectives and priorities.
2. **Assess the options.** Evaluate the full range of endgame options and potential outcomes against your objectives, taking account of longevity trends and insurance pricing.
3. **Agree a preferred endgame target and timeline.** This could include running the scheme off over the long term or deferring your chosen endgame beyond the point at which it becomes affordable.
4. **Build a resilient, flexible strategy.** Put in place a robust and efficient strategy that delivers on your objectives while retaining the flexibility to adapt as circumstances change.
5. **Monitor and reassess.** Review the strategy as a whole, track progress against your objectives and regularly reassess your options as opportunities and risks evolve.

3. DC, CDC and the future of pension provision

Adequacy moves to the forefront

Whilst automatic enrolment transformed workplace pensions by bringing millions more people into pension saving, the next key challenge is savings adequacy. Ensuring people save enough is perhaps the key challenge for the UK's pension system. The Pensions Commission is considering what is needed to create a system that is adequate, fair and sustainable over the long term.

As current employees increasingly rely predominantly on DC pensions, employers should ask if their existing pension schemes are likely to deliver the retirement outcomes they want for their workforce, and that their employees will expect.

This could be particularly important for populations made up of mostly low or moderate earners where the benefits of an income in retirement are more likely to outweigh the additional flexibility of DC.

Time to benchmark DC provision

Against that backdrop, DC benchmarking should be moving up the corporate agenda, with sponsors also considering wider factors such as expected member outcomes and members' experience at and beyond retirement.

Increasing contributions will remain one of the most direct ways to improve member outcomes. However, helping employees get comfort their contributions are building up enough pension for a comfortable retirement will also likely be a priority. CDC has the potential to bring significant improvements here and could be an important consideration for many employers.

Employers may also want to future proof their arrangements to align with wider changes currently being considered by DC trustees on Guided Retirement (see page 10), that will also include considering CDC and other decumulation strategies.

Guided retirement policy consultation

On 3 November, the Government issued its "Guided retirement policy consultation". This included new details of how trustees of DC schemes are expected to be required to default savers into Retirement CDC or other collective solutions.

This is likely to further accelerate interest from sponsors in refining their own Future of Pensions strategies, including forming views on the CDC and DC considerations we have set out in the following sections.



3. DC, CDC and the future of pension provision Continued

Collective Defined Contribution (CDC) schemes

A large recent structural change is the introduction of new UK Collective Defined Contribution (or CDC) schemes. These schemes aim to combine some of the attractive features of DB and DC schemes, with employers and employees paying fixed contributions (as with a traditional DC scheme) but members' assets being invested collectively rather than in individual pots.

At retirement, schemes provide members with an income for life, akin to a DB pension – albeit not guaranteed. Target pensions and increases can be adjusted, including reductions where required by the scheme's funding position. Improved investment strategies due to collectivisation mean expected member outcomes from CDC could be 25% better than today's best drawdown strategies and even higher compared to annuities.

The experience of Royal Mail, which introduced the UK's first CDC scheme in 2024, shows CDC can move from theory into practice. The market has now moved into the next phase and legislation allowing creation of unconnected multi-employer CDC schemes came into force in July 2026. We expect commercial schemes to become available from mid 2027.

The regime anticipates competing commercial multi-employer arrangements, creating the potential for employers to access CDC without establishing their own scheme. Other, likely larger, employers or industry groups may also want to leverage the new regime to establish their own schemes, perhaps aligning with related industry developments such as utilising DB surpluses to make future service contributions.

There is also growing interest in CDC as a retirement-income solution for existing DC savers. Retirement CDC would allow an individual to transfer their DC pot at retirement into a collective arrangement designed to provide an income.

Taken together, these developments have the potential to create a new commercial CDC market alongside traditional DC. For today's DC providers, that creates a natural reason to consider how collective solutions could sit alongside existing offerings.

CDC is moving from concept to reality, with the first schemes now operating and more employers exploring whether it could play a role in their retirement offering. Learn more in **our webinar**.

We believe three key questions should be on corporate agendas and we have developed a framework to help sponsors refine their future pensions strategies.

Three key questions will include:

1) Adequacy: Are our current contribution rates and wider DC or other provision likely to produce the retirement outcomes we want for our employees, and that they expect?

2) Future design: How might CDC arrangements improve the situation for our current employees and what are our views on them?

3) Preferred model: Which of the emerging commercial CDC or other models might be best suited to meet employees' future needs?

These questions are examined further in our recent **future of pensions** report – see figure 3 for a summary.

Figure 3: A comparison of DC and CDC solutions for future savers

CDC
DC

1. OUTCOMES FOR MEMBERS

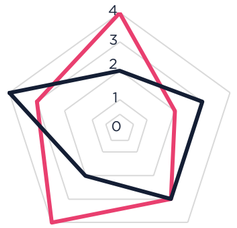
We believe that, on average, CDC will provide a higher expected pension for savers, although innovations in DC have helped close that gap.

Winner: CDC

5. MATCHING MEMBERS' NEEDS IN RETIREMENT

We expect many savers to value the flexibility in retirement that DC offers. However, some significant cohorts will prioritise the stability of income that CDC can provide.

Winner: DC



2. FAIRNESS

DC is arguably a fair way to provide a pension. CDC, whilst improving expected outcomes does so via risk pooling, which needs careful scheme design and management to ensure fairness.

Winner: DC

4. EASE OF RETIREMENT PLANNING

Retirement planning is easier under CDC as members get an income for life. In comparison, the range of choices in DC make planning more difficult, although this is a key area of industry focus.

Winner: CDC

3. COMMUNICATION

CDC and DC present different communications challenges, both of which now have a track record of being overcome. DC communications generally need to explain choices and support actions, whilst CDC communications predominantly need to raise awareness.

Winner: Draw



While there can be challenges for those used to the flexibility and individualism of DC, I believe that for many savers these are vastly outweighed by the higher expected retirement outcomes and ease of retirement planning of CDC.

Helen Draper, LCP partner

4. DC reform moves to centre stage

Whilst the industry gets to grips with CDC schemes, DC schemes have become the main form of workplace pension saving for millions of employees across the UK; these arrangements are increasingly where the long-term focus lies.

The policy agenda is shifting accordingly, with substantial reforms designed to improve value, increase scale, broaden investment opportunities and provide members with more support as they move into retirement.

For sponsors, these developments matter even where day-to-day responsibility for DC provision has been outsourced to a master trust or pension provider.

Value for money assessments

A new value-for-money framework will require schemes to assess and publish performance across investment returns, costs and charges, and quality of service. The aim is to identify arrangements delivering good outcomes and encourage others to improve, consolidate or transfer members elsewhere. The bar for good DC provision is rising and the message from government is clear: low cost will not necessarily mean good value.

The framework will be introduced in stages, with final rules and regulations expected in 2027. The first full assessments are expected in 2028, based initially on data collected from July to December 2027. Initially, the requirements will apply to master trusts, single-employer trusts with at least 50,000 members and open, firm-designed multi-employer contract-based arrangements, before extending more widely.



The question for employers is changing from 'is our DC scheme competitive today?' to 'is it built for the pension market of tomorrow?'

Stephen Budge, LCP partner

Guided retirement: support beyond accumulation

Under the new Guided Retirement framework introduced by the Pension Schemes Act 2026, DC schemes will need to provide members with one or more default pension solutions designed to provide a sustainable retirement income, while retaining member choice.

A strong DC proposition will increasingly need to support members not only while they are saving, but also as they move into retirement. Providers will have flexibility over the solutions they offer, which may include combinations of drawdown, annuity purchase and, in time, Retirement CDC (see page 9). Current plans would see the duties applying to master trusts and GPPs from the second half of 2029, with other DC schemes following in 2030.

Consolidation and DC scale

The drive towards consolidation is gathering pace. From 2030, master trusts and group personal pensions used for automatic enrolment will generally need at least £25bn in a single main scale default arrangement, unless they qualify for an exemption, new entrant route or transition pathway – under which they are expected to need at least £10bn by 2030 and a credible plan to reach £25bn by 2035. The intention is to create the scale needed to improve governance, efficiency and investment opportunities.

At the same time, small deferred pots are being addressed through automatic consolidation. Eligible pots of £1,000 or less could be transferred to authorised consolidators where no contributions have been received for at least 12 months. This should make it easier for members to keep track of their savings and reduce unnecessary costs.

The new system is expected to begin operating in 2030, with much of the detailed framework still to come.

Taken together, these measures are expected to accelerate consolidation and increase the importance of scale, capability and long-term investment in DC provision.

Productive finance and UK growth investment opportunities

Larger schemes should be better able to invest in a wider range of assets, including infrastructure and growth businesses. These assets have the potential to improve diversification and long-term member outcomes, while also supporting investment in the UK economy.

The Government has not imposed a mandatory allocation to UK investment. However, the Pension Schemes Act 2026 includes a reserve power that could be used to introduce asset-allocation requirements if voluntary progress is judged insufficient. This sits alongside the voluntary Mansion House Accord, under which participating providers have committed to an ambition of investing at least 10% of their main DC default funds in private markets by 2030, including at least 5% in UK private markets.

What should sponsors be doing now – our three key considerations:

Understand your provider's direction of travel
Consider how your scheme and provider will feature in the drive for consolidation. Ask your provider for its three-to-five-year roadmap.

Review the retirement proposition
Ask how your provider plans to develop its retirement offering, and whether the proposed member experience and support will meet the needs of your workforce.

Understand how the default strategy is evolving
Ask how private markets and other productive assets are being considered within the default, and how the case for investing is assessed from a member outcomes perspective.

5. Preparing for year-end accounting

LCP's **Accounting for Pensions report 2026** – the 33rd edition – estimated that FTSE 100 companies had an aggregate UK DB accounting surplus of £39bn at the 2025 year-end, with more than 80% of those companies reporting an accounting surplus.

Accounting treatment for different endgames

As endgame options continue to be a key point of discussion, their accounting implications are becoming increasingly significant for sponsors. Improved funding levels and the prospect of surplus mean that buy-out, run-on and other options are on the table for many schemes. However, the chosen endgame can produce very different outcomes for the balance sheet and profit and loss (P&L) account, so where sponsors are sensitive to their financial statements, it is increasingly important to understand the accounting consequences before committing to a strategy.

For example, where a pension scheme is transferred to a third party like an insurer, a superfund or another sponsor, the amount required to complete the transaction can often exceed the accounting value of the liabilities. A key accounting question is whether the difference between these two figures is booked to P&L, or elsewhere through other comprehensive income (OCI). A superfund transaction would usually be accounted for through a P&L settlement charge, whereas an insurance transaction (a buy-in) can often be accounted for through OCI (depending on certain details).

Similarly, surplus used for the benefit of members can lead to a potential P&L charge, but the extent and timing of this is often not straightforward and may depend on the small print of what's been agreed or announced. A return of surplus to the sponsor is treated as a negative cash contribution rather than a P&L credit.

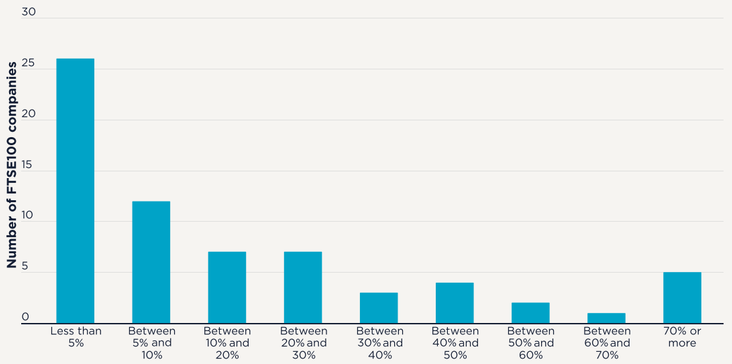
Early consideration of accounting can identify potential balance sheet or P&L consequences, inform the comparison between run-on and different types of risk transfer and give finance teams time to engage with auditors and other stakeholders ahead of a transaction or agreement with the trustees.

Pension schemes as a source of capital

The persistency of pension surpluses creates another important year-end question: what does the surplus actually mean to the business and its stakeholders?

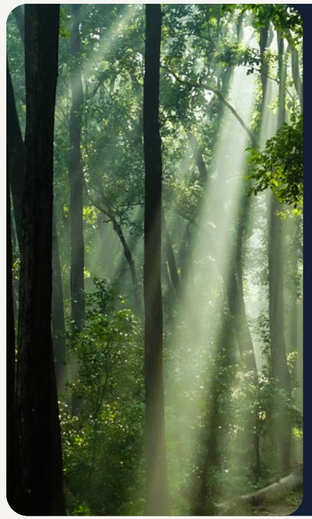
For some companies the amounts involved are significant. For over 40% of FTSE 100 companies with a UK DB scheme, scheme assets are equivalent to at least 10% of the company's market capitalisation; for eight companies they represent at least 50%. At this scale, pension scheme performance represents an important risk, but also an opportunity for the wider business.

Figure 4: UK DB pension scheme assets as a proportion of market capitalisation at 31 December 2025



But an accounting surplus is not necessarily valued by investors pound-for-pound. In our view, rating agencies and other market participants may attach little or no credit to an accounting surplus if it is unclear how the company can ultimately benefit from it. The Financial Reporting Council has also noted that UK pension surplus disclosures may become of heightened interest to users if regulatory changes make surplus easier for employers to access.

Over time, we expect that investors will look beyond the headline surplus figure to understand how resilient it is, the timescales and terms for accessing it, and the risks that remain. That makes market messaging increasingly important. Sponsors should consider whether their year-end disclosures clearly explain the scale of the pension opportunity, the company's rights and strategy in relation to surplus, and how the scheme fits into the wider corporate capital strategy.



Surplus in the spotlight

How pensions have moved from a principal risk to a significant opportunity

Read now →

5. Preparing for year-end accounting Continued



Are life expectancies bouncing back?

LCP longevity report 2026

Read now →

Other topical year-end issues

Strategic questions may be attracting greater attention, but the traditional year-end assumptions remain important.

Accounting discount rates: High-quality corporate bond yields have gradually moved upwards over the course of 2026. The yield on corporate bonds at 30 September 2026 was up 90bps compared to 31 December 2025. All else equal, this could lead to a c.10-15% fall in accounting liabilities. The corresponding fall in assets will depend on how hedged the assets are to the accounting position.

Big tech bond issuance: Major bond issues from Alphabet (£5bn in February) and Amazon (£4bn in September) are also lifting discount rates. Together, they now account for more than half the UK's longer-dated AA corporate bond market, excluding universities and similar quasi-government organisations. These high-yielding bonds might increase discount rates by around 20 bps, depending on the model and cash flow profile. Auditors' approaches to including these bonds currently vary, so this will need consideration before year-end.

Mortality: Our 2026 longevity report looks at whether record-low death rates, rising life expectancy trends and pensioner mortality being back in line with pre-pandemic levels signal the start of a new era for mortality. With the potential for medical developments, anti-obesity drugs and earlier cancer detection, there are some positive signs for life expectancies. Schemes and sponsors should revisit longevity assumptions, particularly where surplus or endgame decisions are sensitive to them. For example, for schemes looking to run on, longevity (both assumed and actual) can affect both the reported surplus and assessments of how much value may ultimately be available.



A period of relative stability in pensions accounting is welcome. Attention is increasingly turning instead to how evolving endgame and surplus strategies interact with the balance sheet and P&L, making it important to understand the accounting implications upfront. Under US GAAP the 'surprise risk' is even greater.

Phil Cuddeford, LCP partner

6. Investment strategy

Aligning investment strategy to your overall pension strategy: options for targeting either run-on or settlement

A DB scheme's endgame objective and its investment strategy come as an inseparable pair. Agreeing an ultimate destination and setting the right path to get there is fundamental to both corporate and member outcomes.

Investment strategies for running on

If you are aiming to run on and access surplus, setting an optimal investment strategy will be crucial to maximising value. Trustees may also be more supportive if this can extend to benefitting members, whether that is a financial share or control over a positive member experience.

Perhaps counter-intuitively, targeting higher investment returns can be a long-term risk reduction tool by increasing surplus buffers in schemes. These increasing buffers can then support further growth allocation in a virtuous cycle. We explored this further in our recent **webinar**.

Investment strategies ahead of settling liabilities

If sponsors wish to remove the pension scheme from the balance sheet, new and interesting options are available on the market, with superfunds and sponsor swaps joining established insurance settlement options (see pages 6 and 7).

If targeting settlement, you will likely need your scheme's investments to transition seamlessly into a portfolio that de-risks and aligns with the endgame objective.

Further, even if a full member insurance transaction isn't desirable for you today, a pensioner-only buy-in can be a powerful strategic tool, locking in current attractive pricing, reducing longevity and inflation risk, and potentially improving expected returns compared with investments in corporate bonds and LDI.



By far the area that has the biggest financial impact on sponsors, is the scheme's underlying investment strategy. Adding just half-a-percent to investment return can often double the size of the surplus available to sponsors.

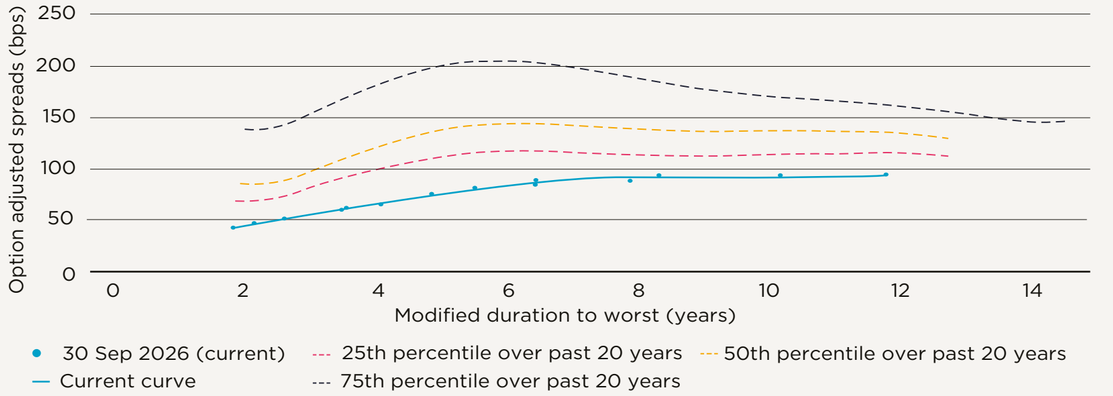
David Wrigley, LCP partner

Making the most of current market conditions

6 top tips for DB investors in current market conditions:

1. Reconsider investments in long-dated corporate bonds – the chart below shows how the additional return available compared to investing in government bonds is well outside its typical range over the past 20 years, meaning other investments are likely to offer better risk-return characteristics.

Figure 5: Credit spreads over past 20 years



2. Consider investing in shorter-dated bonds, which would limit any impact of a market repricing, and provide ample dry powder to invest in opportunities as they arise.
3. Look at "bond-like" investments outside the bond market for higher returns. Long-dated property leases can offer broadly double the level of outperformance compared to corporate bonds for a similar credit risk.
4. Build protection into your portfolio. Equities have had a good ride, and now may be a good time to put in place some downside protection. Options that look attractive in the current market include selling some of the upside to pay for downside protection and using specialist tail-risk hedging strategies.
5. Beware of the concentration risks within global indices and passive investing. US tech companies make up a very significant proportion of global equity markets, but are increasingly the biggest suppliers of corporate bonds too.
6. Manage how you access investments and the costs of implementation.

6. Investment strategy Continued

Implement the right strategy at the right cost

Regardless of the chosen endgame, managing the costs of your investment arrangements should be high on your agenda.

It is self-defeating to choose a great strategy if its benefits are eaten away by high investment costs.

For many schemes, investment arrangements were established when schemes were in a fundamentally different position with different priorities. Many schemes are overdue a review of which approach works best for them.

Three of the most popular governance models are highlighted below.

Advisory: trustees retain strategic control with varying levels of strategic and operational support from their adviser. This can offer best-in-class investment solutions but can require trustee bandwidth and careful coordination.

A Core Manager arrangement: helps to streamline your strategy, using a principal provider, often the Scheme's LDI manager, to deliver (most or all of) the investment strategy implementation, but still preserves independent advice and trustee control.

OCIO and Fiduciary Management arrangements: take this further and combine the advisory and core manager roles. This can save trustee time, but care is needed around potential conflicts and the level of fees paid.

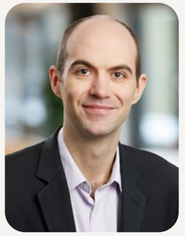
Sponsors and trustees should look beyond the convenience of delegation and seek third-party advice if investment decisions do not align with the scheme's ultimate objectives. These considerations are particularly important where illiquid assets could delay an insurance transaction or limit future options.

Ultimately the optimal investment governance model can balance cost, control and flexibility and help your scheme implement the right strategy as it progresses towards its endgame objective.



Further hot topics

Development	*LCP viewpoint*	*So what?*
2026 Budget	The 28 October Budget did not contain any big new pensions policies, but there were a number of measures that could support greater flexibility in how pension schemes use surplus and deliver retirement benefits. This includes confirming the tax framework for DB surplus lump sum payments to eligible members from April 2027, alongside planned tax changes to facilitate DC consolidation, Guided Retirement and retirement-only CDC. You can read more about these and the various other pensions measures in the **Budget Special edition of our LCP Pensions Bulletin**.	For DB sponsors, the ability to offer members lump sum surplus payments could help unlock agreement with trustees on surplus sharing without creating additional ongoing benefit liabilities. Consider this alongside the wider surplus strategy discussed on pages 4–5, including the tax and accounting implications. On the DC side, sponsors should ask providers how the proposed tax changes will support their consolidation plans and product offerings. Sponsors might also want to seek assurance that trustees and their administrators are preparing for the various changes to benefit processes from the other more detailed aspects of the Budget (see our Bulletin for more detail).
Taxation	From 6 April 2027, most unused pension funds and some pension death benefits will be brought within the scope of Inheritance Tax, potentially reducing the attraction of pensions as a savings vehicle for passing on wealth. Separately, from 6 April 2029, the National Insurance advantage of salary sacrifice will be capped at the first £2,000 of employee pension contributions each year. Salary sacrifice can make pension saving more efficient for employees and reduce employer NI contributions.	**Actions for corporates:** 1. For DC, your pension provider will be updating their systems, processes and member communications to reflect the changes. Some providers are offering death benefits that are materially more tax-efficient than others, so it's worth checking. 2. For DB, ensuring that processes and communications are up to date and beneficiary expectations are managed to reduce the risk of complaints will be key. 3. Where separate life assurance arrangements are in place, there may be certain common features that can jeopardise the "death in service" exclusion that HMRC are providing for all employees. Employers should test this with their provider. 4. There is time to prepare, but employers should assess the impact of salary sacrifice changes, maximise take-up and review the contribution structure and overall benefit package.



The Budget provides sponsors with some additional flexibility on the DC side but, perhaps more importantly, no big surprises. Sponsors can now focus on progressing DB surplus plans and challenging DC providers on how reforms will improve retirement outcomes.

Jon Forsyth, LCP partner and Head of Pensions Developments



Employers need to be on the front foot to help their employees, control costs and minimise the risk of complaints. Both changes will come round quickly and neither is intuitive. There are complexities which will catch people out.

Alasdair Mayes, LCP partner

Further hot topics Continued

Development	*LCP viewpoint*	*So what?*
Contingent Funding	For many schemes, contingent assets and contingent contribution arrangements were originally put in place to support deficit recovery or provide additional protection against specific risks. But with the changing backdrop of scheme funding, historical arrangements may no longer be aligned with what either sponsors or trustees are trying to achieve. Contingent support should be designed (or redesigned) around the scheme's endgame. For run-on strategies, contingent assets can provide downside protection in the face of rapidly changing market conditions, and support an intentional level of investment risk as well as potentially a surplus-sharing framework. For schemes heading towards insurance, arrangements such as escrow can similarly be designed around the funding needed to reach or execute a transaction.	Sponsors should consider how the right contingent support could unlock further value in endgame strategies. Historic arrangements may no longer be required or valued by trustees, but unwinding them could provide additional benefits for sponsors. Sponsors should not commit to agreeing any new form of contingent funding without maximising the return they get in terms of upside unlocked.
Systemic Risks / operational resilience	Systemic risks remain a key challenge for pension schemes and their sponsors. Geopolitical uncertainty and volatile markets can affect funding levels, investment strategies and liquidity at short notice, while climate change and the transition to a lower-carbon economy continue to create financial risks and opportunities that need to be well managed. These risks share a common characteristic: they are difficult to predict and can develop quickly. At the same time, the rapid development of AI brings potential benefits for administration, governance and member communications, but also creates new cyber, data and decision-making risks. Strong operational resilience depends on three connected pillars: people with the right skills and awareness, governance which identifies, monitors and responds to risks, and knowledge of the scheme's systems, suppliers, data and vulnerabilities.	Sponsors should not assume that improved funding levels remove the need for robust risk management. Alongside trustees they should regularly test how the scheme would respond to market disruption, a cyber incident, supplier failure or a climate-related market shock. This includes ensuring that cyber training and incident-response plans are up to date, AI use is subject to appropriate controls, and climate and transition risks are reflected in investment and covenant discussions. The aim is not to predict every event, but to ensure that the scheme can make informed decisions and continue to operate effectively when conditions change quickly.



The question for sponsors should be whether the current contingent arrangement is still solving the right problem. Redesigning support around the scheme's endgame can unlock significantly greater value for both sponsors and trustees.

Katie Peto, LCP partner



Systemic risks can't be avoided, so they need to be understood. Having a robust risk management framework ensures that quick responses can limit the severity of impact when systemic risks materialise. Such a framework can also help ensure that opportunities can be taken advantage of when they arise.

Simon Coomber, LCP partner

Further hot topics Continued

Development	*LCP viewpoint*	*So what?*
Professional Trustees	LCP's **2026 report on the Professional Trustee landscape** finds that over half of UK DB schemes have a Professional Trustee (PT), of which half are a Professional Corporate Sole Trustee (PCST) arrangement. The changing landscape and surplus conversations have meant that sponsors are increasingly thinking about the value a Professional Trustee can bring to the board through their expertise, range of experience, perspective and introduction of efficiencies. Nearly 80% of LCP's survey respondents identify collaboration and working effectively with sponsors as the most valued skill when appointing a Professional Trustee. Trusteeship has also been under the spotlight following the DWP consultation on trusteeship and we are expecting the results of that to be published later this year.	Sponsors should review whether their current trustee governance model is fit for the scheme's next phase, not just its current position. A PCST or an additional Professional Trustee may help to accelerate decision-making and provide specialist expertise. Where a change is being considered, a robust selection process, clear objectives and good handover arrangements will be important. Governance should support the chosen endgame, enabling informed decisions to be made quickly when market opportunities arise, while maintaining strong challenge and a clear focus on member outcomes.
Verity case/ TPT	The judgment in the long-running case of *Verity Trustees v Wood* is expected soon. This predominantly relates to a long running issue where there is uncertainty affecting historical benefit changes that were made in schemes within The Pensions Trust (TPT). If the judge finds that changes were not implemented correctly, there is the potential for significant additional liabilities for affected employers within the TPT, most of whom are in the not-for-profit sector, including well-known charities and housing associations. Even those employers and schemes not directly involved in the case will be waiting for the judgment as it is expected to give clarity in areas that affect schemes more generally.	For directly affected employers, the judgment will hopefully give clarity as to the level of any additional liabilities that they are responsible for. While the detailed impact will no doubt take some time to be assessed, employers will need to understand the scale of any additional contributions, the timescales for meeting them, and anything they can do to mitigate any impact. Many of the affected not-for-profit employers are already facing significant financial pressures. The prospect of additional pension costs could have implications for the services they provide. For other employers who don't have schemes within TPT, the judgment could still provide guidance with other ongoing projects, for example where schemes are seeking to deal with 'Virgin Media' issues, or where there is a question around the level of pension increases that need to be secured with an insurer.



With increasing complexity, regulation and endgame innovation, trustee boards must evolve to continue to be effective. The right trustee model can help support effective and efficient decision-making, constructive sponsor engagement and better outcomes for members. Assessing if your scheme's governance is fit for purpose is key, not just today but looking to the future.

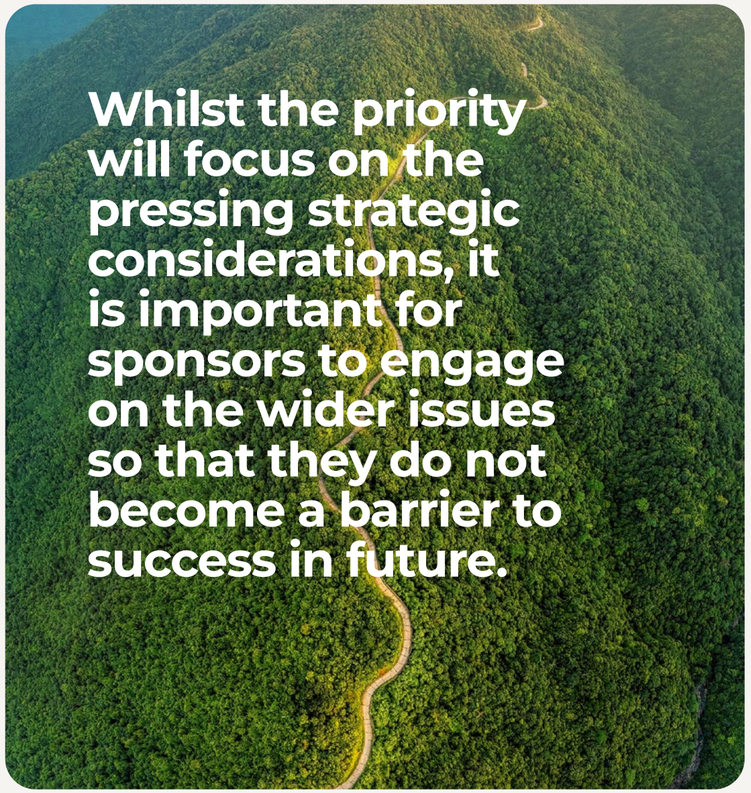
Nathalie Sims, LCP partner and Head of Strategic Pensions Relationships



For many not-for-profit organisations, years of uncertainty have made long-term planning difficult, given the uncertainty around the outcome of this case. As the position becomes clearer, it is important employers assess their strategy afresh, whether that is the strategy for dealing with the outcome of the case, potentially meeting any additional liabilities or ultimately determining a long-term strategy that matches up with their objectives.

Mike Richardson, LCP partner

Round up of other developments



DB funding regime in practice

Most schemes will now either have completed their first valuation under the new funding regime or be well underway with it. TPR's 2026 Annual Funding Statement confirms that most schemes are well funded and should be focusing on long-term objectives and endgame planning. The Fast Track route for submitting valuations can reduce the regulatory burden for schemes that meet its parameters but the Bespoke route can provide extra flexibility. TPR expects early integrated engagement between trustees, sponsors and advisers, with the journey plan being a live consideration, rather than a tick-box exercise required for the Statement of Strategy.

Member support at retirement

As more employees reach retirement with predominantly DC benefits, helping them understand their options is becoming increasingly important. With the reform in the DC landscape – (see page 10), sponsors should make sure that communications, retirement support and the provider's default proposition work together to help members make informed decisions at those critical points in their lives.

M&A

Pensions continue to be a material consideration in corporate transactions, even where a DB scheme is in surplus. Buyers will need to understand not only the current funding position, but also the security and accessibility of any surplus, and the scheme's intended endgame. Recent alternative endgame transactions, such as superfunds or 'sponsor swaps' (like the Stagecoach deal) may be of particular interest to buyers as part of a wider corporate toolkit for mitigating pensions risk.

Pensions dashboard

All schemes and providers in scope were required to connect to the dashboards ecosystem by 31 October 2026. Connection is not the end of the project: schemes must be able to match members accurately, return reliable information and embed dashboards into business-as-usual operations. Sponsors should treat dashboards as a catalyst for wider data improvement, supporting more efficient administration, member communications and future endgame activity.

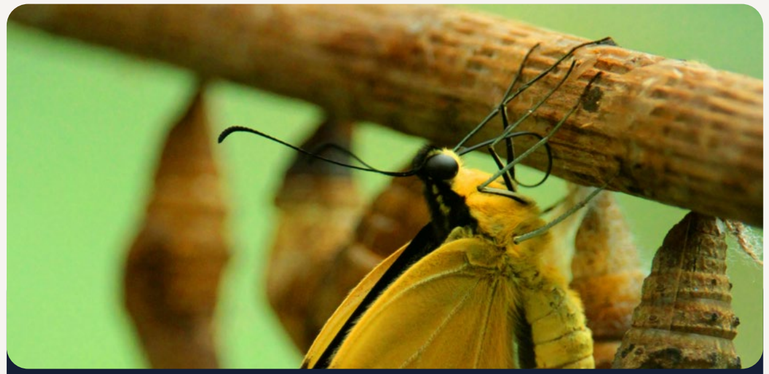
GMP equalisation

GMP equalisation remains an important legacy project for many DB schemes. While significant progress has been made, complex issues around past transfers, data gaps and benefit corrections mean that some schemes still have work to do. Sponsors should support trustees in bringing projects to a proportionate conclusion, particularly where outstanding GMP work could delay an insurance or superfund transaction.

Diversity, Equity and Inclusion

Pensions inequality remains a significant challenge, particularly where gender, ethnicity, caring responsibilities and lower earnings interact. **LCP's recent research** highlights the barriers faced by women from ethnic minority communities, while also identifying encouraging signs of progress for younger generations. Sponsors can play an important role through inclusive pension design, targeted communications and support for more diverse trustee boards, helping ensure that pension provision works for the whole workforce.

Round up of other developments Continued



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Executive pensions

The direction of travel continues to be towards greater alignment with the wider workforce, supported by clearer disclosure and consistent remuneration policies. **LCP's Accounting for Pensions 2025** research found that around one in three FTSE 100 CEOs now receive pension contributions broadly in line with their employees, although differences remain across the market. Sponsors should continue to benchmark arrangements and ensure they can be clearly justified.

Financial wellbeing

Financial wellbeing is more than a pensions issue. **LCP's Employee wellbeing report**: Uncovering financial resilience highlights a growing disconnect between financial confidence and financial security. While employee confidence in managing day-to-day finances has increased since 2024, only 19% of employees feel financially secure and a growing proportion are simply "coping", with limited resilience to absorb future financial shocks. The report finds that financial pressures are affecting workplace outcomes, with 57% of employees saying money worries impact their work and 41% reporting lower engagement or motivation. Significant differences by age, housing status and region underline the need for targeted support rather than a one-size-fits-all approach.

Virgin Media

Very broadly, the Virgin Media judgment held that certain changes to benefits made between 1997 and 2016 without actuarial confirmation might be void. The Pension Schemes Act 2026 seeks to address the issue by allowing current scheme actuaries in many cases to make retrospective confirmations. This should provide a proportionate route to resolving the issue for many schemes, although in some cases resolution may be more difficult. Sponsors should take legal and other advice, and challenge the approaches taken by trustees and their advisers to ensure they are following the most efficient and effective approach.

Cyber risk

A cyber incident could expose members' personal data, disrupt pension payments and create financial and reputational consequences for sponsors. Although trustees remain accountable for protecting scheme information and assets, sponsors should understand how the scheme's cyber risks interact with their own systems, people and service providers. They should also seek assurance over administrators' cyber controls and ensure incident-response plans are tested and coordinated with the company's own arrangements. Clear responsibilities, escalation routes and member communication plans should be agreed before an incident occurs.

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