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UK PENSIONWATCH
REVIEW OF Q4 2025

An overview of news, market movements and insights focused on defined benefit (DB) pension schemes.

HIGHLIGHTS

- The funding surplus for the PPF 7800 Index rose in October and November, and we expect the surplus to have remained largely unchanged in December given market movements.
- At 20-year maturities, both inflation-linked and nominal gilt yields ended the quarter lower. The Bank of England reduced the base rate by 25bp in December. Risk assets generally performed well over the quarter, as equity markets rose and credit spreads tightened. In government bond markets, US, German and Japanese yields rose, while UK yields declined.
- The government announced various pensions measures in the Budget, including flexibility for surplus assets in defined benefit (DB) pension schemes to be paid directly to members, and inflation linkage to be introduced for pre-1997 pension accruals to members in the Pension Protection Fund (PPF) and Financial Assistance Scheme (FAS).

PENSION FUNDING STATUS UPDATE

Figure 1: DB pension scheme assets and liabilities versus funding surplus[1]

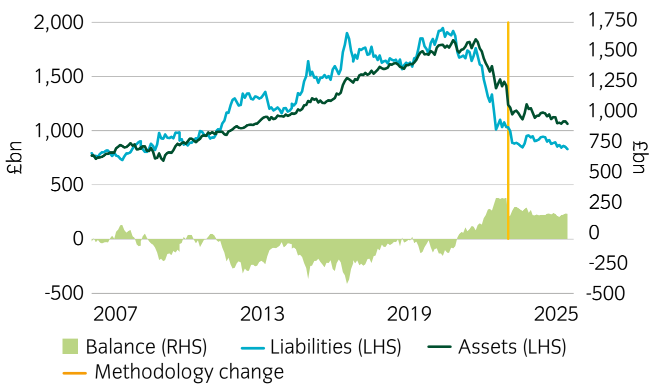


Table 1: PPF 7800 Index data[1]

£bn	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Latest data Nov 2025
Assets	1,105.0	1,068.1	1,086.5	1,078.6	1,118.0
Liabilities	878.8	854.2	859.7	834.4	860.4
Surplus	226.2	213.9	226.8	244.2	257.6

The PPF 7800 Index funding surplus rose in the first two months of Q4. At the end of November, the PPF 7800 Index had a funding surplus of £257.6bn, up from £244.2bn at the end of Q3, and from £226.2bn at the end of December 2024.

EVENT: A NEW ERA FOR DB PENSIONS – POWER, PURPOSE AND POSSIBILITY

Trustees and sponsors have an unprecedented opportunity to rethink not just their strategy, but their ambitions and how their decisions could shape the future of their members and the UK.

In January, we will explore the evolving role of DB schemes, hearing from leading voices in pensions, policy and investment, including Steve Webb, former Pensions Minister and Paul Johnson, one of the UK's leading economists and former director of the Institute for Fiscal Studies (IFS).

- DATE: Wednesday 21 January 2026 (08:45-13:00)
- VENUE: Queen Elizabeth II Centre, Westminster

This event is relevant for trustees and sponsor representatives navigating new legislation and opportunities. To register your interest in attending this event, please click the button below.

REGISTER YOUR INTEREST

[1] Source: PPF 7800 index. Data as at 30 November 2025. Due to updated methodology, although general trends are still visible, figures from 2023 onwards are not directly comparable with those from earlier years.

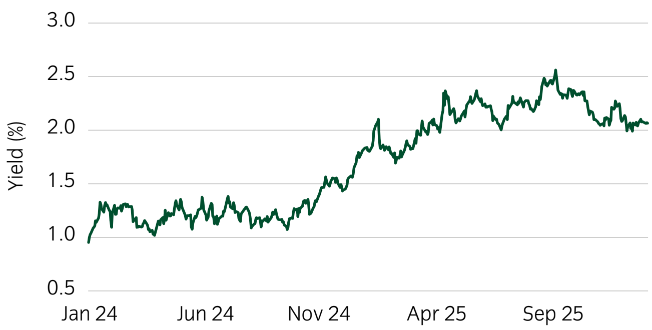
NEWS
AND TRENDS

NOMINAL AND REAL YIELDS CLIMB

Longer-dated gilt yields declined over the quarter.

- The Bank of England's Monetary Policy Committee (MPC) reduced interest rates by 25bp to 3.75% at its December meeting. Five members of the MPC voted for the cut, with four voting to keep the rate at 4.00%.
- The CPI measure of year-on-year inflation slowed in November to 3.2%, down from 3.6% in October. This is well above the Bank's 2% inflation target. Core inflation, which excludes food and energy prices, also remains high, running at 3.2% year-on-year in November, though this marked the lowest level since December 2024.
- 20-year index-linked gilt yields declined by 26bp over the quarter to a real yield of 2.07%, and 20-year nominal gilt yields fell by 34bp to a nominal yield of 5.24%. At the very long end of the curve, 30-year real yields fell by 27bp, while nominal yields fell by 32bp.

Figure 2: 20-year index-linked gilt yields[2]



PENSION NEWS AND TRENDS

- **Government to enable surplus release to members via lump-sum payments:** The government's Budget 2025 policy paper[3] included a commitment to reduce the tax charge on surplus funds paid directly to members, and to "enable well-funded DB pension schemes to pay surplus funds directly to scheme members over the normal minimum pension age, where scheme rules and trustees permit it, from April 2027". This was widely seen as a positive step, in part as it would allow a sponsoring employer to share surplus with members without increasing pension liabilities[4].
- **Inflation protection for pre-1997 pensions in the PPF and Financial Assistance Scheme (FAS) introduced:** The government also announced in the Budget[5] that from January 2027, members of the PPF and FAS will see their pre-1997 pension accruals rise each year in line with the Consumer Prices Index, up to a maximum of 2.5% per year. This applies only if their original pension scheme included this inflation protection.
- **Stagecoach Group Pension Scheme makes deal to switch sponsor and run on for the long term:** The Stagecoach scheme, which is in surplus, accounts for £1.2bn of assets and over 22,000 members. Aberdeen Group will take over as sponsor for the scheme, increase pensions for all members by c.1.5% and improve the inflation linkage of benefits[6]. Aberdeen will receive a minority share of any future distributed surplus.
- **Pension Schemes Bill progresses to the House of Lords**: The Pension Schemes Bill continued its passage through Parliament, undergoing a second reading in the House of Lords on 18 December 2025[7]. Points debated included the proposed reserve power allowing the government to mandate asset allocation in defined contribution (DC) default funds, the decision to defer pension adequacy to the Pensions Commission, the potential impact of consolidation thresholds on competition and innovation, and whether safeguards around DB surplus extraction are sufficient. The Bill is now at the committee stage.

[2] Source: Insight and Bloomberg. Data as at 31 December 2025.
[3] Budget 2025, 26 November 2025, HM Treasury. See section 5.11.
[4] Budget 25: Government to allow DB schemes to pay surplus funds directly to members, 27 November 2025, Professional Pensions.
[5] Budget 2025, 26 November 2025, HM Treasury. See section 5.3.
[6] Aberdeen to take on Stagecoach Group Pension Scheme, 4 December 2025, Aberdeen.
[7] Pension Schemes Bill: Volume 851: debated on Thursday 18 December 2025, Hansard, UK Parliament. Information about the Pension Schemes Bill, including its progress through Parliament, is available at: Pension Schemes Bill, UK Parliament.

- **UK DB funding levels remain strong:** The PPF published the 20th edition of its annual analysis of UK DB pension schemes, The Purple Book 2025[8]. As at 31 March 2025, the aggregate funding position of DB schemes on a section 179 basis showed a net surplus of £214bn, similar to £219bn a year earlier. However, on an estimated full buy-out basis, the net funding position improved from a deficit of £69.5bn to a deficit of £47.2bn. Data on scheme numbers and membership were broadly in line with those published by The Pensions Regulator (TPR) in its annual report on the UK DB landscape[9]. According to TPR, membership in DB and hybrid schemes declined by 3% and the percentage of DB schemes closed to future accrual increased marginally to 74%.

- **Mortality reaches a historic low:** Overall mortality in England and Wales in Q3 2025 was lower than in any other quarter, according to the Continuous Mortality Investigation (CMI)[10]. As a result, mortality in the first three quarters of 2025 were lower than the equivalent period in any other year. Realised mortality rates are relevant for the CMI's mortality projections model, which is used by DB schemes when setting longevity assumptions.

- **Large longevity transactions announced:** In November, the BBC Pension Scheme completed a £6bn longevity swap transaction[11]. In December, longevity swap transactions worth £4.8bn were reported for three pension schemes overseen by Lloyds Banking Group Pension Trustees[12].

REGULATORY NEWS

Government launches consultation on pension trustees and governance

The Department for Work and Pensions (DWP) published a consultation[13] on strengthening the governance, trusteeship, and administration of trust-based pension schemes in response to significant upcoming reforms, such as DC "megafunds", DB superfunds, value-for-money assessments, and flexible retirement options, introduced by the Pension Schemes Bill.

The consultation focuses on ensuring trustees have the necessary skills, knowledge, independence and diversity to navigate a more complex pensions landscape, and considers new standards such as accreditation, enhanced oversight of professional and lay trustees, and extending regulatory scrutiny to pension administrators. It also explores measures to improve administrative quality, including sound contract management by trustees, to deliver better outcomes.

▶ To submit a response to the consultation, respondents must email privatepensions.trusteeshipgovernanceconsult@dwp.gov.uk before midnight on 5 March 2026. The full consultation document is available here.

TPR seeks views on multi-employer CDC code

The Pensions Regulator is seeking views on a draft code of practice that will amend the existing code for collective defined contribution (CDC) schemes to cover the authorisation and supervision of unconnected multiple employer schemes providing CDC benefits[14]. The revised code sets out the criteria for authorisation, TPR's expectations of multi-employer CDC schemes, and how it will use its powers to support this new innovation to market.

The consultation was announced after the government published multi-employer CDC regulations in October. The regulations are expected to come into force at the end of July 2026, on the same day as TPR's revised code. TPR anticipates being able to accept applications from the beginning of August, with schemes potentially operating in early 2027.

▶ To submit views in response to the consultation, respondents must use the online survey or, if unable to do so, email cdcpolicy@tpr.gov.uk by 13 February 2026.

New guidance on pension scheme administration published

Revised administration guidance that applies to all types of pension scheme was published by TPR[15]. The updated guidance introduces new elements including the importance of trustees providing effective oversight; the need for performance measurement to focus not just on time-based measures, but also on the accuracy and quality of scheme administration; and guidance on governance of IT systems.

[8] PPF publishes 20th edition of The Purple Book, 4 December 2025, PPF.
[9] Occupational defined benefit landscape in the UK 2025, 16 December 2025, TPR.
[10] Record low summer mortality, says CMI, 8 October 2025, Institute and Faculty of Actuaries.
[11] BBC strikes £6bn longevity swap deal to extend scheme insurance, 20 November 2025, Pensions Expert.
[12] Lloyds DB schemes secure further longevity reinsurance deals, 9 December 2025, Pensions Expert.
[13] Trust-based pension schemes: Trustees and governance, building a stronger future, 15 December 2025, DWP.
[14] Consultation launched for TPR's new multi-employer CDC code, 19 December 2025, TPR.
[15] Administration of a pension scheme, 9 December 2025, TPR.

Regulator engages to understand pension investment in private markets and infrastructure

The Pensions Regulator launched an initiative to explore the approach of DC and DB pension schemes to "investing in growth assets that could boost returns for savers over the long term, and to better understand the barriers to doing so"[16]. It said it will focus on pension schemes "with material scale" which could, or may be considering, such investments.

The regulator said it expects to complete engagement with industry by the end of 2025, and to publish a market oversight report in 2026.

Bank of England considers responses to discussion paper on gilt repo reforms

In September 2025, the Bank of England published a discussion paper focusing on enhancing the resilience of the gilt repo market, with a particular focus on two potential reforms: greater central clearing of gilt repo, and minimum haircuts on non-centrally cleared gilt repo transactions[17]. Such reforms would be material for DB schemes' approach to investment and risk management, as many use gilt repo to increase the size of their liability hedge as part of a prudent risk-management strategy. Feedback was due by late November 2025.

Insight responded to the discussion paper, highlighting that centrally cleared gilt repo is a helpful tool to have available for DB schemes, but mandating clearing of gilt repo for DB pension schemes would have significant negative consequences. Similarly, mandatory minimum haircuts on gilt repo used by DB schemes could lead to significant additional risks, costs and other undesirable outcomes. You can read Insight's response here.

[16] TPR probes barriers to investment in private markets and infrastructure that could deliver better returns for savers, 8 December 2025, TPR.
[17] Enhancing the resilience of the gilt repo market, 4 September 2025, Bank of England.

MARKET REVIEW AND OUTLOOK

Table 2: Q4 2025 market review[18]

		Market levels			Q4 2025 change	YTD change
		31 Dec 24	30 Sep 25	31 Dec 25		
Gilts	20 year yield (%)	5.29	5.58	5.24	-0.34	-0.05
Index-linked gilts	20 year yield (%)	1.81	2.33	2.07	-0.26	0.25
Interest rate swaps	20 year yield (%)	4.30	4.72	4.53	-0.19	0.23
Inflation swaps	20 year yield (%)	3.32	3.14	3.06	-0.08	-0.26
Other bond markets	US 10 year yield (%)	4.57	4.15	4.17	0.02	-0.40
	German 10 year yield (%)	2.37	2.71	2.86	0.14	0.49
	Japan 10 year yield (%)	1.10	1.65	2.07	0.42	0.97
	JPM EMD yield (%)	6.39	5.93	5.87	-0.06	-0.52
	iTraxx Europe 5 year spread (bp)	58	56	51	-5	-7
	Bloomberg Barc UK IG spread (bp)	95	85	82	-3	-13
Money market rates	UK base rate (%)	4.75	4.00	3.75	-0.25	-1.00
	US Fed target (%)	4.25 - 4.5	4 - 4.25	3.5 - 3.75	-0.50	-0.75
	6 month GBP repo (%)	4.83	4.18	3.92	-0.25	-0.91
	SONIA (%)	4.70	3.97	3.73	-0.24	-0.97
Gilt: swap spread (SONIA)	Index-linked 2044 z-spread (bp)	83	83	70	-13	-13
	Conventional 2045 z-spread (bp)	88	89	78	-10	-9
Currency	GBP/USD	1.25	1.34	1.35	0.2%	7.7%
	GBP/EUR	1.21	1.15	1.15	0.1%	-5.1%
Equity	FTSE 100 (TR)	9,063	10,671	11,403	6.9%	25.8%
	S&P 500 (TR)	12,912	14,827	15,220	2.7%	17.9%
	Euro Stoxx 50 (TR)	11,656	13,449	14,128	5.0%	21.2%
	Topix (TR)	4,448	5,109	5,559	8.8%	25.0%
	MSCI World Equity (£, TR, unhedged)	22,481	24,559	25,348	3.2%	12.8%
	VIX	17.4	16.3	15.0	-8.2%	-13.8%

[18] Source: Bloomberg. Data as at 31 December 2025. TR = total return index.

ASSET CLASS OUTLOOK

- **Investment grade credit:** Recent corporate earnings have reaffirmed our view of strong corporate fundamentals, underpinned by resilient profit growth. However, a notable theme across corporate results has been rising capital expenditure. We expect 2026 to be impacted by borrowing for capex and M&A activity, driving a significant increase in issuance – most notably from AI-related expenditure. While this supply dynamic is now well telegraphed and is unlikely to surprise markets, we anticipate that spreads could continue to edge wider and settle into a higher trading range early in the year as corporates return to the market in size. If supply disappoints and investor demand remains high, then spreads should grind tighter. New issuance often comes to market with yields above prevailing levels. These types of primary market opportunities could benefit managers capable of active participation, which may help offset any effects of wider spreads. One trend that we're closely monitoring is high-quality US corporates looking to issue euro-denominated debt to take advantage of lower coupon rates. This can present opportunities for those with global mandates or flexibility to invest off-benchmark. We don't see any reason for investor demand to falter in 2026 as investment grade credit offers a meaningful yield pickup from cash, and spreads offer attractive returns when compared to fundamental default risks, so we expect demand to remain high, with a focus on security selection and relative-value trades.
- **High yield credit:** 2025 was a strong year for high yield market performance, supported by a robust technical backdrop that we expect to persist into 2026. That said, we anticipate a pickup in supply across both US and European markets. While refinancing activity should dominate, we also see room for increased issuance linked to acquisitions and capital expenditure. In addition, AI infrastructure financing is likely to make its way into the high yield space in various forms. This rise in supply could exert some upward pressure on spreads, leading to slightly softer returns than seen in 2025. Default rates remain at the lower end of historical ranges, and we see little reason for this to change given the improving quality of public high yield issuers and the migration of weaker credits to private debt markets. Maintaining caution around highly leveraged cyclical names and keeping an underweight in CCC-rated credits should help to further mitigate default risk. Credit selection will remain critical, and we expect meaningful opportunities to add value via active security selection throughout the year. On a positive note, many corporates will have learned how to negotiate the new trade backdrop over the second half of 2025, putting them on a firmer footing going into 2026.
- **Asset-backed securities and secured finance:** 2025 delivered solid, primarily income-driven returns, and we expect a similar outcome in 2026. A gradual reduction in US and UK interest rates should provide support for consumers in those markets, though it will also temper returns given the floating-rate nature of the asset class. This dynamic reinforces the importance of credit selection to capture the best opportunities. We see particular potential in the UK, where markets appear overly pessimistic about consumer prospects following negative headlines around tax increases. With the Budget now behind us, we anticipate sentiment will normalise in the months ahead. Our approach remains active in primary markets, taking advantage of new-issue premiums while seeking relative-value opportunities that offer compelling risk-reward profiles. We continue to favor transactions with seniority in the capital structure and robust deal features that redirect cashflow in the event of underperformance in the underlying asset pool. Strong underwriting and servicing standards should further help insulate investors if economic conditions weaken unexpectedly.

ECONOMIC REVIEW

The global outlook remains subdued, with growth forecasts edging slightly higher over the quarter. Global real GDP is now expected to expand by 3.0% in 2025 and 2.9% in 2026, supported by modest upward revisions across developed markets. The US is projected to grow by 2.0% in both years, while the euro area and Japan are forecast at 1.4% and 1.2% in 2025, easing to 1.2% and 0.7% respectively in 2026. China continues to outperform expectations, with growth anticipated at 4.9% in 2025 before slowing to 4.5% in 2026. Inflation pressures are expected to ease globally, with consensus CPI forecasts declining by 0.2 percentage points in 2025 and 0.1 percentage point in 2026, bringing global inflation to 3.4% and 3.3% respectively. The US remains an exception, with inflation projected to hover near 2.8% through 2026, above the Fed's target, while Japan sees a notable uptick in 2025 before moderating. Overall, while growth revisions are positive, the pace remains modest, reinforcing expectations for a gradual disinflationary trend.

Table 3: Consensus growth and inflation expectations[19]

Growth (real GDP)	Consensus[20]			Change over Q4	
%	2025[F]	2026[F]	2027[F]	2026[F]	2027[F]
UK	1.4	1.1	1.4	0.0	-0.1
US	2.0	2.0	2.0	0.2	0.0
Eurozone	1.4	1.2	1.4	0.1	-0.1
Japan	1.2	0.7	0.8	0.0	0.0
China	4.9	4.5	4.3	0.3	0.3
Developed markets	1.7	1.7	1.8	0.1	0.0
Emerging markets	4.2	4.2	4.1	0.2	0.1
Global	**3.0**	**2.9**	**3.0**	**0.0**	**0.0**

Inflation (CPI)	Consensus[20]			Change over Q4	
%	2025[F]	2026[F]	2027[F]	2026[F]	2027[F]
UK	3.4	2.5	2.1	0.0	0.0
US	2.8	2.8	2.5	-0.1	0.0
Eurozone	2.1	1.8	2.0	0.0	0.0
Japan	3.1	1.9	2.0	0.1	0.1
China	0.0	0.7	1.0	-0.1	-0.3
Developed markets	3.3	2.9	2.6	0.0	0.0
Emerging markets	3.0	2.7	2.7	0.0	-0.1
Global	**3.4**	**3.3**	**2.9**	**-0.1**	**-0.3**

UK YIELD CURVE

The nominal gilt yield curve fell in Q4, while the inflation-linked curve rose at the shorter end and fell at the longer end. Two-year nominal gilt yields decreased by 29bp, while in longer maturities, 20-year nominal gilt yields fell by 34bp, ending the quarter at 5.24%. 30-year nominal gilt yields fell by 32bp to 5.53%. Inflation-linked gilt yields at the shorter end rose: 2-year yields rose 5bp, while 10-year yields were unchanged. At the longer end, 20-year inflation-linked yields fell by 26bp and 30-year yields by 27bp.

Figure 3: Gilt yield curve[21]

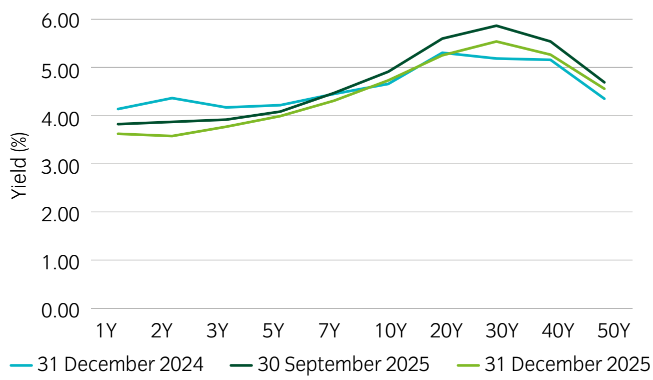
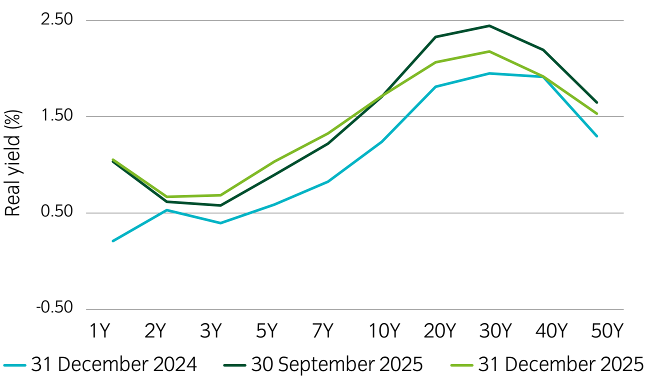


Figure 4: Index-linked gilt yield curve[21]



[19] Source: Insight Investment and Bloomberg. Data as at 31 December 2025.
[20] F= Forecast. Bloomberg consensus forecast.
[21] Source: Insight and Bloomberg. Data as at 31 December 2025.

PERSPECTIVES

PERSPECTIVES

Stanza

Stanza is Insight's online magazine where we share what's on our minds, outline general themes in our business and the industry, and report progress we are making by innovating in key areas within our strategy.

▶ Read Stanza at https://www.stanzabyinsight.com/.

The case for ABS

Our belief in the strategic value of asset-backed securities is based on five key characteristics: their robust credit quality, attractive yield premium, limited duration and spread risk, increased diversification, and the potential for an illiquidity premium.

▶ Read the paper here.

Business investment, profits and the growth cycle

The extraordinary surge in AI-related investment, underpinned by record-high profit margins, should act as a meaningful tailwind for both US and global growth. We explore the evolving role of business investment – particularly the recent surge in AI-related capital expenditure – as a key driver of global growth.

▶ Read the paper here.

Time to allocate to fixed income

With yields normalising and fixed income markets offering compelling risk-adjusted returns, investors no longer need to risk equity-type drawdowns or sacrifice liquidity to achieve their objectives. We believe now is an opportune time to increase fixed income allocations.

▶ Read the paper here.

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Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

The issuer of a debt security may not pay income or repay capital to the bondholder when due. The return risk to a portfolio is higher where a portfolio is highly concentrated in such an issuer.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large impact on the portfolio.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Where high yield assets are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

Property assets are inherently less liquid and more difficult to sell than other assets. The valuation of physical property is a matter of the valuer's judgement rather than fact.

The specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Also, many loans are not actively traded, which may impair the ability of the portfolio to realise full value in the event of the need to liquidate such assets.

Leveraged funds: as a result of market conditions, the value of the assets held by a Fund may fall and result in a higher degree of leverage than is deemed appropriate by the Investment Manager. In order to reduce the degree of leverage, the Investment Manager may seek to reduce a Funds' total asset exposure. Investors would need to subscribe for additional Shares in order to maintain the level of sensitivity to market movements. Where such an event is unanticipated, this may result in the investors having less sensitivity to market movements than they might consider appropriate to their individual requirements until they have subscribed for additional Shares.

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