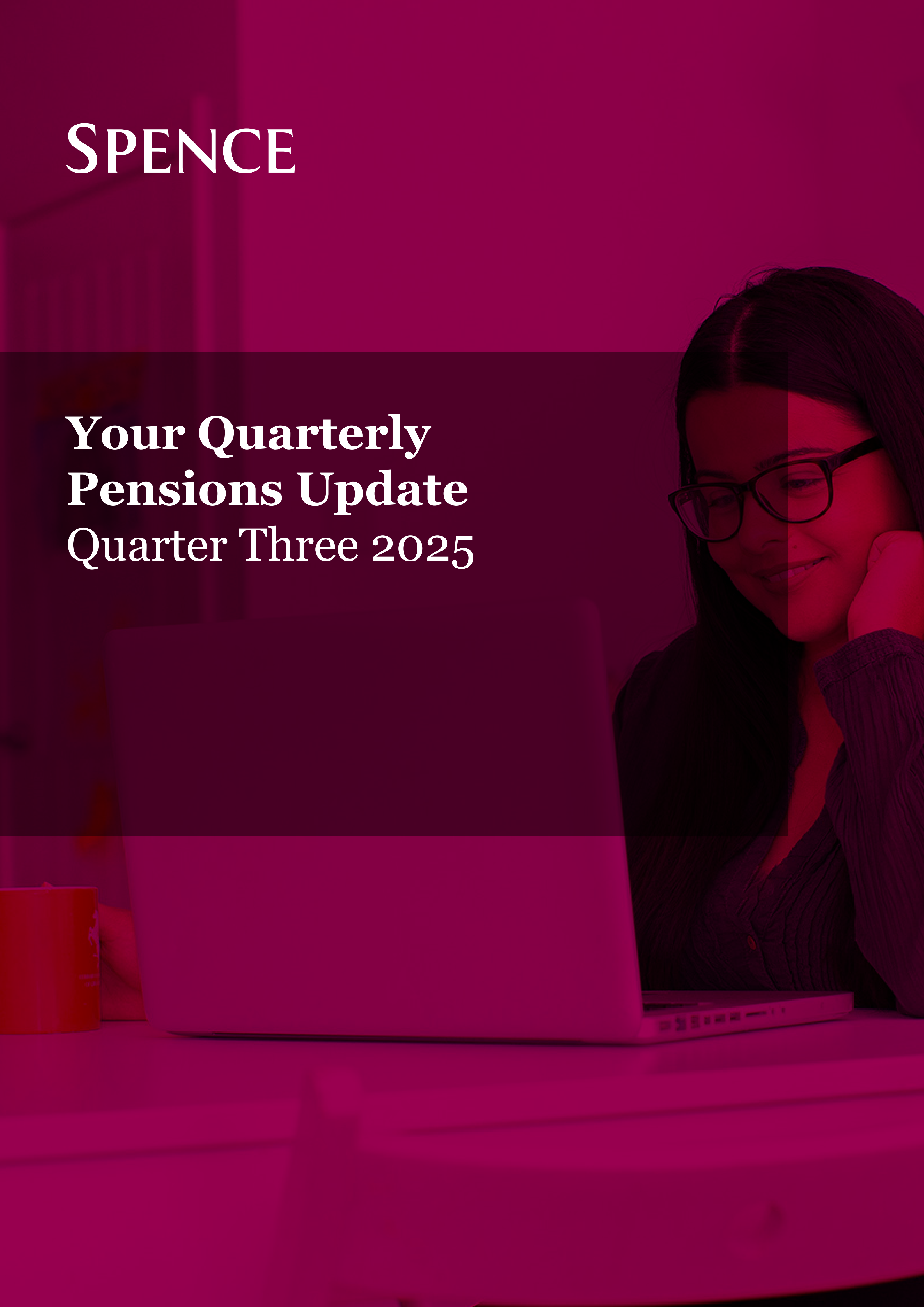
SPENCE

Your Quarterly Pensions Update

Quarter Three 2025



What's inside?

Welcome to your Quarterly Pensions Update

The purpose of this report is to update sponsors and trustees with recent pensions industry changes in the quarter.

For your convenience, Spence has summarised the key developments and highlighted the necessary actions sponsors and trustees may need to take.

The report combines brief written comment with links to any further relevant information and any deadlines you should be aware of. We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please get in touch with alan_collins@spenceandpartners.co.uk or your usual Spence contact.

Investment update

Global equities performed strongly, as easing trade tensions, strong corporate earnings, and continued optimism around AI drove market gains. Global bonds gave positive returns in a volatile quarter, with US interest rate expectations falling amid a cooling labour market.

Growth Assets

Emerging markets were the top performing region, returning 12.2%, benefitting from strong gains in Chinese equities and a falling dollar. Optimism around the Chinese market had been strengthened by the US-China trade agreement and deescalating tensions, alongside increased spending in AI. Japanese equities outperformed global markets, returning 10.3%, given the US-Japan trade deal, strong economic data releases and ongoing governance reforms.

US equities rose 10.0%, marginally outperforming global markets, of which they now have a 62% regional weighting. US equities benefitted from easing trade tensions given the agreements with numerous key trading partners, strong corporate earnings, GDP growth and expectations of further interest rate cuts.. The US also benefitted from an overweight to the outperforming technology sector, given the continued optimism around AI.

UK and European equities underperformed global markets but still delivered positive returns, rising 6.9% and 4.8%, respectively. Despite lacklustre domestic growth and sticky inflation, the UK's export oriented market benefitted from resilient global growth and a weaker sterling. Europe was the worst regional performer, reversing the trend seen year-to-date, amid political uncertainty, notably in France.

Listed UK property fell 6.1%, with slowing house price growth and uncertainty driven by the upcoming Autumn Budget.

Global listed infrastructure returned 4.6%, supported by trade agreements between the US and key trading partners, alongside the signing of the One Big Beautiful Bill Act, which is seen as positive for US infrastructure investment.

Bonds

Global government bond performance was mixed, with US yields falling, while UK, German and Japanese yields all rose. US government bonds returned 3.4% in a volatile quarter amid concerns over the independence of the Federal Reserve, with yields ultimately ending the quarter lower. This was driven by expectations of further interest rate cuts, as markets shifted their focus from rising inflation risks to weakening growth prospects, following signs of a weakening labour market. In contrast, equivalent European yields rose, given a more positive economic outlook and signs the European Central Bank had ended its rate cutting cycle.

UK government bonds fell 2.4%, with gilt yields rising given elevated inflation and ongoing concerns over the UK's fiscal position. Inflation figures for Q3 came in higher than-expected, but longer term implied inflation rose only marginally to 3.0%. Nominal and real yields both rose by 0.2%, with levels now at 5.4% and 2.3%, respectively. All else being equal, the move will have acted to decrease the value placed on pension schemes' liabilities.

Global credit spreads tightened further across both investment grade and high yield markets, taking them back towards historically expensive levels, whilst also outperforming equivalent government bonds. Global high yield corporate credit returned 4.1%, outperforming investment grade credit, given strong corporate earnings and improving risk sentiment.

All returns shown are shown in GBP terms unless stated otherwise, sourced: FTSE, JP Morgan, Morningstar

Past performance is not a reliable indicator of current and future results.

Data as of 30 September 2025.

Risk transfer market: Key Challenges for Trustees

Steering Through Complexity: Key Challenges for Trustees in the UK Pension Risk Transfer Market into 2026

As a trustee of a defined benefit (DB) pension scheme, your role in safeguarding member benefits while navigating a complex and evolving landscape has never been more critical. The UK pension risk transfer (PRT) market is booming, with record volumes of bulk annuities. Yet, this growth brings with it a host of challenges that trustees must understand and manage effectively.

This article outlines the key issues currently shaping the PRT market as we move towards 2026, with a focus on what they mean for trustees and how you can respond strategically.

1. Demand Is High—But Insurer Capacity Is Finite

The number of schemes reaching full funding on a buy-out basis has surged, driven by rising interest rates and strong asset performance. However, this has created a bottleneck. Insurers are inundated with requests, and many are prioritising schemes that are well-prepared and can transact efficiently.

What this means for trustees:

- Early engagement with advisers and insurers is essential.
- Schemes that are "transaction-ready" with clean data and clear governance structures are more likely to secure insurer attention.
- Consider pre-emptive steps such as feasibility studies and insurer beauty parades to position your scheme favourably.

2. Data Quality Is a Gatekeeper to Market Access

Poor data quality remains one of the biggest barriers to a successful transaction. Incomplete or inconsistent member records can delay or derail a deal, and insurers are increasingly unwilling to take on data risk.

Trustee actions:

- Commission a data audit early in the process.
- Work with your administrator to cleanse and reconcile records.
- Ensure benefit specifications are documented and validated.

3. Regulatory Change Is Expanding the Endgame Toolkit

The regulatory landscape is shifting. New legislation around surplus extraction and DB superfunds is giving trustees more options—but also more complexity. The Pensions Regulator (TPR) is encouraging schemes to consider a broader range of endgame strategies beyond traditional buy-out.

Trustee considerations:

- Revisit your long-term funding and journey plan in light of new options.
- Engage with your sponsor to align on objectives—especially if surplus extraction or run-on is being considered.
- Stay informed on TPR guidance and evolving best practices.

4. Economic Volatility Requires Agile Risk Management

While higher gilt yields have improved funding levels, market volatility remains a concern. Inflation, interest rate fluctuations, and geopolitical risks can all impact asset values and insurer pricing.

Trustee priorities:

- Maintain a robust investment governance framework.

- Consider hedging strategies to lock in favourable funding positions.
- Monitor insurer pricing trends and be ready to move quickly when conditions align.

5. Buy-In to Buy-Out: The Final Mile Is Often the Hardest

Many schemes have completed buy-ins but are finding the transition to full buy-out more complex than expected. This phase involves final resolution of any benefit specification issues or challenges, member communication, and often legal and administrative hurdles.

Trustee responsibilities:

- Plan for the transition early—don't assume it will be automatic.
- Ensure your administrator and legal advisers are aligned on the wind-up process.
- Communicate clearly with members to manage expectations and maintain trust.

6. Insurer Competition Is Growing—But So Is Selectivity

New entrants to the market have increased competition, particularly for smaller schemes. However, insurers are also becoming more selective, focusing on schemes that are well-prepared and offer efficient execution.

Trustee strategy:

- Use competitive tension to your advantage—but don't rely on it.
- Present your scheme as a "clean" and attractive proposition.
- Consider streamlined or standardised approaches if your scheme is sub-£100m.

7. Superfunds and Run-On: Viable Alternatives or Added Risk?

Clara-Pensions and other superfunds are now active in the market, offering a lower-cost alternative to buy-out. Meanwhile, some schemes are considering "run-on" strategies—continuing to operate with a strong funding buffer rather than transferring to an insurer.

Trustee due diligence:

- Assess the covenant strength and regulatory oversight of any superfund.
- Understand the long-term governance and member protection implications.
- Engage with your sponsor and advisers to evaluate the trade-offs.

Final Thoughts: Trustee Leadership Is More Important Than Ever

The UK PRT market moving into 2026 offers unprecedented opportunities for trustees to secure member benefits and reduce long-term risk. But it also demands proactive leadership, strategic thinking, and a willingness to engage with complexity.

Key takeaways for trustees:

- Start early and prepare thoroughly—transaction readiness is critical.
- Keep your members at the heart of decision-making.
- Work collaboratively with your sponsor, advisers, and administrators.
- Stay informed and agile in a fast-moving market.

By taking a structured and informed approach, trustees can navigate the challenges of the current market and deliver strong outcomes for their members.

Can actuaries r-AI-se the bar?

Change

Change is challenging.

Change that happens quickly is even more challenging. This is exactly what the pensions industry is experiencing right now.

In my ten years in the industry, the landscape has shifted dramatically. Zooming in further, the pace of change in just the last few years has been remarkable.

We have had the “Mini Budget” in 2022 which fundamentally reshaped the industry. We have seen the introduction of the DB Funding Code in 2024 which redefined how schemes approach their funding and investment strategies. And now, in perhaps the most transformative development yet, we are witnessing the explosion of Artificial Intelligence (“AI”) – computer systems capable of recognising patterns, analysing data and generating insights.

The industry is adapting well to the implications of the Mini Budget and the DB Funding Code. But when it comes to AI, we are still finding our feet. One thing I am confident about is that AI isn’t here to replace actuaries. Actuaries who are willing to embrace this new technology will be the ones who raise the bar in the quality, speed and clarity of actuarial advice. Trustees and sponsoring employers should expect their actuary to be one of them.

AI won’t replace actuaries

It is tempting to say that the actuarial profession has been here before. When calculators as we know them today became ubiquitous, I am sure many actuaries felt threatened. How would the profession survive if this small(-ish!) contraption could suddenly perform even the most complex arithmetic much more quickly than an actuary ever could? But the profession adapted.

Then, when desktop computers arrived and could run full valuations at the touch of a button, I am sure similar fears resurfaced with many actuaries. Yet again, however, the profession adapted. We evolved from being solely number crunchers to strategic thinkers.

AI will inevitably trigger similar fears. The challenge for today’s actuaries is not whether they need to adapt, but how they adapt. At Spence, we are already seeing the power that can come from actuaries embracing and adopting AI. Rather than viewing AI as a threat, we see it as a partner. And, as with any partnership, the value of combining each partner’s strengths far outweighs what either could achieve in isolation.

Generative AI is particularly strong at recognising patterns, detecting inconsistencies, automating routine calculations and summarising complex text. Actuaries, while good at these things too, bring professional judgement, a holistic understanding of the industry, strategic thinking, and clear communication.

Done well, this partnership means that AI can analyse while actuaries advise. This combination will raise the bar in the quality, clarity and speed of actuarial advice for trustees and sponsoring employers. Raising the bar

At Spence, we are starting to introduce AI-related functionality into our day-to-day actuarial work and are exploring other areas where it can be safely and responsibly applied to help raise the bar in the advice we deliver. Our focus is on using AI to enhance, not replace, professional judgement, and ensuring that everything we do is underpinned by robust governance, oversight, and actuarial standards.

Trustees and sponsoring employers should begin having conversations with their actuaries about how they are approaching AI. AI is becoming embedded across society, so why not ensure that it is being used to raise the bar for your scheme and its members?

To learn more about Spence’s current thinking on using AI in delivering actuarial advice, get in touch with your usual contact.

Identity verification with Companies House

Identity Verification with Companies House

As part of the Economic Crime and Corporate Transparency Act 2023 (ECCTA), all UK company directors - both current and newly appointed - must complete identity verification (IDV) with Companies House. This is a legal requirement aimed at improving transparency and preventing misuse of corporate structures. This requirement applies from 18 November 2025 and includes Directors of Trustee Companies.

Key Points

- Autumn 2025: IDV becomes mandatory for new directors before appointment.
- Existing directors must complete IDV before filing the next confirmation statement after the law takes effect.
- Failure to comply may result in criminal penalties and fines.

How to verify ID

- Go to the Companies House ID Verification Portal
- Choose one of the following methods:
  - Mobile App (GOV.UK ID Check): Scan your biometric passport or UK photo driving licence and take a selfie.
  - Web Browser: Answer security questions using your National Insurance number and UK bank details.
  - Post Office: Book an in-person appointment to verify your ID.
- Once verified, you'll receive a Companies House personal code - you should keep a copy of this code for future filings

Why this matters

- Once the transition period has ended (Autumn 2026), Directors must not act in their role until verified.
- Companies must ensure directors are verified before filing appointments.
- Unverified status will be flagged on the public register.

Superfunds stepping into the spotlight through Pension Schemes Bill

The Society of Pension Professionals' David Potts looks into the proposed superfund legislation contained within the Pension Schemes Bill and key considerations for employers, providers, and policymakers.

The 2025 Pension Schemes Bill is set to reshape the UK defined benefit (DB) pension scheme landscape. While superfunds have existed under the Pensions Regulator's (TPR) interim guidance since 2020, the bill gives superfunds a comprehensive statutory footing for the first time, opening the door to scale and new entrants.

The bill establishes clear steps to achieving authorisation, funding rules with financial thresholds, and a governance framework to ensure robust oversight.

At the core of the bill is improved outcomes for members, with one condition for superfund approval being the increased likelihood that members' benefits will be paid in full.

Key considerations for superfunds

Superfunds are, by definition, supported by a capital buffer. That buffer, financed by investors, adds a reserve above a scheme's own assets, providing a crucial safeguard if markets were to nosedive or longevity were to improve more than expected.

For members, that should mean improved benefit security. Members of small, underfunded schemes stand to gain from scale, leading to stronger governance and more sophisticated investment management.

The Pension Schemes Bill focuses on capital and governance, but administration and communication standards also warrant attention. As superfunds grow, they could inherit tens of thousands of members from ceding schemes, each with distinct benefit structures and varying qualities of data.

Without robust data cleansing, service integration and oversight of third-party administrators, questions remain on how well each superfund will provide a consistent, high-quality, day-to-day delivery of pensions for members.

For sponsoring employers, the legislation creates a method of risk transfer at a reduced cost relative to buyout. The bill allows TPR to approve a transfer where member security improves and the superfund meets certain financial thresholds. The sponsor then severs its obligation, removing pension volatility from its balance sheet at a lower cost than an insurance transaction.

However, TPR may only approve a transfer if the financial position of the ceding scheme is not strong enough to arrange an insurer buyout. In practice, this could be a burdensome process involving insurer quotes and potentially costly data work.

The intention to prevent underfunded schemes with weak employer covenant from 'passing the buck' on liabilities is understandable, but the effect could be anti-competitive, narrowing options for trustees and so leaving schemes in limbo.

Investment considerations

Superfunds rely on private capital to fund their buffers. In return, the investors can receive a share of the surplus once liabilities are fully secured. The bill has great detail on capital buffer arrangements and permitted profit extraction governance, detailing penalties should capital be released outside of these arrangements.

This alignment of incentives is welcome, though the optics are delicate. If superfunds are seen as primarily profit-driven vehicles rather than long-term fiduciaries, political and public confidence could fade quickly. Transparency on governance, remuneration and surplus distribution will be critical.

Superfunds have a mandate to pursue long-horizon, income-focused portfolios, dovetailing nicely with the UK government's ambition to redirect pension savings into productive finance to bolster the UK economy.

The Pension Schemes Bill requires superfunds to provide regular reporting on their financial position and prompt notification of 'events of concern'. It also details a TPR-approved response plan to resolve these events.

By formalising supervision and setting clear triggers for regulatory engagement, the regime should reduce systemic risk and promote confidence in DB consolidation. The bill strikes a measured balance between encouraging innovation and safeguarding stability.

Getting the balance right

In summary, the Pension Schemes Bill expands on TPR's interim superfunds regime: it strengthens oversight, clarifies funding rules, and sets a solid foundation for consolidation.

"If the Pensions Regulator and policymakers get the balance right, superfunds could align the interests of members, employers, investors, and the wider UK economy."

David Potts, SPP

The emergence of new entrants such as TPT Retirement Solutions shows this market could well see a variety of options for trustees to choose from, ensuring competition, innovation and, ultimately, better outcomes for members.

However, with only one authorised provider so far, Clara Pensions, the market remains narrow. Without proportionate regulation and timely approvals, there is a risk of concentration and a possibility that superfunds will not reach their full potential.

If the Pensions Regulator and policymakers get the balance right, superfunds could align the interests of members, employers, investors, and the wider UK economy.

This article was written by David Potts as a member of the Society of Pension Professionals and was published on Pensions Expert on 12th November 2025.

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