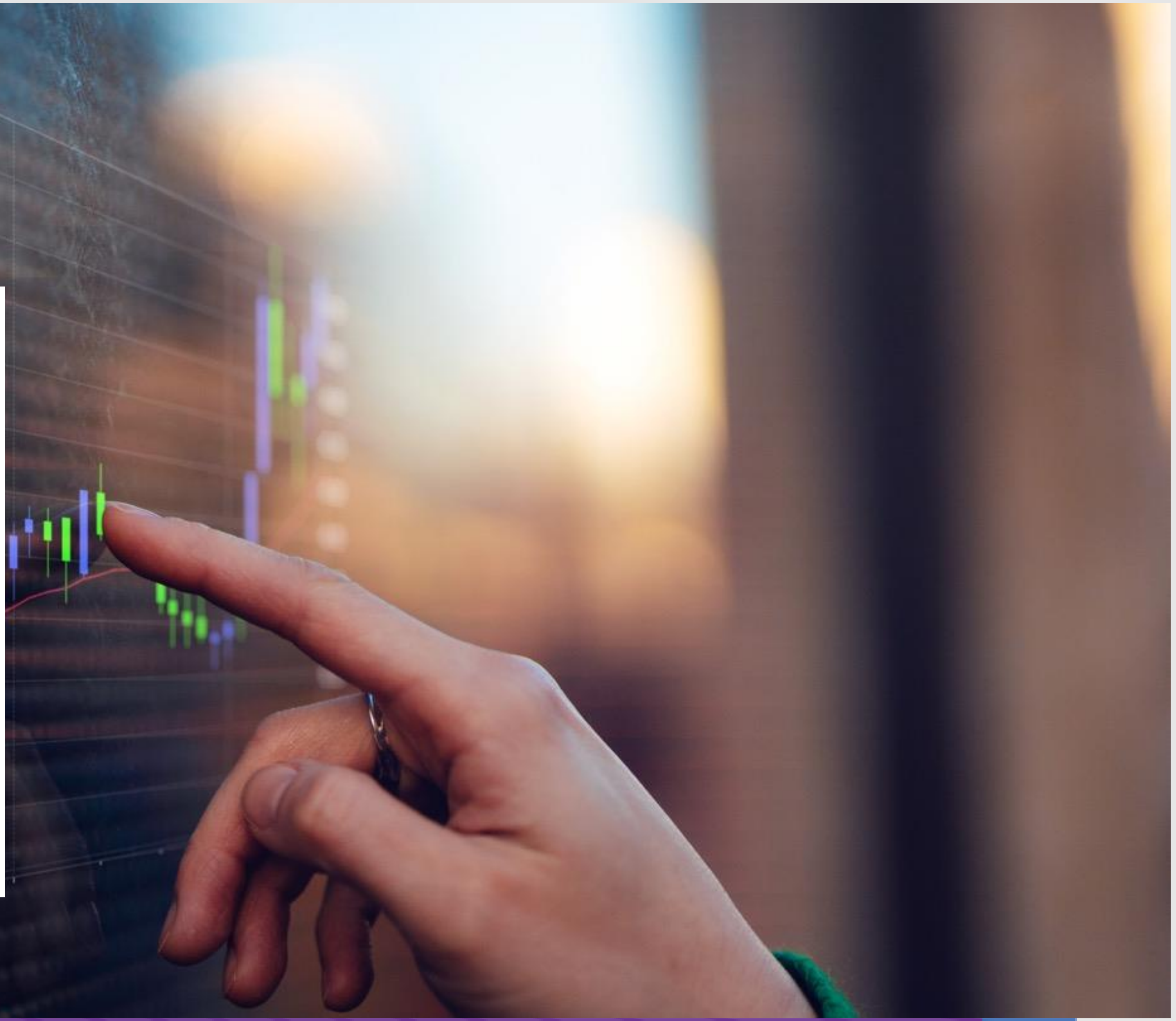
FTSE 350
DB Pension Scheme Report 2025



Defined benefit pension schemes and
their impact on company accounts at 31 December 2024

May 2025

Table of contents

Executive summary

Welcome to the 14th WTW report discussing the impact of defined benefit (DB) pension schemes on FTSE 350 company accounts, analysing the published disclosures of companies reporting at 31 December 2024.

The story of 2024 – a period of stability for DB pensions in the UK and the potential for surplus opportunities grows		
1	Aggregate accounting position remained robust over 2024	Aggregate funding positions (assets compared to the value of liabilities) increased marginally to 109%, compared to 108% at the end of 2023, equivalent to an aggregate surplus of £30bn. 64% in surplus (representing £34bn). By contrast, schemes in deficit total -£4bn
2	Surplus opportunities grow	There are significant surpluses on company balance sheets. 45% of companies reported positions 105% funded or more (representing £33bn of surplus) and 29% reported positions 110% funded or more (£29bn of surplus). Companies have started to report using DB surplus to fund DC contributions.
3	Total spend on pensions down 30% in two years	After a steep fall in 2023, the total cost of DB pensions fell again in 2024 and total DB costs in 2024 are now only 40% of what they were two years ago. Total spending on pensions is down around 30% in that time.
4	DC contributions are now twice as large as DB contributions	2023 saw contributions to DC plans exceed those to DB plans for the first time (in companies where both arrangements are present). 2024 has seen continued growth in the gap and contributions to DC are now twice as large as those to DB in aggregate.
5	Another bumper year for de-risking transactions	2023 was the busiest on record for the bulk annuity and longevity hedging market by liabilities. 2024 was only slightly behind. However, 2024 saw more transactions than any other year with over 300 deals.
6	Most companies were still reviewing the impact of the Virgin Media v NTL Trustees cases	Two thirds of companies gave commentary on the case, but only 3 in 10 were able to assess its impact (most of whom expected no material impact). Nevertheless, the Government announcing it will introduce legislation to deal with the issue retrospectively will be a big relief for some companies.

Balance sheet positions – remain robust over 2024

For much of the last decade, pension scheme financing has been characterised by low interest rates, deficits and additional deficit reduction payments from employers. But the increase in interest rates, that started in 2021, saw a reversal in that trend. Rising bond yields, relatively strong performance of equity markets and reducing life expectancy assumptions all acted to improve funding positions in recent years.

In 2024, accounting positions marginally improved, with aggregate surplus increasing from £29 billion to £30 billion and aggregate funding ratios increasing from 108% to 109% (comparing 2024 to 2023).

Behind the largely unchanged funding positions there was an increase in discount rates reducing DB liabilities (from £353 to £316 billion). Asset values also fell, but by slightly less (from £382 to £346 billion).

These changes were linked to asset strategy. Companies with schemes very heavily invested in bonds are likely over-hedged relative to their DB obligations, with rising yields this meant assets fell by more than liabilities. By contrast, schemes with higher allocations to equities did better in 2024, where global equities performed well.

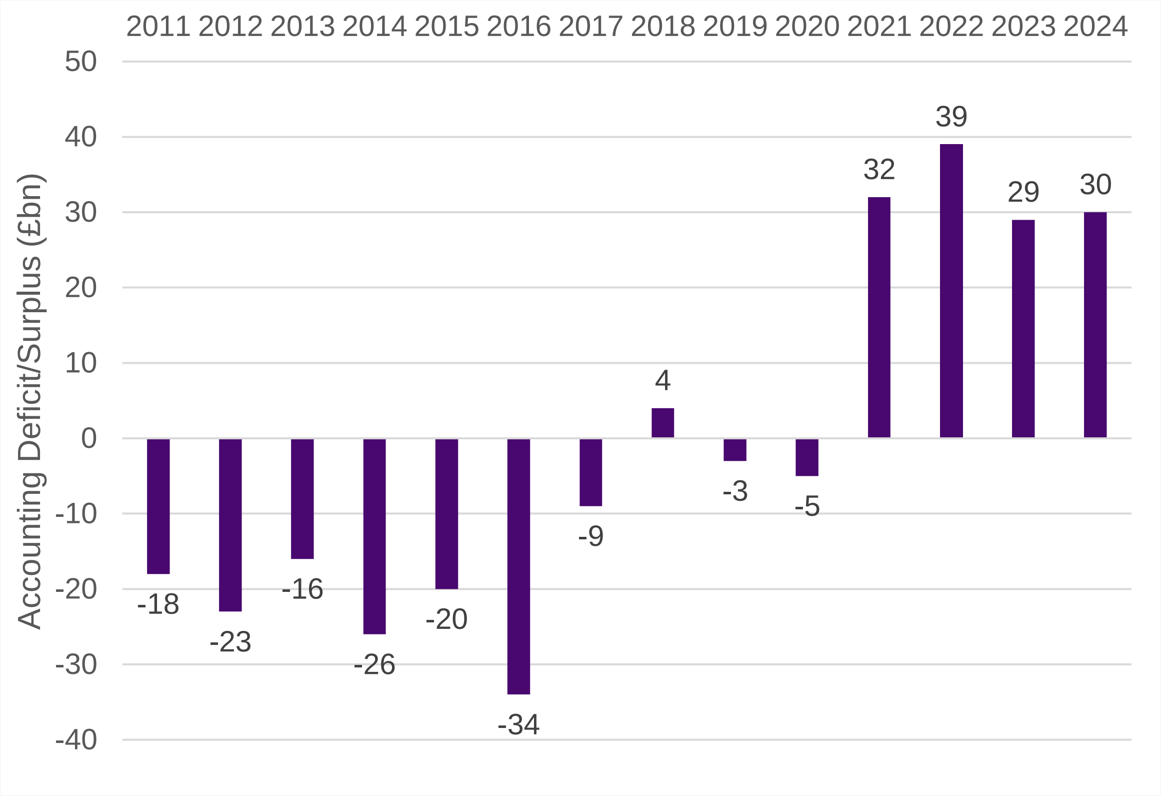
In 2020, 38% of FTSE 350 companies reported a surplus on an accounting basis. This stood at 66% in 2022, 64% in 2023 and 64% at the end of 2024.

The Government says it is ‘minded’ to permit payments to an employer from an ongoing scheme where the scheme would remain fully funded against its ‘low dependency’ liabilities. As at 31 December 2024 using the Pension Regulator’s approximate calculation approach, around half of the companies reported in this analysis would be in surplus on this basis.

Employers could potentially turn these surpluses into meaningful sources of finance.

Aggregate accounting deficits/surplus (£bn)

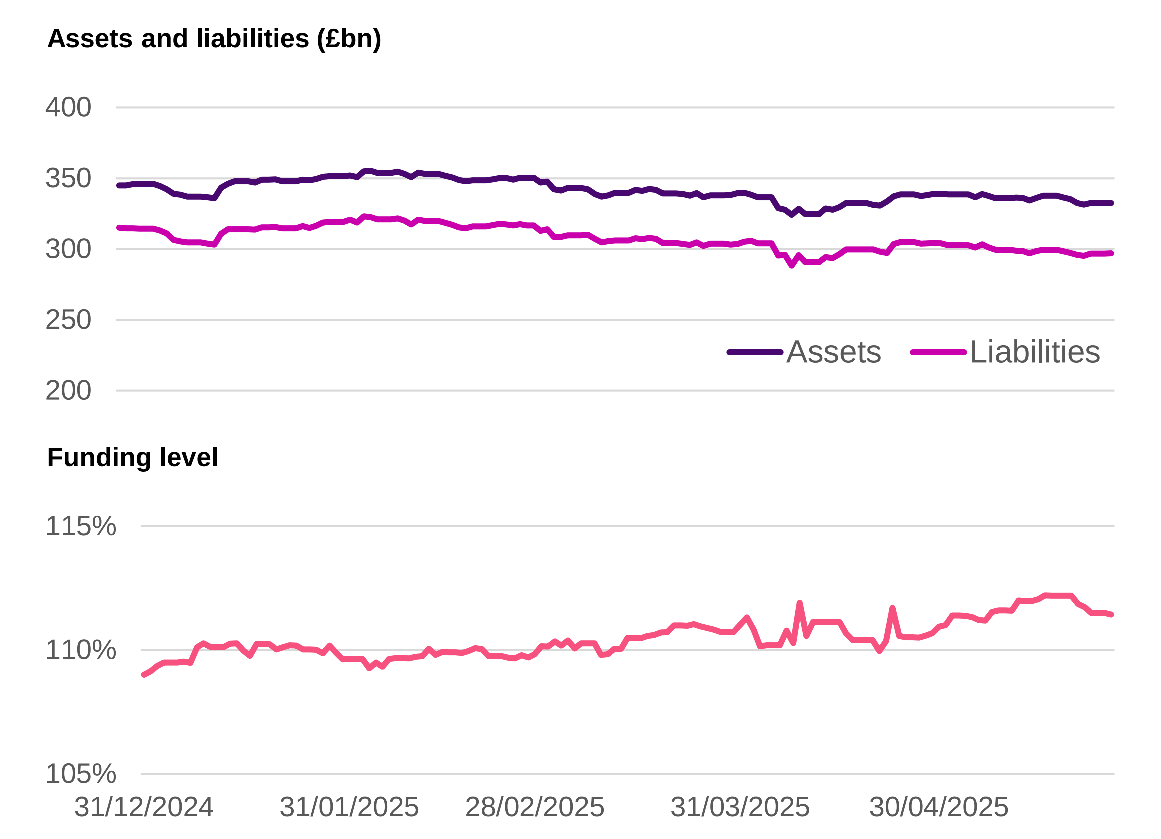
Data represents FTSE 350 companies with a 31 December year-end reporting in that year



Balance sheet positions – withstanding volatility in 2025

FTSE 350 – Estimated position in 2025

Data represents FTSE 350 companies with a 31 December year-end reporting in 2024



2024 was a relatively benign year for pension scheme funding, as accounting positions for companies in the FTSE 350 remained largely unchanged across 2024.

The start of 2025 saw volatility in markets, in response to heighted economic uncertainty related to trade tensions and the imposition of dramatically increased tariffs by the Trump administration in the US. This saw equity markets drop sharply and then regain much of their value (by end-May 2025).

Reflecting heightened risk premiums and fears of weaker economic growth, credit spreads jumped up. However, they remain relatively low by historical standards. Should there be further economic uncertainty higher spreads still could be on the cards. Bond yields have also risen, reflecting growing concerns about government borrowing.

The 2024 accounting data suggests the average FTSE 350 company with DB obligations has 8% of assets allocated to equities, 78% to bonds and gilts and annuity products, 5% to real estate, hedge funds and private equity, 5% to cash and 4% to other. With limited exposure to equities and with a high degree of hedging to movements in discount rates, pension schemes have been largely immunised to the volatility seen in asset markets, with funding positions expected to have edged a little higher during 2025.

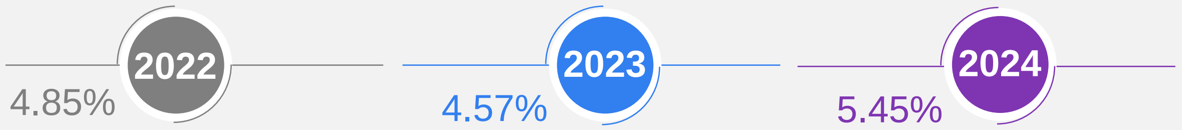
"Despite significant market volatility in 2024 and 2025, balance sheets have remained remarkably resilient, with pension funding positions largely immunised. This resilience is expected to largely continue despite ongoing uncertainty regarding trade relations and the state of the economy."

Charles Rodgers, Head of UK Pension Accounting

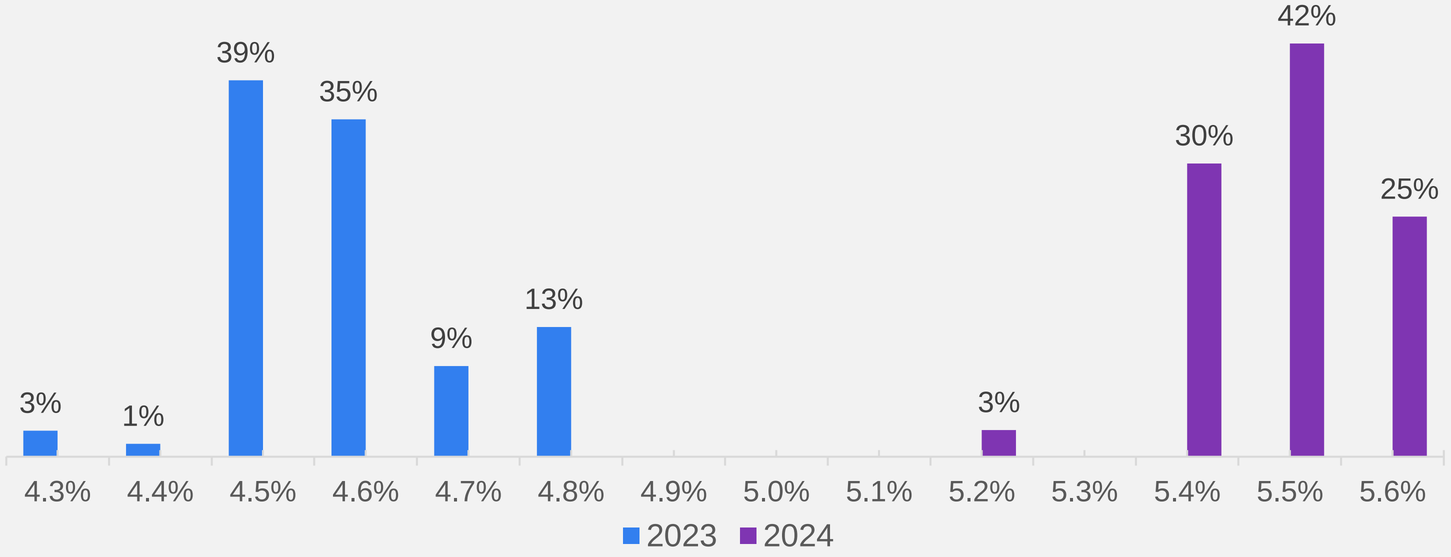
Discount rates are materiality higher in 2024

Discount rate assumptions

Average year-end discount rate (p.a.)



Distribution of discount rate (p.a.)



Note: totals may not add to 100% due to rounding.

Discount rate assumptions had fallen gradually from 2018 to 2020 (hitting a low of 1.37% p.a. in 2020). 2021 saw the start of a reversal of this trend and then 2022 saw a sudden end to the era of ultra low rates and a return to figures last seen over a decade ago, with the average discount rate assumption jumping to 4.85% p.a.

In 2023, discount rate assumptions fell back moderately to 4.57% p.a. However, they then rose again in 2024 to 5.45% p.a. This would typically reduce pension liabilities in 2024 by around 11%.

The path for discount rates for 2025 is nevertheless highly uncertain. April 2025 saw a dramatic increase in economic uncertainty, as trade tensions mounted. With it credit spreads rose sharply in early April to reflect greater economic risk (moving from c60 bps at the start of the year to over 80bps). Since then, spreads have subsequently dropped back (although still higher than the start of the year). Gilt yields also increased by around 20 bps over the same period.

The possibility of a further rise in yields and spreads, cannot be discounted, amidst the ongoing uncertainty regarding trade relations and the state of the economy.

Inflation assumptions rise slightly

Average assumptions

RPI

2024

3.18%

⬆ 12bps

CPI

2024

2.63%

⬆ 9 bps

RPI/CPI differential

2024

0.50%

⬇ 5 bps

The RPI/CPI differential is based only on the subset of companies who report both figures.

After the surge in inflation seen in 2021 and 2022, 2023 and 2024 had seen inflation ease. By December 2023, CPI inflation had fallen to 4.0% and by December 2024 it had fallen to 2.5%.

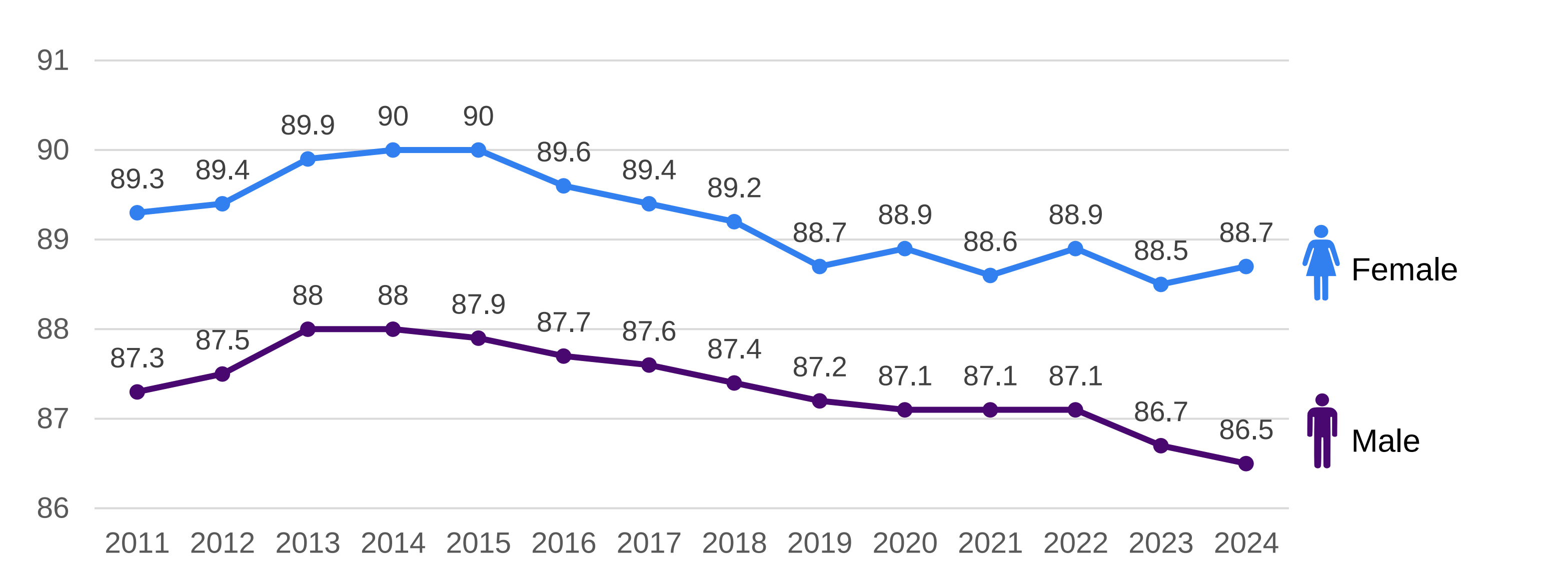
Yet, at the end of 2024 the medium-term outlook for inflation was looking less benign than expected. Inflation forecasts were being revised upward, as inflation was proving stickier than expected, and with it the outlook on interest rates was marginally higher.

Reflecting this backdrop, CPI assumptions were 2.63% in 2024, compared to 2.54% in 2023. By contrast, RPI assumptions were 3.18% in 2024 compared to 3.06% in 2023.

The average differential between RPI and CPI assumptions *declined* slightly in 2024, by 0.05% (5 bps), based on only those companies reporting both figures. This decline in the wedge is expected: with every year that passes, there is less time until RPI aligns to CPIH in 2030.

Wider gap between male and female life expectancy

Average life expectancy for members aged 65 (years)



Life expectancies disclosed for scheme members peaked in 2014 and since that time have largely trended steadily downwards. This less optimistic view on longevity is a significant factor in improving balance sheet positions across the FTSE 350 in recent years.

2023 saw life expectations hit their lowest level since 2011. In 2024, assumed life expectancy dropped again for males but rose for females (both by 0.2 years). This has led to the largest "gender life expectancy gap" disclosed in accounts. The latest tables wouldn't have predicted this divergence, so there maybe other factors such as base table changes (or changes in the data sets) driving these differences. We expect this trend to reverse next year with new CMI models.

Recent years has seen increases in population longevity and as these are reflected in assumptions in the future, 2024 could mark the low-point for longevity assumptions.

Prospects for 2025

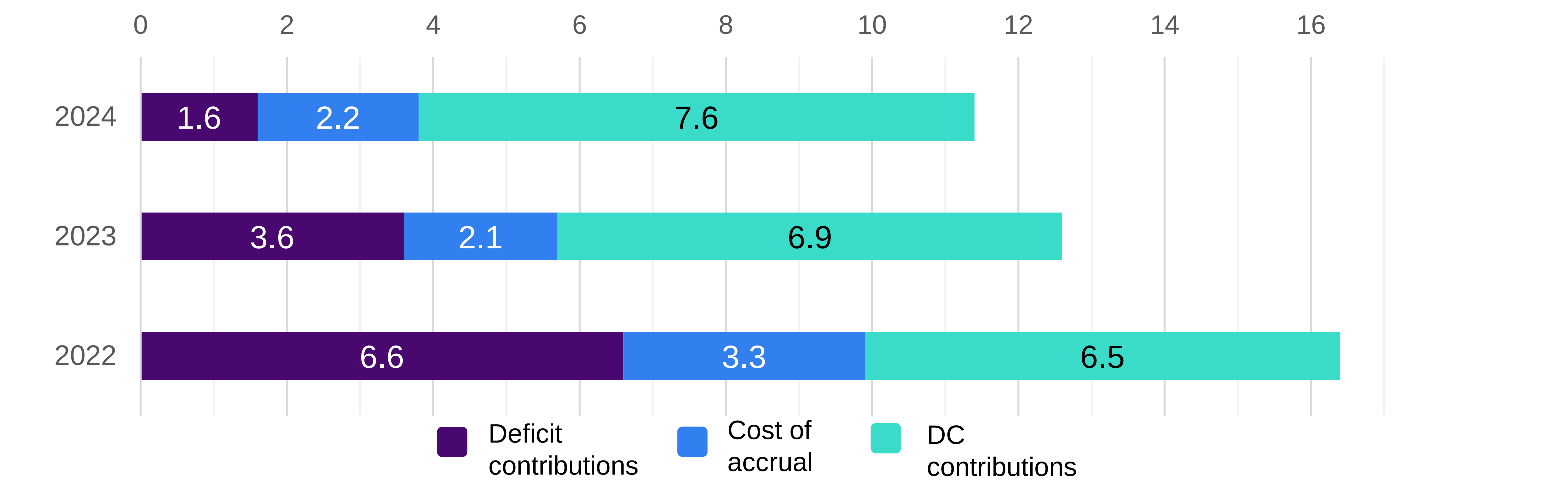
In June 2025, the latest CMI_2024 table was released. These revised projections, will lead to increases in life expectancies at older ages (typically from age 45 for males and over age 60 for females), but decreases at younger ages.

The impact on schemes will vary depending on the age profile, but most schemes may see liabilities increase by around 1% compared to the CMI 2023 tables which are mainly for these accounts. Differences in life expectancy between men and women are also expected to shrink. For example, life expectancy at age 65 increases by three months for men and two weeks for women.

DC contributions twice as large as DB contributions

Aggregate company contributions (£bn)

Data represents FTSE 350 companies with a 31 December year-end reporting in 2024



Change in 2024

- Total DB contributions fell by 33%
- Total DC contributions rose by 10%

Note:
* Cost of accrual has been estimated based on the service cost for companies that still have future accruals
* Not all companies disclose how much they pay in deficit contributions, but we derive an estimate by deducting service cost from total contributions to DB plans.

For much of the last decade, companies have sought to plug pension deficits by making large deficit reduction contributions (DRCs). However, by 2023 companies had begun to reap the rewards of improved funding positions, with deficit payments declining steeply.

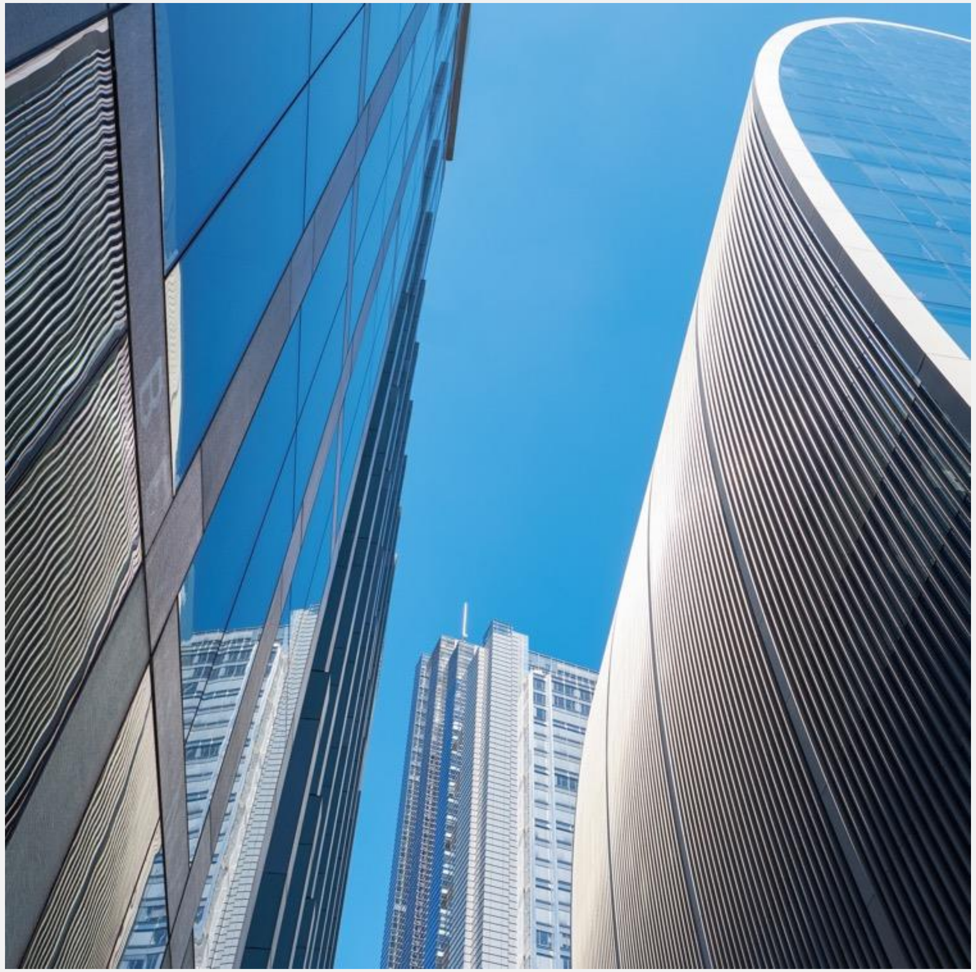
2024 saw deficit contributions fall further to £1.6bn, compared to £3.6bn in 2023, £6.6bn in 2022 and the high watermark of nearly £9bn in 2016.

With rising discount rates DB accrual costs have also fallen from £3.3bn in 2022 to £2.1bn in 2023. But the cost of accrual was stable in 2024 (£2.2bn).

Employer contributions to DC plans continued their trend upwards, driven by growth in wages and membership. Total DC contributions totalled £7.6bn in 2024 and now significantly exceed those paid into DB plans (where both arrangements are present). 67% of all pension contributions go to DC pensions.

With improved funding levels, we see growing interest in getting more economic value from DB pension schemes and using surplus on an ongoing basis.

This is started to also be reflected in disclosures. Two companies (out of 82) have explicitly stated using surplus to fund their DC benefits.



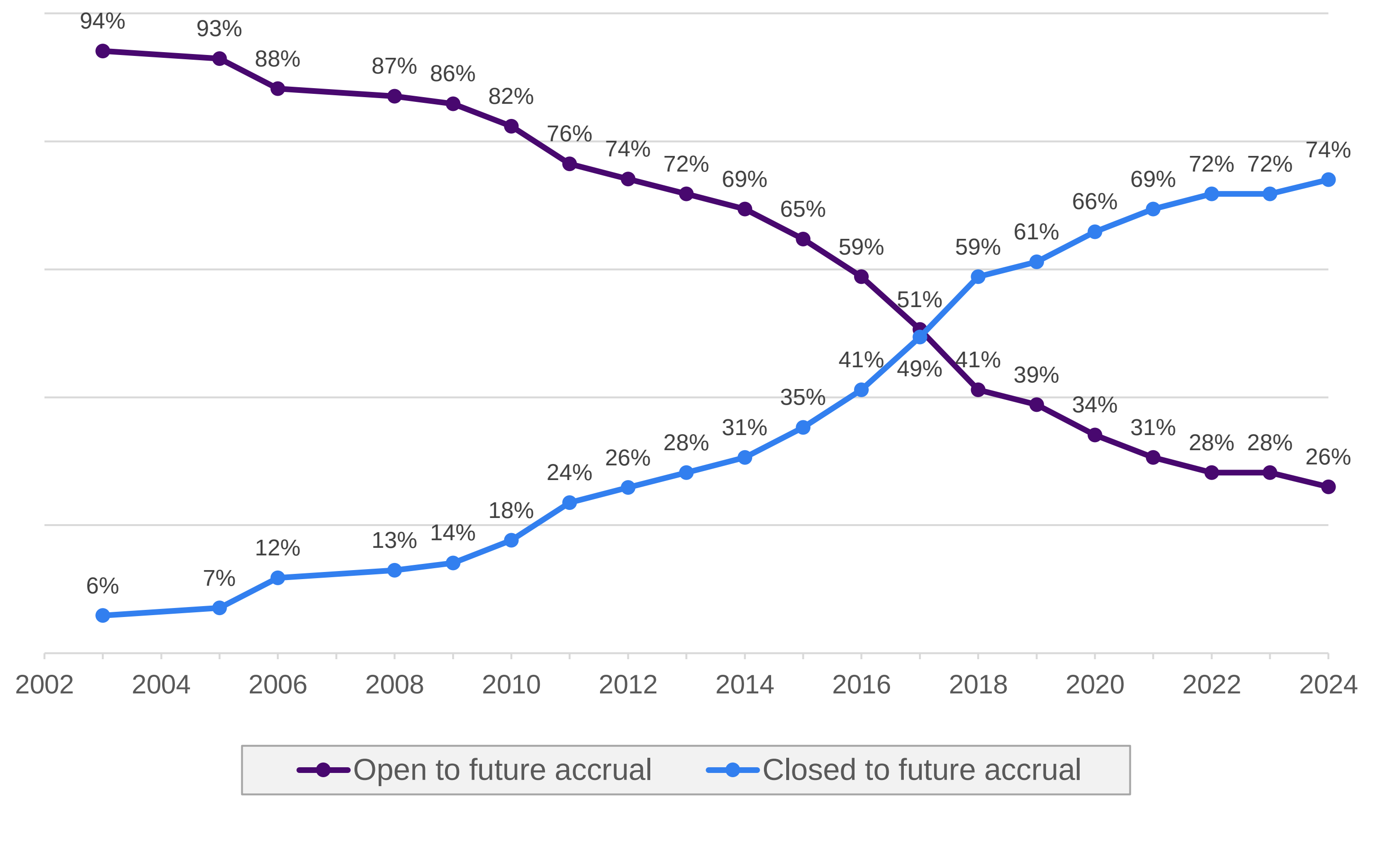
> Sponsors have significant surpluses on their balance sheets – with nearly a third of companies disclosing a surplus of more than 10% of liabilities. The recent Pension Schemes Bill, will mean sponsors can now consider unlocking some of this value for alternative investments.
>
> We are seeing growing interest in schemes using DB surplus to fund DC contributions – a trend we expect to see more of, especially as DC contributions are now dominating employer pension costs.

Bina Mistry, Head of Corporate Pensions Consulting

Trend for DB closure returns

DB plan closure

Data represents FTSE 350 companies with a 31 December year-end reporting in 2024.



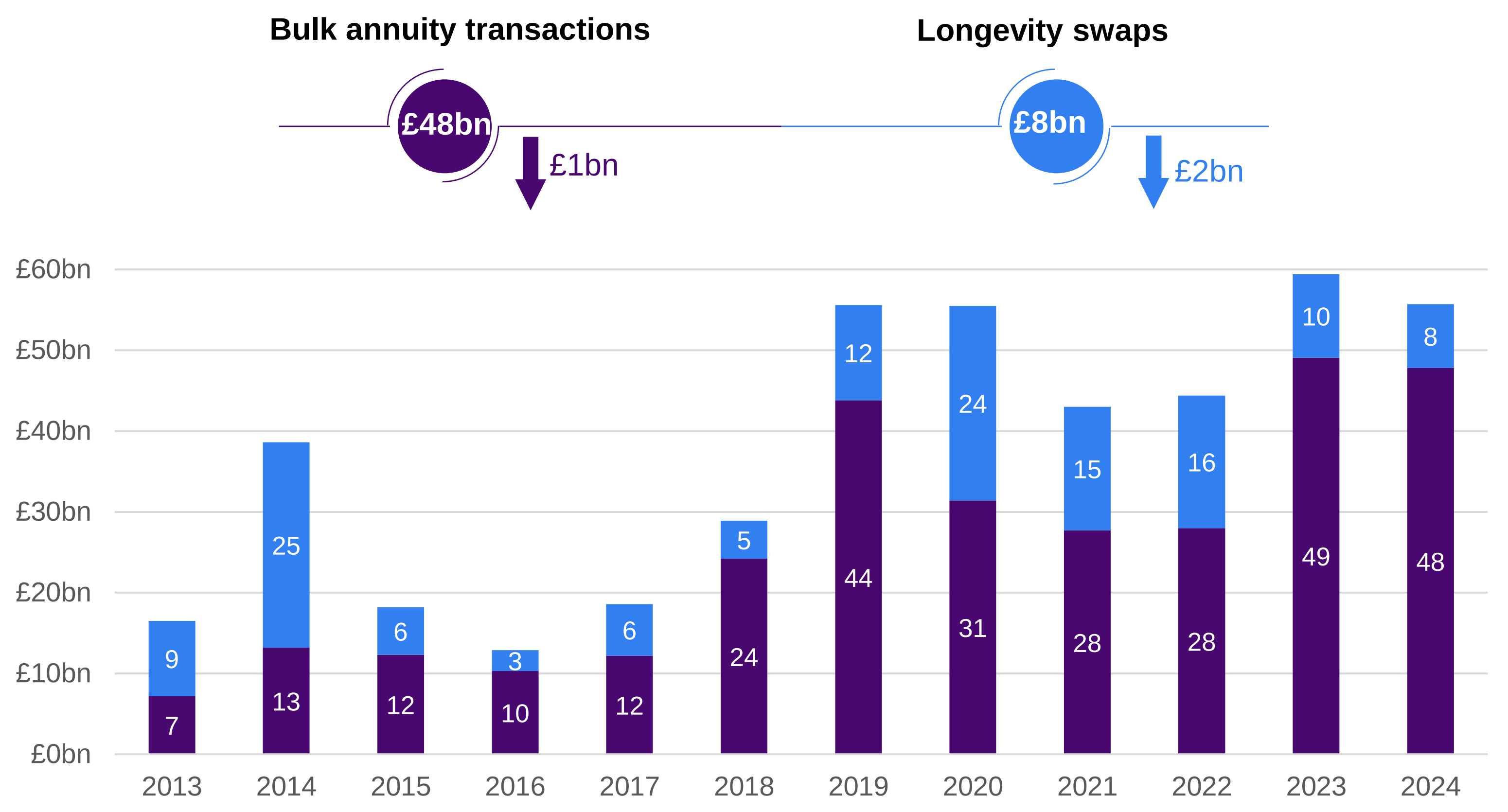
The proportion of employers with defined benefit plans still open to future accrual fell slightly in 2024, to 26%. After 20 years of DB plan closures, the trend stalled in 2023 but has returned in 2024. As recently as 2015, over two-thirds had (some) members still accruing DB pension benefits, today it stands at roughly one in four.

For those companies with DB schemes that remain open to accrual, there are now conflicting pressures, that will impact future decisions on whether to keep schemes open:

- With DB accrual costs falling significantly and many schemes being in surplus (which could result in contribution holidays for DB accrual costs), the business case for closure will have weakened significantly.
- By contrast, many more schemes are now also fully funded, or close to, on a buyout basis. Sponsors looking to discharge their liabilities to insurers will need to proactively manage any ongoing active member accrual, which may therefore trigger further closures. With ongoing buyout activity, we may then see the trend to close DB plans to future accrual to continue. That said, with surplus release proposals now likely from 2027, some schemes may be encouraged to run-on and avoid closing to accrual.

Another bumper year for de-risking transactions

2024 Volume of business (£bn)



* These data include all scheme transactions, not just the FTSE 350

2023 saw a record year for pension risk transfer activity. This continued in 2024, with the volume of transactions only slightly behind at £56bn. This makes the last two years the busiest ever in the market, particularly if historic years are adjusted for the recent rise in risk free rates (current bulk annuity volumes are approximately 75% higher than those seen in 2019 when adjusted to reflect 2024 market conditions).

2024 saw more *transactions by number* than any other year with over 300 deals. It also saw:

- A record number of sub-£100m transactions
- NatWest Group is reported to have secured around £11bn of its scheme's liabilities
- Two new entrants (Utmost and Royal London) completed their first transactions, with a further new provider (Blumont) entering the market in 2025
- The superfund alternative to insured de-risking options continued to develop, with two more superfund transfers completed, in addition to the first in 2023. Since then, a further transaction in 2025 has also been announced.

Virgin Media v NTL Trustees case

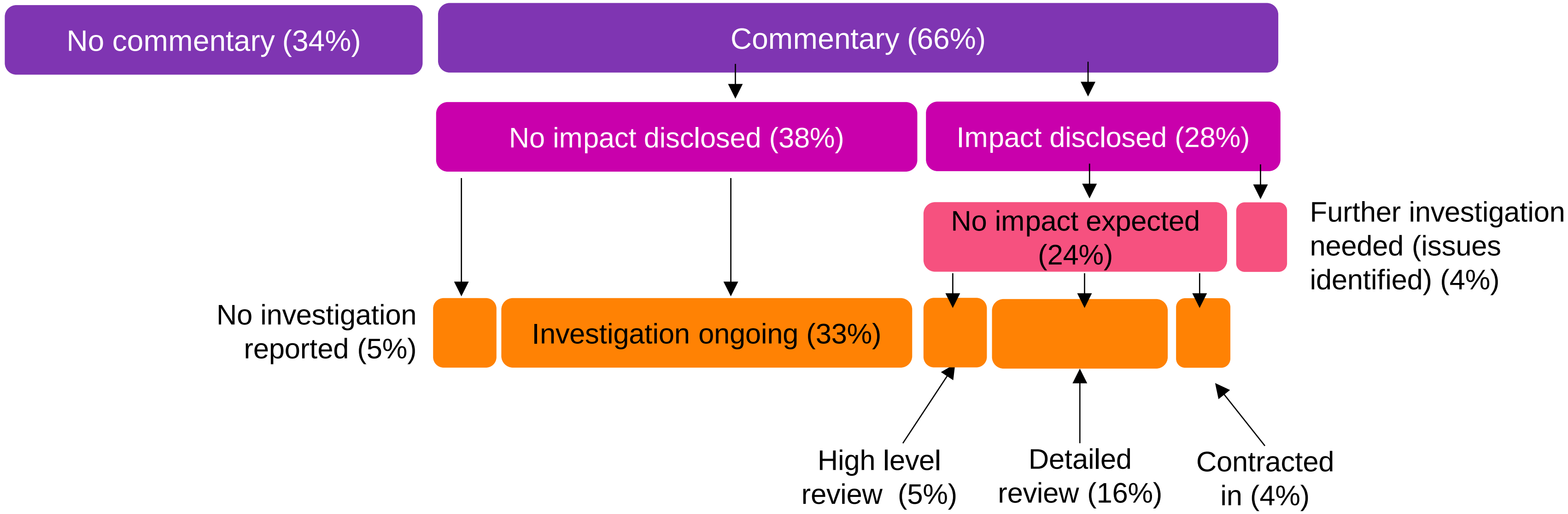
On 25 July 2024, the Court of Appeal confirmed the prior judgment of the High Court (June 2023) in the case of Virgin Media v NTL Trustees.

The court found that rule amendments relating to salary-related contracted-out benefits (“section 9(2B) rights”) between 6 April 1997 and 5 April 2016 required written actuarial confirmation that the scheme would continue to satisfy the relevant statutory standard, and that if this confirmation was not obtained the amendment would be void. In most cases, undoing rule changes would have been likely to lead to an increase in balance sheet liabilities, though that would not have been universal.

The Government announced on 5 June that it will “introduce legislation to give affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards”.

The accounts analysed in this report were published before that announcement.

Disclosures



Numbers do not sum due to rounding

At year end many companies were having to undertake a review of the impact of this case for the purposes of disclosure in their accounts – often driven by auditors requiring specific information. Two thirds of companies (66%) made some form of disclosure surrounding the case, but a third remained silent on the issue.

Of those commenting half (i.e. 33% of companies) still had ongoing investigations at year end. While a third of those commenting (i.e. 24% of all companies) expected no material impact. Only a small minority had reported potential issues ahead.

Despite this, the recent Government announcement to introduce legislation to deal with the issues retrospectively will be a relief for some companies at this coming year end. Although there may still be some analysis required, the risk of additional liabilities fall away.

What will 2025 and beyond bring?

Will sponsors unlock their balance sheet assets?

- The release of DB surplus provisions incorporated in the Pension Schemes Bill is likely to see more companies evaluate their plans on surplus use, as some of the barriers in doing will be removed and the threshold for surplus release will also be lowered. Revised legislation may come into force for 2027.
- Healthy balance sheets may mean more employers now choose to run-on and consider releasing some of the surplus back, alongside potentially sharing this with members for benefit improvements. Although these provision will have positive cash implications, it will mean lower balance sheet assets and P&L costs if benefits are improved. Sponsors should proactively consider their messaging to the market to manage this.

Could Superfunds help sponsors more easily remove their pension obligations?

- The Pensions Schemes Bill introduces a permanent regulatory regime for Superfunds, with the Government looking for this market to thrive. The Bill removes one the “gateway” tests, meaning more schemes could be eligible for entry into the superfunds (though the final criteria may be shaped by regulations). We also expect new entrants to increase competition.
- Sponsors considering Superfunds are likely to have lower balance sheet assets, so it may be easier for these companies to accept a write down on assets compared to buy-in/outs. In addition, with a superfund transaction pensions obligations are removed more quickly from balance sheets than with buyouts.

Will potential changes to the DC market mean sponsors re-direct their focus to DC schemes?

- With DC contributions now being twice as large as DB contributions, sponsors may turn their attention more towards their DC provision. The Pension Schemes Bill will require trustees to provide decumulation solutions, including a default option, as part of a “guided retirement”. This will mean greater focus on the outcomes employees can expect from their DC plan.
- With the Government’s drive on consolidation, multi-employer DC schemes will in general be required to have £25bn in their main default arrangement by 2030 (“megafunds”). This could cause disruption within the current market. Sponsors may think twice about moving DC schemes away from own trust arrangements with this uncertainty, but also due to the opportunities of using DB surplus for DC contributions where there is a hybrid arrangement.

About the data

FTSE 350 DB Pension Scheme data

	FTSE 350	with December 31 2024 year ends
	148	**82**
	Companies with DB pension liabilities	Companies with DB pension liabilities
DB liabilities	**£450 billon**	**£316 billion**

Further information

If you would like to discuss the content of the survey please contact your usual WTW consultant or:

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This report is based on the published disclosures of 85 FTSE 350 companies with defined benefit pension liabilities reporting at 31 December 2024.

These companies comprise around 70% of all FTSE 350 DB pension obligations.

Thank you

Disclaimer

This report has been prepared for general purposes only and does not purport to be and is not a substitute for specific professional advice. While the matters identified are believed to be generally correct, before any specific action is taken, specific advice on the circumstances in question should be obtained.

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