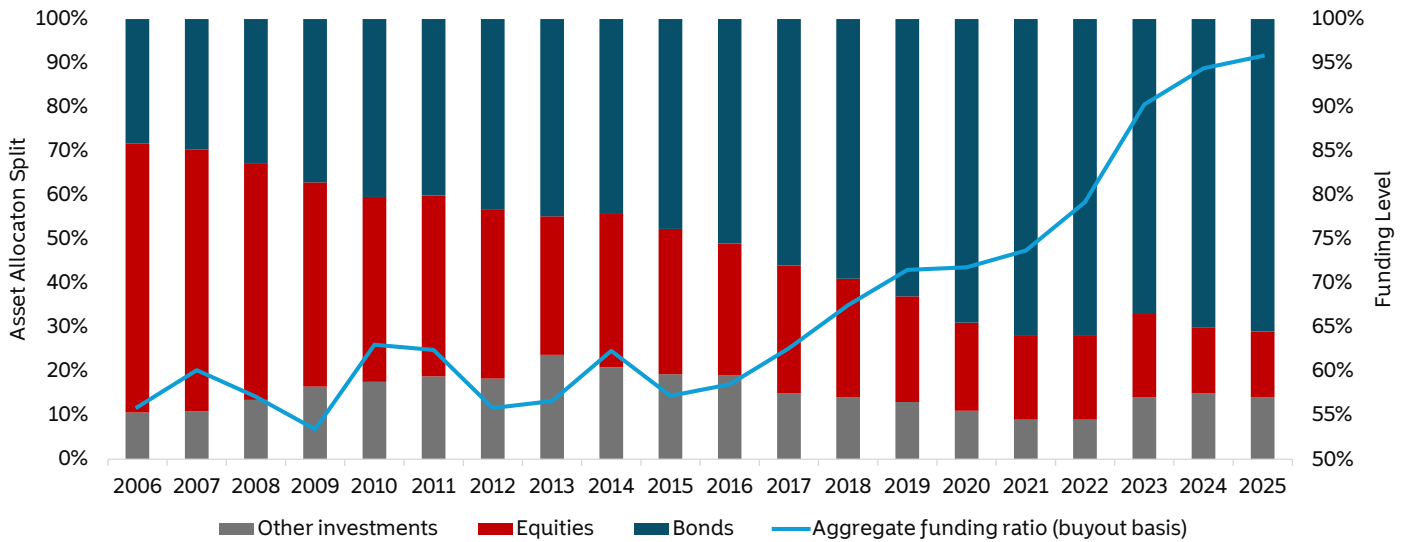


UK DB Pension Schemes: Funding Levels and Risk Appetite Over Time



Source: <https://www.ppf.co.uk/Purple-Book>. The analysis is based on Purple Book data covering the UK DB universe (c.£1.1 trillion of assets across ~4,840 schemes as at 2025). UK Pension funding strategy survey 2025 - PwC UK.

Less Equity, More Serenity: The Great DB Pension Glow-Up

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What does the chart show?

DB pension schemes are at record funding levels. This chart illustrates the evolution of DB pension scheme funding levels (on the most prudent valuation basis - a buyout valuation basis) since 2006, alongside changes in asset allocation (equities vs. bonds). It highlights a clear structural shift over the past two decades: improving funding levels accompanied by a sustained reduction in risk, reflected in declining equity exposure.

Around the Global Financial Crisis (GFC), schemes were significantly underfunded, with the average funding ratio in the mid-50% range on a conservative valuation basis. Asset allocations were heavily weighted towards equities (c.60%), reflecting reliance on return-seeking assets to close deficits.

Over time, portfolios shifted markedly. Equity exposure fell to around 15-20% by the early-2020s, while bond allocations became dominant as schemes increasingly prioritised liability matching and de-risking.

Funding levels have improved significantly, particularly since 2020, reaching c.96% by 2025. Higher gilt yields have been the primary driver, reducing the value placed on liabilities and accelerating progress towards full funding. Around one-third (c.34%) of schemes are in surplus on a conservative (buyout) basis.

Why is it important?

This improvement has introduced a key strategic decision: whether to fully de-risk through insurance buy-out or continue running the scheme.

While many schemes still target buy-out, there is growing interest in running on well-funded schemes to generate additional returns for the schemes' members and the sponsoring companies. Unlike buy-out, a run-on approach may allow schemes to retain or selectively reintroduce exposure to return-seeking assets to generate surplus.

This has become increasingly relevant in light of regulatory developments, including the Pension Schemes Act 2026. Proposed changes to surplus extraction rules may shift the balance between certainty (buy-out) and additional value (run-on).

A PwC survey suggests that four in five schemes are considering surplus distribution. Among those planning a run-on approach, 40% still have an aspirational target to buy-out in the future. As a result, many UK DB schemes are transitioning from a focus on deficit repair and de-risking towards broader strategic capital allocation, where investment risk may once again play a role in delivering value.

Global investors became more optimistic following energy-market stabilisation, but geopolitical and climate-related risks remain elevated. The major concern for investors shifted to growth: weaker US employment data, soft consumer conditions in the UK, and uneven global demand raised questions about the strength of the second-half recovery.



US

- » US equities ended the week higher, with the S&P 500 posting its strongest weekly gain since May as investors embraced the prospect of a less restrictive Fed policy outlook.
- » June non-farm payrolls increased by just 57,000, well below expectations, while unemployment fell slightly to 4.2%, prompting markets to scale back expectations for further rate hikes and increasing confidence that policy easing could occur later this year.
- » Remarks from Fed Chair Kevin Warsh at the ECB's Sintra conference reinforced the commitment to price stability, although investors focused more heavily on signs of a cooling labour market.
- » Market leadership broadened beyond mega-cap technology companies, with financials and cyclical sectors outperforming, while semiconductor shares remained under pressure.



UK

- » Political attention remained focused on Labour's leadership contest following Keir Starmer's resignation, with Andy Burnham emerging as the overwhelming favourite to become the next Prime Minister.
- » UK markets remained relatively stable as investors focused on assurances that fiscal discipline and existing fiscal rules would remain intact.
- » UK GDP growth for Q1 was confirmed at 0.6% quarter-on-quarter, but the annual growth rate was 0.9%, below the 1.1% consensus, although still pointing to a modest growth backdrop.
- » Economic data remained mixed, manufacturing remained in expansion at 52.5, while services stayed below the 50 threshold at 48.8, highlighting continued pressure in parts of the economy.



Europe

- » The EU formally began negotiations with China over trade imbalances, electric vehicles, rare earth exports and broader market access, seeking to avoid a wider trade dispute.
- » The ECB's Sintra conference reinforced a data-dependent monetary policy stance, with policymakers emphasising inflation progress while remaining cautious about declaring a victory over price pressures.
- » Eurozone inflation surprised to the downside, reinforcing market expectations that policy tightening is nearing its end.
- » European equity markets rose strongly, with the Stoxx 600 reaching fresh record highs as investors became less concerned about additional ECB tightening.



Rest of the World/Asia

- » Oil prices were relatively stable as markets assessed the fragile Middle East ceasefire and developments around shipping routes and energy supplies.
- » Chinese manufacturing returned to modest expansion in June, although underlying economic weakness continued to support expectations of further fiscal and monetary stimulus.
- » The yen remained under pressure, keeping markets alert to the possibility of further verbal or direct intervention by Japanese authorities, although softer US rate expectations provided some support towards the end of the week.
- » Economic activity from the World Cup boosted tourism, hospitality and consumer spending across host cities in North America.

Asset Class / Region	Currency	Cumulative returns			
		Week ending 3 July 2026	Month to date	YTD 2026	12 months
Developed Markets Equities					
United States	USD	1.8%	-0.2%	9.8%	20.2%
United Kingdom	GBP	1.6%	1.8%	9.5%	25.4%
Continental Europe	EUR	2.7%	1.4%	12.8%	22.4%
Japan	JPY	2.7%	1.7%	20.6%	47.0%
Asia Pacific (ex Japan)	USD	1.1%	0.0%	23.9%	39.2%
Australia	AUD	1.0%	0.7%	3.1%	6.2%
Global	USD	2.1%	0.4%	10.1%	20.7%
Emerging Markets Equities					
Emerging Europe	USD	3.2%	2.9%	17.7%	31.3%
Emerging Asia	USD	1.0%	-0.3%	27.9%	46.5%
Emerging Latin America	USD	0.5%	0.9%	11.5%	30.3%
BRICs	USD	2.0%	1.2%	-10.0%	-4.1%
China	USD	3.4%	1.4%	-13.8%	-3.6%
MENA countries	USD	-0.4%	0.6%	0.8%	-0.9%
South Africa	USD	3.2%	2.8%	-2.6%	31.1%
India	USD	0.2%	1.0%	-11.7%	-13.2%
Global emerging markets	USD	1.0%	0.0%	23.9%	41.7%
Bonds					
US Treasuries	USD	-0.5%	-0.1%	0.3%	3.3%
US Treasuries (inflation protected)	USD	-0.3%	-0.1%	1.0%	3.6%
US Corporate (investment grade)	USD	-0.4%	-0.1%	0.9%	4.6%
US High Yield	USD	0.3%	0.1%	2.0%	5.7%
UK Gilts	GBP	-0.3%	-0.1%	0.0%	2.9%
UK Corporate (investment grade)	GBP	-0.2%	-0.1%	0.8%	4.4%
Euro Government Bonds	EUR	-0.5%	-0.4%	0.8%	0.8%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	1.2%	2.1%
Euro High Yield	EUR	0.1%	0.0%	2.0%	4.1%
Global Government Bonds	USD	-0.2%	-0.1%	-0.7%	-0.9%
Global Bonds	USD	-0.3%	-0.1%	-0.3%	1.2%
Global Convertible Bonds	USD	-0.7%	-2.2%	15.5%	27.0%
Emerging Market Bonds	USD	-0.2%	-0.2%	1.9%	8.8%
Property					
US Property Securities	USD	-0.6%	1.5%	18.6%	20.2%
Australian Property Securities	AUD	-3.6%	-0.4%	-7.2%	-7.9%
Global Property Securities	USD	0.4%	1.6%	9.8%	13.2%
Currencies					
Euro	USD	0.4%	0.2%	-2.5%	-2.7%
UK Pound Sterling	USD	1.1%	0.8%	-0.7%	-2.2%
Japanese Yen	USD	0.3%	0.8%	-2.8%	-10.1%
Australian Dollar	USD	0.5%	0.4%	4.0%	5.6%
South African Rand	USD	1.5%	1.1%	2.1%	8.0%
Swiss Franc	USD	0.7%	0.6%	-1.3%	-1.0%
Chinese Yuan	USD	0.3%	0.1%	3.1%	5.8%
Commodities & Alternatives					
Commodities	USD	0.1%	0.0%	21.2%	25.2%
Agricultural Commodities	USD	0.8%	0.8%	7.4%	2.9%
Oil	USD	0.2%	-1.1%	18.5%	4.8%
Gold	USD	2.2%	3.7%	-3.4%	25.2%

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