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Questions every scheme should ask in 2026

We set out five questions to help trustees and sponsors stress-test strategy, sharpen execution and preserve hard-won funding gains through 2026 and beyond.

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Introduction

After two exceptional years for UK Defined Benefit (DB) pension schemes, many enter 2026 from a position of relative strength, but also facing heightened uncertainty.

Bank rate cuts have begun, yet are uneven; inflation is easing but remains sticky in places; gilt issuance is elevated amid ongoing fiscal pressure; and geopolitical risks continue to inject volatility into rates, credit and equities.

In this environment, the most resilient schemes are those that ask the right questions early—and act with speed, precision and sound governance.

1

Are our interest-rate and inflation hedges calibrated for a 'lower but lumpier' path?

Why this matters now

Markets have moved from 'how high' to 'how uneven' as central banks progress through the easing cycle.

by the interaction of inflation, growth concerns, and heavy gilt supply.

The average direction of yields may be lower over 2026, but we expect data-dependent swings driven

This argues for maintaining meaningful hedge ratios while preserving flexibility to adapt.

Implications for UK DB schemes

Lock-in vs flexibility: With yields still attractive relative to the 2010s, many schemes could justify increasing their interest-rate hedge ratios. Implementation should allow re-balancing across hedging instruments and fixed income exposures if credit spreads widen.

Inflation nuance: Under-hedged schemes may wish to revisit inflation-hedge ratios, particularly where breakevens have cheapened versus recent history.

Curve precision: For well-funded schemes, ensuring hedge accuracy across the curve grows in importance.

Actions to consider in H1 2026

Re-measure liability cashflows and key-rate exposures; test against updated gilt curve scenarios.

Adopt a clearly documented hedging policy with pre-agreed levels at which hedges or credit allocations are changed.

2

Is our liquidity and collateral framework robust to a gilt and repo market shaped by QT and elevated issuance?

Why this matters now

A supply-heavy backdrop—elevated gross gilt issuance alongside quantitative tightening (QT)—can amplify market squeezes, especially when macro headlines surprise.

Collateral needs can rise precisely when return assets are under pressure.

Repo market conditions and access to facilities matter for resilience.

Implications for UK DB schemes

Collateral cost and availability: QT can tighten liquidity, pushing up repo rates and increasing the cost of leverage for liability-driven investing mandates. Schemes relying heavily on repo financing should monitor these dynamics closely. Schemes should consider diversifying their sources of funding, by for example utilising peer-to-peer repos.

Source-of-cash risk: Reliance on growth assets to fund collateral can be pro-cyclical. Consider ring-fencing cash-like sleeves and high quality, quickly realisable bonds.

Sterling credit concentration: Be mindful of concentration in sterling credit used as collateral or held in liquidity sleeves; ensure quality and ease of monetisation.

Collateral architecture: Revisit collateral waterfalls, eligible assets and top-up pathways; ensure robustness against significant moves in gilt yields.

Operating model: Assess the mix of cleared versus bilateral derivatives in the context of margin efficiency, operational capacity and governance.

Actions to consider in H1 2026

- Run liquidity fire-drills and confirm operational readiness.
- Review the repo panel for counterparty diversification.
- Stress-test collateral waterfalls for scenarios of higher repo rates, reduced gilt liquidity and widened credit spreads.

3

How should we deploy surplus and capture credit opportunities as endgame decisions accelerate?

Why this matters now

Many schemes are well-funded. This allows flexibility: accelerated de-risking; buy-in or buyout execution; or a deliberate run-on strategy to harvest carry and face potentially lower future buyout costs versus immediate buyout.

Despite credit spreads remaining tight by recent standards, volatility could create attractive entry points.

Effective surplus policies and nimble governance are therefore first-order priorities.

Implications for UK DB schemes

Endgame readiness: Elevated activity and insurer selectivity mean that the simplicity and clarity of scheme portfolios are key factors influencing pricing and execution timelines for buy-in or buyout transactions.

Run-on realism: For run-on schemes, funding-level volatility increasingly stems from fixed income rather than equities.

Credit opportunities: Surplus can be deployed opportunistically into credit markets, provided liability matching is preserved.

Nimble governance: In today's environment of stronger funding and higher yields, decisionmaking frameworks and glidepaths designed for a less volatile macroeconomic environment may be too slow. Schemes should ensure their governance allows for prompt, flexible responses to changing market conditions.

Actions to consider in H1 2026

- Conduct a comparative endgame review covering buy-in, buyout, run-on and superfund routes.
- Adopt a surplus policy defining thresholds and permissible uses.
- Pre-define credit deployment triggers and ensure managers have approved universes and liquidity to act swiftly.
- Review delegated authorities to ensure decisions can be made and executed in a timely manner.

4

How do we embed sustainability into LDI without compromising precision or liquidity?

Why this matters now

Stakeholder expectations and UK regulation on sustainable investing continue to evolve.

While LDI portfolios are primarily designed for liability matching, some trustees wish to align long-term

hedging strategies with sustainability objectives—without diluting risk control or adding undue complexity.

Implications for UK DB schemes

Green gilts and sustainable credit: The UK's green gilt programme and growing sustainable corporate issuance allows for an increased availability of sustainability-aligned instruments.

Data and transparency: Fixed-income sustainability metrics continue to develop, especially in terms of coverage of the investment universe, the range of metrics available and accessibility to users.

Trustees may expect clear reporting on how sustainability is integrated within gilt and credit selection.

Regulatory alignment: Ensure climate-related risk management and disclosures for hedging portfolios are consistent with UK requirements.

Actions to consider in H1 2026

- Review your LDI manager's sustainability integration policy.
- Review potential approaches to green gilt and sustainability-aware credit allocations.
- Consider including climate-related and sustainable investing metrics alongside traditional risk analytics in reporting dashboards.

5

What are the hidden costs of not reviewing or changing your LDI manager in 2026?

Why this matters now

In a rapidly evolving market, sticking with the status quo can quietly erode value.

Many schemes assume that maintaining their current LDI manager avoids disruption, but this overlooks the

cumulative impact of missed opportunities, outdated processes, suboptimal service standards, and uncompetitive fees.

Implications for UK DB schemes

Service standards: Schemes risk falling behind if their manager does not provide daily transparency and timely execution.

Governance drag: Outdated delegations and slow decision-making can result in higher transaction costs and forgone funding gains.

Technology and innovation: Insufficient investment in analytics and automation can increase operational risk.

Actions to consider in H1 2026

- Benchmark your LDI manager's service model, reporting cadence, and risk analytics against best-in-class standards.
- Assess the responsiveness and flexibility of your manager's governance and execution protocols.
- Consider the potential uplift from lower fees, operational efficiency, and improved member outcomes from switching to a manager with proven expertise in bespoke segregated solutions, rapid execution, and transparent communication.

Putting it all together: A 2026 checklist

Hedging

- Confirm interest-rate and inflation hedge ratios in aggregate but also across the curve; adopt a documented hedging policy with pre-agreed levels to amend allocations.

Liquidity & Collateral

- Stress-test collateral waterfalls and settlement logistics under gilt, repo and spread shocks; diversify repo counterparties; ring-fence suitable cash-like assets.

Endgame & Surplus

- Decide how surplus supports buy-in, buyout or run-on. Consider superfunds as a potential path to buyout.

Governance & Execution

- Update glidepath steps, triggers and delegated authorities to enable timely action; align trustee cadence with standing instructions where appropriate.

Sustainability

- Review sustainable investing integration in LDI; consider green gilt and sustainability-aware Sterling credit allocations; consider enhanced reporting to include sustainable investing metrics within the LDI portfolio.

Manager & Value

- Benchmark manager service standards, technology and fees; identify and address hidden costs of inertia.

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