

# Excellence in Endgames: The value of taking a purposeful pause

The UK defined benefit (DB) pensions landscape has shifted dramatically over the last few years. Many pension schemes are seeing funding well ahead of where they expected to be, and insurance increasingly within reach. With this comes new strategic opportunities to navigate, and a growing risk of rushing into decisions and missing opportunities. That's why more trustees and sponsors are choosing to take a purposeful pause to reassess their long-term strategies. And more are choosing to keep some flexibility on the table for now.



For more information on the market backdrop and some of the key themes emerging in endgame conversations, check out our **State of the Nation** article [here](#).

## A purposeful pause can be used to:

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Unless the strategy is obvious or already well progressed, keeping multiple endgame paths open can be valuable. Especially if market conditions or sponsor circumstances could change. As well as an opportunity to review the direction of travel, pausing for a short period can give schemes time to generate more value for stakeholders. It gives time to grow and prepare assets, reduce liabilities, and optimise data for a smoother, less risky transaction.

Once a scheme can afford to insure benefits, pausing to consider options is unlikely to pose a serious risk to paying members' benefits in full. The work already done to reach full solvency funding creates a healthy buffer over the level at which trustees might need to seek more contributions. Setbacks could delay insurance, but with minimal risk of the scheme being unable to secure benefits in full at some point, especially with an emerging commercial consolidator market expanding options for doing so.

For the vast majority of schemes, returns earned on assets, and the scheme gradually maturing, typically leads to funding levels rising each year. Amidst a competitive insurance market, a scheme may be able to benefit from improved pricing and a wider choice of providers and solutions by delaying insurance. The period before buy-out could be the last chance to provide members with access to certain options or improved benefits. Changes to surplus extraction rules are also likely to help alleviate some previously held concerns around 'trapped' surpluses. Ultimately, if the sponsor covenant remains robust, schemes can afford to take a longer-term view.

Taking a tactical pause isn't about delaying progress. It's about making sure you're heading in the right direction and working collaboratively to deliver the best outcomes for the scheme and its members.

# Making your pause purposeful

## Take stock of regulatory change

There has been a wave of reforms in recent years, from a new Funding Code to changes in surplus rules and growing support for run-on. Therefore, it's important to reassess how the landscape has shifted and what that means for your scheme's options. Previously held beliefs may have changed.

The Pension Schemes Bill is set to introduce a statutory override, allowing trustees to amend scheme rules to enable surplus extraction. This raises some important considerations. For example, it might shift the current balance of powers. Parties also need to be comfortable that any surplus distribution framework is reasonable and that member benefits are adequately protected.

As it stands, proposals are in their relative infancy. Although the measures are unlikely to be in place before 2027, we should see more industry debate and guidance emerge on these points over the coming months and years. Pausing to see how market practice and consensus develops may be worthwhile.

## Align stakeholder views

Endgame planning is most effective when trustees and sponsors share a clear vision. Without alignment, there's a risk of wasted effort and unexpected obstacles cropping up downstream.

Stakeholder views can vary widely between and within organisations. It's important to take time to understand these and agree a path forwards. A sponsor might be influenced by the implications of company accounting, as well as investor views. Trustees are likely to think more about how the endgame will affect member security and member experience.

Start with getting the sponsor and trustees together to discuss relative merits of the options, views can then help to steer the level of more detailed analysis required. Ultimately, taking the time to agree joint objectives at outset will help ensure you're able to move forward with confidence.

## Explore all of your options

Trustees and sponsors face a growing menu of options.

Run-on strategies come in a variety of flavours. For example, these can be short-term (eg five years) over a period to insurance readiness or long-term to generate surplus and create value for members and/or the sponsor.

Deciding between run-on and near-term buy-in is finely balanced and scheme specific. However, the scope for better stakeholder outcomes from running on for a period can be attractive. It takes time to explore options in sufficient depth and weigh up the suitability for your scheme.

DB endgames are also no longer a binary choice between buy-out and run-on. Superfunds and capital-backed arrangements are now gaining support from a wider range of stakeholders as a viable and valuable alternative in the market, offering a lower-cost alternative to insurance. Whilst master trusts and operational consolidators are emerging as credible options for smaller schemes.

Moving too quickly can result in locking in poor terms or missing out on better options. An insurance transaction can't practically be undone and buy-out forgoes the opportunity for future discretionary increases or benefits. Pausing gives time to explore alternatives – as a minimum, it would be worth double checking the strategic status quo to avoid any later regret.

## Run-off illiquid assets

Illiquid assets can be attractive investments for pension schemes. However, they can also present a liquidity hurdle for schemes that are seeking buy-out.

The investment horizon of an illiquid asset such as private equity or even private debt can be 10+ years. It can extend beyond the initial stated termination date if underlying assets can't be sold at an acceptable price. Early exits can incur penalties or haircuts. Therefore, trustees will want to plan their strategy and timings of disinvestments to minimise losses where possible.

With funding having improved ahead of plan for many, illiquid asset exposures won't necessarily have wound down at the same pace. A purposeful pause can let these run off whilst you monitor alternative disposal options. You'll also have flexibility to take risk and return off the table in a measured, sensible way with room to take advantage of opportunities as they arise.



## Get operations and data ready

Schemes need to get operationally prepared for their chosen path. This includes data quality, governance, and trustee readiness.

Regardless of your timeframe for insurance, good-quality scheme and member data is essential. Insurers need complete and accurate data to properly assess and price the liabilities they're taking on. This not only supports smoother transactions but can result in more favourable pricing from insurers, especially in a competitive environment. It also reduces the risk of securing the wrong benefits. If running on for a longer period, good-quality data improves efficiency and could reduce risk. Complete and accurate scheme data is a key to good governance and ensuring a positive member experience.

With administration resource in high demand, this activity will need some time to plan and schedule. However, schemes can use the time to:

- ▶ Resolve any known outstanding benefit issues or discrepancies, which might include addressing any data gaps such as contingent spouses' pensions.
- ▶ Complete Guaranteed Minimum Pension (GMP) equalisation.
- ▶ Consider opportunities to tidy up data, for example offering members the chance to commute any 'small pots'.
- ▶ Prepare data and benefit specifications in an insurer-ready format.

Pausing to tackle complexities such as benefit or data issues upfront can help you move forward with more confidence whatever your chosen endgame.

## Maintain flexibility in member options

Schemes might choose to delay insurance to preserve greater flexibility in offering member options that may not be available post-transaction, or to preserve discretionary benefit powers. For example, before buy-out, trustees can tailor benefits like pension increase exchange, transfer values, or access to independent financial advice. Equally, the ability to delay buy-out and 'lock-in' discretionary benefits at a guaranteed level can be attractive.

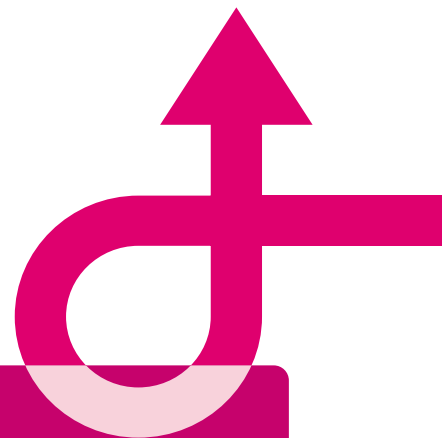
A strategic pause can help avoid future dissatisfaction or complaints from members who might otherwise lose access to valuable options and discretions.

### A pause for thought

A purposeful pause is about positioning your scheme for success. As well as an opportunity to confirm the preferred approach, this can help to achieve a practically smoother journey to insurance. It gives you time to:

- ▶ Reassess and define your objectives
- ▶ Thoroughly evaluate and explore options
- ▶ Align your stakeholders
- ▶ Prepare your data and investments

As the DB endgame landscape continues to evolve, those who pause to think and prepare will be best placed to ensure a smooth and confident journey.



## Delivering Excellence in Endgames



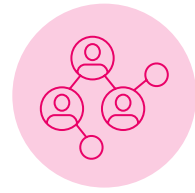
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Expert help to cut through the noise



Confident, collaborative decision making to shape the right path



Your members' outcomes are what matter most

Check out our [Excellence in Endgames insights hub](#), where our experts share practical insights to help you shape and deliver your strategy.

If you have any questions on anything covered or would like to discuss further, please [get in touch](#).



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