

Excellence in Endgames

From vision to valuation:
why your endgame sets the course

Defined benefit (DB) pension schemes are entering a new era. Long-term planning is now centre stage. With more schemes now in surplus, the focus is shifting from plugging deficits to planning endgame strategies, all under a fresh funding regime that demands clear long-term objectives.

For trustees and sponsors navigating their first actuarial valuations under the new DB Funding Code, aligning funding and investment strategies with your endgame is no longer optional – it's a regulatory requirement. With a growing array of endgame options available to well-funded schemes, and the Pension Schemes Bill poised to unlock greater flexibility around surplus, upcoming valuations present a pivotal moment for meaningful conversations on your long-term plans.

Here, we explore five reasons why a focus on endgame planning can make your actuarial valuation more purposeful.

01

Setting the strategic direction

The endgame objective – whether it's buy-out, run-on or consolidation – is the scheme's long-term destination. It provides the strategic anchor to guide funding and investment strategy decisions (even if the 'plan' is keeping flexibility on the table). Specifically, a well-articulated endgame plan allows trustees to:

- ▶ set appropriate funding milestones – for example, when to reach low dependency and how technical provisions should converge to this over time
- ▶ determine the appropriate pace and nature of investment transitions and de-risking
- ▶ develop the required journey plan

02

Guiding your low dependency approach

Any chosen endgame will shape many of the fundamentals. For example, a buy-out strategy may target assumptions aligned with insurer pricing and transaction costs. In contrast, a run-on strategy may aim for higher long-term return assumptions, especially where surplus sharing with employers or members (eg benefit enhancements) is under consideration. The government's proposal to allow surplus release at low dependency rather than at buy-out raises the stakes. Schemes genuinely interested in running on should avoid locking into strategies that constrain future flexibility.

Whilst Fast Track offers simpler compliance, going Bespoke allows greater flexibility. This includes more freedom over strategies, assumptions and risk assessments, provided the scheme can show robust risk support and alignment with core principles. Schemes will want to avoid defaulting to Fast Track assumptions and targets when a Bespoke approach would better serve the scheme's long-term interests.

Strategy leads; compliance follows.

03

Moving away from “gilts plus” discount rate methodology

Your endgame may also influence your strength of preference for a “dynamic” discount rate approach rather than a traditional “gilts plus” model. Dynamic rates can offer more stable asset and liability valuations, particularly for schemes planning to run-on and hold credit assets to maturity. These schemes may be less concerned with short-term market volatility or spread movements, focusing instead on long-term outcomes.

04

Determining your expense reserve

The funding code requires schemes to hold an expense reserve aligned with their endgame target. For many schemes, this will be a new and material consideration. However, the size and nature of the reserve can vary significantly depending on the endgame strategy:

- A buy-out endgame typically demands a reserve to cover transaction and wind-up costs. This is often 1–2% of liabilities, but can be higher for complex or small schemes.
- A run-on strategy requires a reserve that supports ongoing administrative and operational expenses over the longer term. The starting point is likely to be current expenses, although adjustment may be needed for particular projects and consideration given how these are projected over time.

Given the materiality, it's important that this reserve is considered carefully according to long-term plans and reviewed over time. You'll need to be able to justify that your allowances for expenses are consistent with endgame discussions.

05

Writing your statement of strategy

For the first time trustees and sponsors must agree and write down their endgame plans, and explain how funding and investment strategies support this in the new Statement of Strategy. This must be submitted to The Pensions Regulator alongside the valuation.

Many schemes' endgame plans will already have a degree of flexibility built in, whilst others will want to keep some flexibility in precisely how they describe them – keeping the door open for run-on, buyout, superfunds, or consolidation. This approach helps avoid feeling locked into a single path or timeframe (although there is scope to adapt and refine if circumstances and views change at future valuations). However, opening discussions on this upfront, and getting clarity early, makes it easier to justify your approach and decisions, and should also make your Statement of Strategy more straightforward to prepare and agree. This is especially so if it's not something that trustees have discussed with the sponsor previously. A clear endgame should also let you tailor your risk controls, governance, and contingency plans accordingly.

In today's regulatory landscape, the actuarial valuation is about telling a coherent story. That story begins with a well-articulated endgame objective. This long-term goal then gives shape to the scheme's assumptions and informs its funding and investment strategy.

Now is the ideal moment for DB schemes to pause and reassess their position. After several transformative years, many schemes are in stronger funding positions, the risk transfer and provider markets have expanded, and there is growing momentum around surplus

flexibility. These developments offer trustees and sponsors a broader set of strategic options than ever before. Coupled with the requirements of the new DB Funding Code, there has never been a more opportune time to engage meaningfully on long-term objectives.

By grounding this year's valuation in a clearly articulated endgame target, trustees and sponsors will find it far easier to navigate the new regulatory framework. They'll also be better placed to build a strategy that is both compliant and future-ready.

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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](#).



Laura McLaren
Partner and Head of DB Scheme Actuary Services
laura.mclaren@hymans.co.uk



Lauren Branney
Actuarial Consultant
lauren.branney@hymans.co.uk

Certified



London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk

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