

A new era for companies:

Understanding the importance of DB endgames

Companies could be at risk of a sub-optimal endgame strategy if they don't urgently engage with their scheme trustees.

We're now over a year from the 2023 Mansion House announcement of pension reforms and the pensions world has changed significantly. We've seen the bulk annuity market reach its highest ever levels of activity, innovation in the consolidation and alternative risk transfer market leading to new settlement options, and more schemes considering the advantages of running on.

Our recent survey¹ of over 300 finance and pension decision makers in UK companies showed that the endgame continues to be at the top of the agenda for companies with defined benefit (DB) pension schemes. However, it is clear the optimal solution is not usually black and white.

¹ Research conducted by Hymans Robertson June/July 2024

Key themes

We explore three key endgame themes that every company should be considering.

Theme one: Engage on endgame as soon as possible

Our survey¹ showed the majority of companies believe that planning for the future and their scheme's endgame is their number one DB pensions priority.

We also polled industry-wide attendees at a recent webinar², when nearly 40% noted that the main driving factor for setting their endgame strategy was the sponsor's appetite and views.

The sponsor's views are clearly at the heart of choosing an endgame strategy, so companies should engage with trustees as soon as possible on this matter.

Theme two: The optimal endgame solution is not black and white

Many companies have been engaging on the endgame strategy in the past year, with **70%** saying they had reviewed their endgame strategy. Of those, **90%** reported formalising their strategy as a result of the review, with **57%** of these now targeting buy-out and **43%** targeting a run-on strategy. This shows clearly that there is no one right solution for the majority of DB schemes in the UK.

We see there being several different flavours to run-on, and to deferring pensions risk settlement. For instance, there are those looking to run-on purely for the financial benefits of generating material surplus. However, there are companies looking to run-on for other reasons, such as sponsor concern about possible systemic risks of insurance or wanting to run-on for a short period to improve member benefits (for example to provide better future inflation-proofing).

For smaller schemes, future management costs can be one of the main drivers for decision-making, as running on can prove very expensive. For that reason, it's surprising that **44%** of our respondents with a scheme size of less than £250m, that have reviewed their endgame strategy in the past year, confirmed they are currently targeting run-on. For schemes of this size, further analysis will be required to understand the drag that expenses create and at what point the cost of expenses means running on isn't viable.

This also suggests factors other than the financial benefits of surplus generation are proving key to company decision-making. For those under the threshold where running on is economically viable, a solution that allows smaller schemes to run-on with lower ongoing costs could gain traction in the market.

It is the bringing together of the financial and the non-financial factors that's essential for developing an effective endgame strategy.

Theme three: Flexibility is key

Over half of the respondents from our survey suggested that flexibility in their strategy and investments is important, even if that came at the cost of producing lower investment returns in the future.

This emphasises that any decision made now is not a one-time action, but the endgame strategy will need to be reviewed and re-tested regularly in the future. This is why the ability to pivot to another endgame solution at reasonably short notice remains a priority for many.

¹ Research conducted by Hymans Robertson June/July 2024

² [Hymans' Run-on vs Buy-out: Choosing the Plan A for your DB Scheme webinar](#)

Reservations on Mansion House objectives? Conclusions

Opinion is still split on the government's objective to increase the amount of pension investment into the UK economy through "productive finance", with over a third of our survey respondents disagreeing with this objective. However, the broader views on run-on are considerably more positive. Many companies are still keen to progress with a run-on strategy, so a reframing of the government objective with more clarity and flexibility around surplus sharing would be beneficial to encourage further consideration of this route.

- Engage on your endgame strategy as soon as possible.
- The optimal endgame solution is not black and white and will be dependent on scheme and company-specific circumstances.
- Ensure there is sufficient flexibility in the strategy to fit the key sponsor objectives and risk appetite.
- Further government clarity in this area would encourage more to consider run-on.

If you have any questions or would like to discuss your own endgame strategy, please contact our DB corporate team or visit our [excellence in endgames](#) hub.

For further information or support, please contact one of our DB corporate consulting team.



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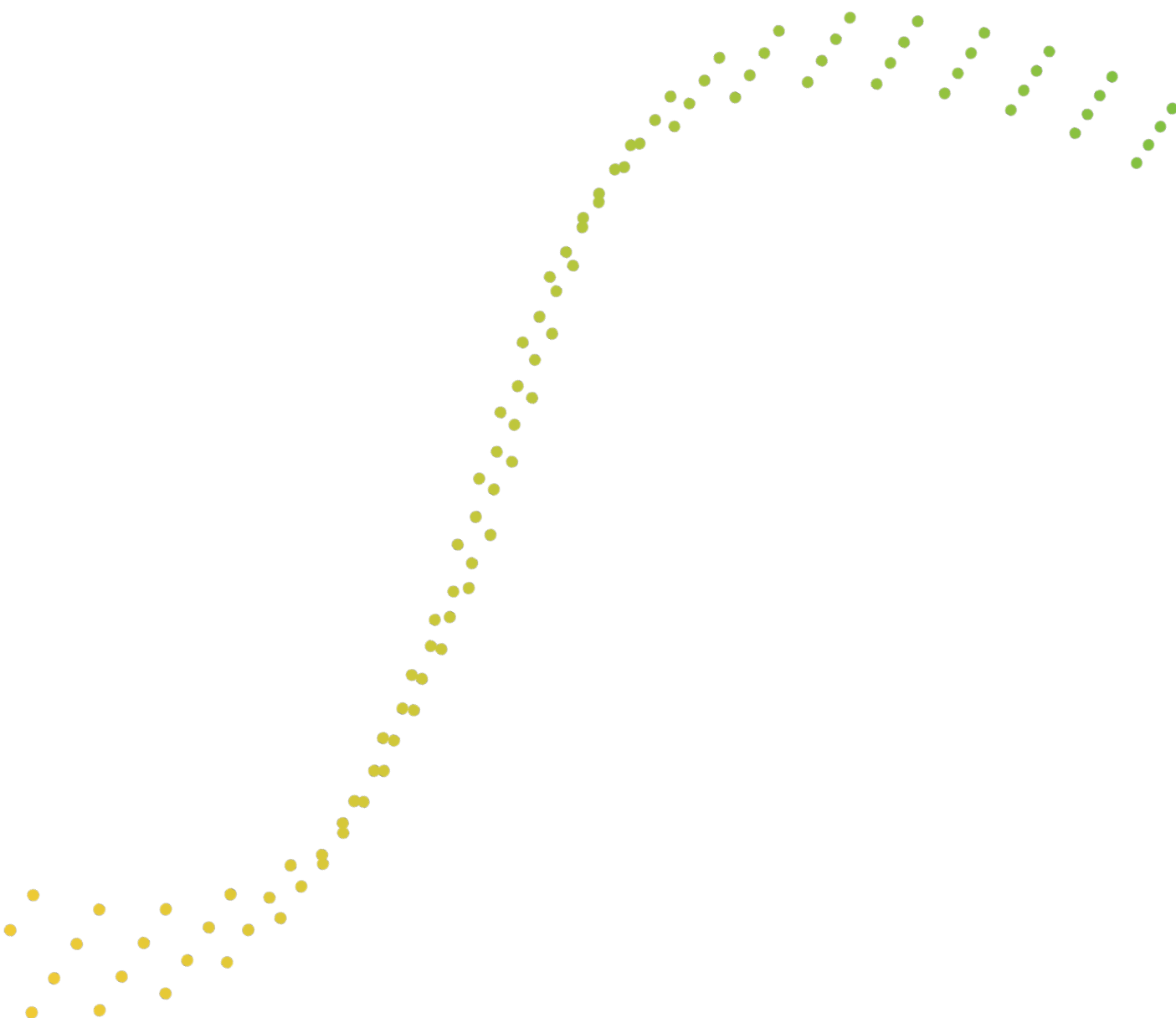


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