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State of the nation: DB endgames – where are we now and what's next?

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For those managing defined benefit (DB) pension schemes, it's a pivotal and exciting time. The pensions landscape has changed significantly in recent years, opening up new strategic possibilities.

The conversation is shifting from tackling deficits to making the most of surpluses and exploring endgame strategies. We've seen record-breaking activity in the bulk annuity market and growing innovation in consolidation, and alternative risk transfer, leading to new settlement options. We've also seen more schemes considering the potential benefits of running on.

It's clear that buy-out is no longer the only choice with a growing diversity of strategies available to well-funded schemes. Against that backdrop, we're seeing a strong trend of schemes reassessing their endgame strategy.

In this article, we explore how the DB pensions environment has shifted and what this could mean for schemes in the years to come.

Timeline of key events

It's now more than two years since the 2023 Mansion House reforms were announced. We've since had a change in government, although the overall direction of travel remains very similar. With the long-awaited Pension Schemes Bill now published, new proposals are set to make run-on and surplus-sharing between sponsors and scheme members easier.

2023

July 10, 2023
Mansion house speech

Chancellor Jeremy Hunt outlines a vision to unlock pension fund capital for UK growth, encouraging DB schemes to consider "run-on" strategies rather than buy-outs. He signals upcoming reforms to surplus extraction rules and investment flexibility.

Late 2023
Government consultations

HM Treasury and the Department for Work and Pensions launch consultations on DB surplus extraction, low-dependency funding, and productive finance.

2024

April 2024
Changes to surplus tax

The tax on authorised surplus payments from DB pension schemes to sponsoring employers was reduced from 35% to 25% effective from 6 April 2024 (announced in Autumn budget).

Throughout 2024
Industry engagement and feedback

The DWP and HM Treasury engage with industry stakeholders.

June 2024
Labour government elected
But overall direction of travel remains the same.

September 2024
New Funding Code launches
Brings focus to long term planning for upcoming valuations.

November 2024
Mansion House Speech
Reinforces focus on pension reforms aimed at boosting UK economic growth.

2025

May 30, 2025
Government response to consultations

The UK government confirms significant reforms including a statutory power to amend scheme rules for surplus payments. This was under new Labour government but views consistent with previous conservative government.

The 25% tax charge on surplus payments remains.

June 3
TPR guidance on DB endgames and surplus

The Pensions Regulator (TPR) publishes detailed guidance for trustees and employers:

Encourages development of documented surplus extraction policies.

Outlines "run-on" as a viable endgame for well-funded schemes with strong governance.

Provides case studies and risk assessment frameworks for evaluating options like superfunds, capital-backed journey plans, and surplus-sharing.

June 2025
Pension Schemes Bill

Proposals will increase flexibility around DB surpluses, though it's expected to be 2027 before changes are in force.

July 2025
Mansion House Speech and launch of the Pensions Commission

Confirms government will take forward second stage of the Pensions Review (expected to be more focused on adequacy in DC landscape not DB).

Factors driving the conversation

Materially improved scheme funding

UK private sector DB pension schemes hold around £1.2 trillion in assets, and these schemes are now better funded than ever.

Things have changed quickly over the past few years for DB schemes. Through a blend of rising interest rates, stronger-than-expected investment performance, and a slowdown in future longevity improvements, many schemes have found themselves much better funded than they expected. TPR estimated that as at 31 December 2024, 85% of all UK DB schemes were fully funded on their technical provisions basis, compared to just 40% three years ago[1].

[1] TPR's annual funding statistics

TPR also estimates that more than half of schemes are fully funded on a buy-out basis. For many, the biggest barrier to insurance – affordability – is no longer the issue. The activity in the risk transfer market speaks for itself: 2024 saw a record-breaking number of transactions.

This step change in position has also shifted thinking. As surpluses become a reality, schemes can be funded to a point that benefits are very secure and the likelihood of requiring future contributions is very low. Trustees and sponsoring employers are able to reassess a choice to either run-on or secure their liabilities from quite a different perspective. Interest in surplus and the potential release of those surpluses has been building. Notably, the high inflation environment, together with the increased awareness of improved funding positions, have thrust discretionary pension increases back into the spotlight.

Source: The Pensions Regulator's 2025 Annual Funding Statement.

The government's mission for economic growth

Legislative movement has come from the government objectives to unlock pensions assets to drive economic growth.

The 2023 Mansion House reforms, where the then Chancellor encouraged schemes to consider how pension fund assets can be used to support productive finance, and the subsequent direction of travel have signalled a policy shift.

The current government still wants to support DB pensions to remain a long-term pipeline for investment within the UK, potentially in more productive assets, and unlocking DB surplus to invest in businesses and deliver for scheme members to boost economic growth. All of this has energised the discussion about alternatives to buy-in and buy-out.

The Pension Schemes Bill will increase flexibility around DB surpluses, though it's expected to be 2027 before changes are in force.

A new DB funding regime

2024 saw the introduction of a new DB funding regime and a legal requirement to put in place a long-term strategy as part of the triennial valuation.

Trustees and sponsors are now required to agree a long-term objective, align a low dependency target, and develop a journey plan for achieving this. This must all be formalised in a new 'statement of strategy'.

Even where parties may have been slow to engage on long-term objectives in the past, the new requirements are bringing those endgame conversations to the forefront.

We've also seen a shift in tone in the annual funding statements and other guidance coming from TPR, with TPR highlighting the growing range of endgame and consolidation options, and directing trustees to robustly consider the full spectrum.

> Although there is no formal requirement to prepare a statement of strategy, until you are preparing your first valuation under the new funding code, we believe it is good governance practice for all trustees to set their scheme's long-term objective and, for closed schemes, consider the endgame strategy(ies) that they expect to follow for their scheme.

> Insurer buy-out is not the only option for trustees to consider. Ongoing market innovation has led to a wider range of financial, governance, and insurance options. Each have their own pros and cons. Not every option will be right, or even available, for every scheme. Trustees need to really think about the specific circumstances of their scheme and their members

Source: The Pensions Regulator's blog on New models and options in defined benefit pensions schemes (June 2025)

Schemes taking a tactical pause

Despite the sizeable improvement in scheme funding positions, not all schemes targeting insurance will be ready to approach the market right away.

Having good quality scheme data is essential. With most pension schemes grappling with data related projects, whether it's for insurance transactions, GMP equalisation or Pensions Dashboards, administration resource is in high demand. Managing illiquid assets is another key consideration. As an increasing number of schemes complete transactions, we're seeing new challenges and delays emerging during the post-transaction phase where more activity has been pushed downstream.

Against that backdrop, and with discussions around surplus flexibility gaining traction, more schemes are open to the value of a tactical pause before pressing on with their endgame strategy. As well as an opportunity to confirm the preferred approach, this can help to achieve a practically smoother journey to buy-out and wind up.

There are many steps to take to reach an insurance transaction, each requiring time, resources, and effort from trustee boards. Trustees don't want to run the risk of securing the wrong benefits, locking into unfavourable terms, or missing opportunities to optimise their endgame strategy. It's also important to have a clear residual risks strategy as trustees plan for and execute an insurance transaction and wind-up. Taking a tactical pause allows schemes to recalibrate, resolve outstanding data or benefit issues, and ensure they are fully prepared to engage with insurers – maximising value for members and delivering a more efficient, confident route to buy-out.

How this is affecting DB endgames

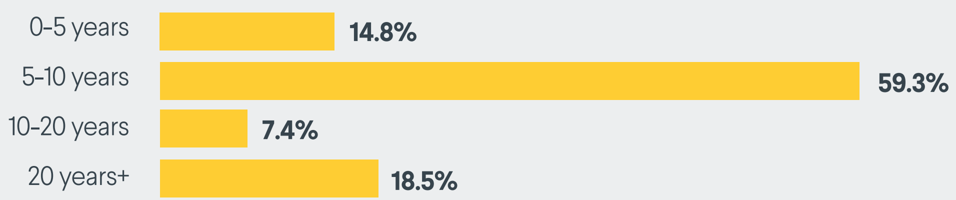
More schemes weighing up the benefits of running on and what to do with surplus

With growing regulatory support and material surplus generation now a real possibility, run-on is regaining attention.

In practice, this comes in many different flavours. For example, a long-term commitment to purposefully run-on to generate material surpluses vs maintaining a relatively low-risk state with flexibility to pivot to buy-in at short notice.

Other schemes may plan to run-on over a shorter period to manage insurance readiness, to achieve a target level of surplus sharing provision for their membership or to let the membership mature. Our research suggests many schemes might approach running on with a 10-year timeframe in mind, with a smaller number of schemes thinking truly longer term.

If you are considering running on, what timeframe are you considering committing to?



Source: Hymans Robertson webinar poll results

More trustees and sponsors are taking the opportunity to think about what the purpose of creating value would be, such as:

- Improved DB member benefits, beyond the minimum promised benefit?
- Reducing sponsoring employer contribution levels towards future DB benefit accruals in the 4% of DB schemes that are fully open?
- Better retirement provision for the younger generation of savers who have not had DB pensions?
- Value back to sponsors, who have poured money into these DB schemes over decades?
- Investment back into the UK economy?

Even where schemes are still likely to look to buy-out at some point this will throw up questions around surplus.

Current legislation requires a scheme to be fully funded on a buy-out basis before a refund of surplus is permitted, subject to the scheme's rules, and typically refunds happen only once a scheme has actually bought out. However, the new Pensions Bill is set to change this.

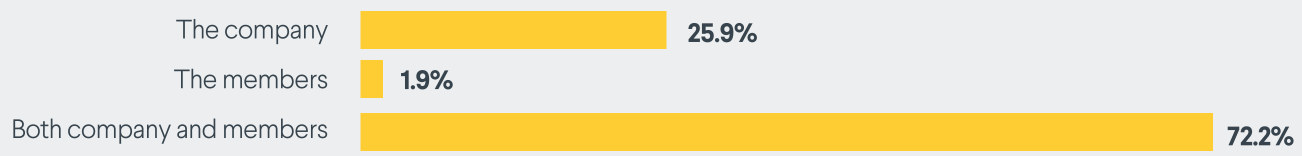
The government is to introduce a power for trustees to modify scheme rules to allow for the sharing of surplus with sponsoring employers. This is subject to funding safeguards and a requirement to consider member interests. The government estimates that 80% of schemes could benefit from such an override. For example, only around 20% of schemes currently allow for surplus extraction in their scheme rules so the only way of accessing surplus funds is at the point of winding the scheme up, which could be some time away. It's also suggesting that the minimum threshold would move from buy-out to being based around low dependency.

As ever, the devil will lie in the detail of the final regulations and guidance which will pin down the minimum threshold. It'll also flesh out the other conditions including actuarial certification, member disclosure and trustee duties.

Aligning the new regulatory minimum to the scheme's low dependency basis will give trustees more flexibility but schemes will need to consider their own framework. For example, the government's estimates assumed that schemes would release surplus above 110% of the low-dependency liabilities. Trustees will need to carefully balance protecting benefits.

It's difficult to determine, at this stage, how many schemes will modify their scheme rules to take advantage of surplus flexibilities and how much surplus might be extracted. Trustees and sponsoring employers will need to come to an agreement on whether to extract surplus, how much surplus should be extracted and what to do with it. Our research suggests most would favour sharing between members and the employer.

Who should benefit from the surplus in a DB scheme?



Source: Hymans Robertson webinar poll results

For now, most trustees remain cautious in decision-making, without the clear legislation to support their decisions. To date, it's been extremely rare for trustees to release surplus to sponsors before schemes enter wind-up. However, there is generally support for more flexibility. On our recent webinar [2] almost 70% of respondents were at least somewhat supportive. Concerns included the risk if surplus was shared and the scheme subsequently required support, as well as balancing the focus on protecting benefits.

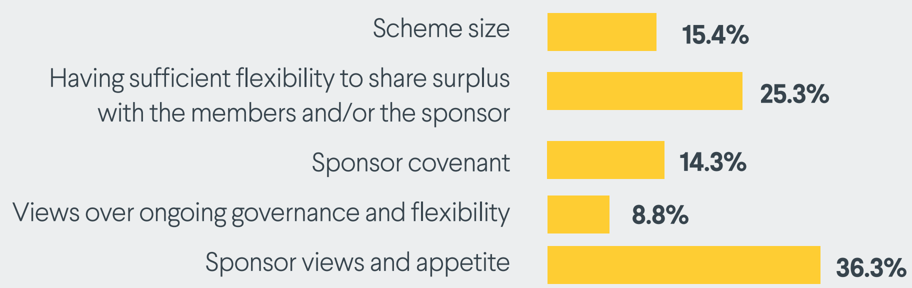
Industry voices remain mixed. A significant proportion of schemes are actively considering running on, and this has increased in the past two years. Interest is most evident amongst the largest schemes with the economies of scale to potentially benefit most. We expect the number of schemes thinking about this will only have grown following the Government's recent announcements.

It's encouraging to see schemes proactively thinking about what the new rules on surplus use might mean.

Ultimately, whether run-on is right for a scheme will depend on its specific circumstances. This includes economies of scale, but also other factors such as covenant and views over governance and member experience. Sponsor views are a key factor as well as the risk appetite of both key stakeholders. Many believe that running on will only work through a collaborative relationship between trustees and sponsoring employers, with common goals in place. There are also some potentially challenging factors to consider, such as intergenerational fairness when deciding how to share surplus with members.

[2] Hymans Robertson's webinar: In conversation with The Pensions Regulator: what the latest regulatory updates mean for you, 16 May 2025.

Thinking about your DB schemes and their endgame – which of the factors do you think are most likely to drive the endgame decision?

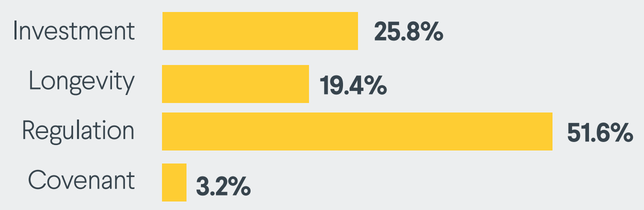


Source: Hymans Robertson webinar poll results

Our research suggests fears over regulatory change are viewed as a barrier to run-on. This was highlighted in the recent Virgin Media judgment, though it remains to be seen whether the DWP announcement that schemes will be able to retrospectively obtain actuarial confirmation may ease some of these fears.

Further regulatory guidance is expected as the new surplus flexibilities take shape. Only time will tell how broader industry perceptions and scheme experiences will evolve.

If you were running on, what do you see as the biggest risks in your strategy?



Source: Hymans Robertson webinar poll results

The bulk annuity market continues to go from strength to strength

Despite more schemes weighing up the benefits of running on, 2024 had the highest total number of buy-in transactions of any year and there's still plenty of demand from well-funded pension schemes.

This demand has led insurers to increase their capacity, and has also attracted new entrants to the market. Both Royal London and Utmost Life and Pensions completed their first bulk annuity transactions in 2024 and Blumont have recently also entered the market. We expect this healthy competition between insurers to help deliver good value for schemes and their members.

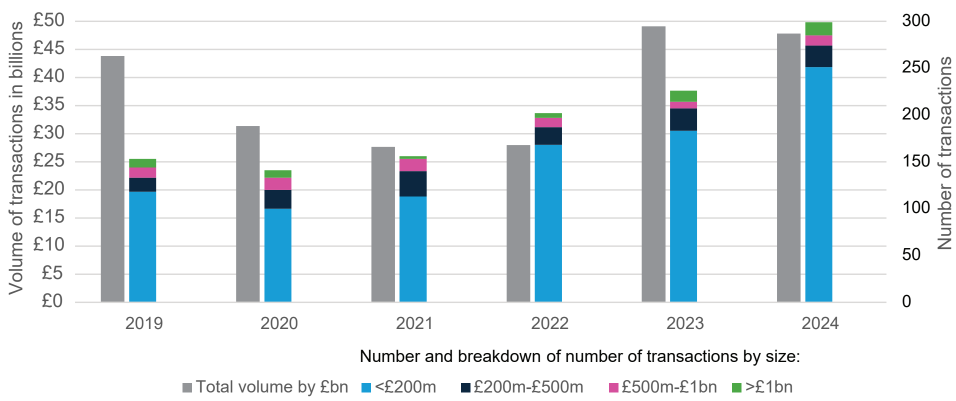
We're also seeing an increased willingness from insurers to be involved in competitive processes for schemes in the sub-£50m space. This reflects that insurers are developing their offerings, for example by streamlining processes for small schemes to drive efficiency and increase transaction capacity.

M&G recently completed its first transaction under its 'value share' bulk purchase annuity model. Under this model, pension scheme members benefit from full insurance, and the sponsor participates in the risk and reward generated from insuring a well-funded scheme. This solution is an example of how the market can respond to meet the demands of both trustees and sponsors, even where they may not fully align.

For large schemes that are running on, we expect longevity swaps to remain a strong consideration. These schemes may feel well placed to manage investment risk themselves and view longevity risk as their primary unhedged risk, particularly under the extreme scenarios. Contracts are now written so that conversion to buy-in is relatively straightforward.

For more insights on the risk transfer market last year, you can read our Risk Transfer report here.

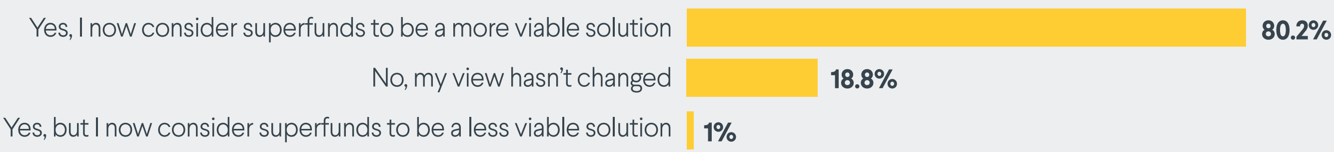
Total bulk annuity transactions over the last six years



Superfunds have moved from concept to reality

Clara-Pensions has now completed its first four transactions. Whilst initial deals were with distressed sponsors, the latest transaction with the Church Mission Society Pension Scheme was the first to use Clara's 'connected covenant' structure. This enabled the existing contingent guarantee from the sponsor to continue to provide security for members' benefits alongside the capital committed by Clara. With each transaction, confidence in superfunds continues to grow. Market perceptions have come a long way, from widespread scepticism about superfunds to many stakeholders now seeing them as a viable and valuable addition to the market.

Since Clara completed its first transaction, has your view on the suitability of superfunds changed?



Source: Hymans Robertson webinar poll results

Clara-Pensions is the only superfund in the UK with regulatory approval. However, now that the concept of a superfund has been proven and with the legislative framework finally starting to be set down as part of Pension Schemes Bill, other providers are likely to appear. Clara operates as a 'bridge to buy-out' however we may well see a variety of models emerge to give more choice to trustees and sponsors over how members' benefits and interests are best served over the long term.

Prominence in the bill gives a sense of the key role that the Government expects superfunds to play in the future DB landscape. The legislation can only help build confidence for potential new entrants, and is an important step on the path towards a thriving superfund market.

For now, schemes actively targeting a transfer to a superfund remain rare. However, perceptions of superfunds are evolving. Access to a lower cost and still very secure destination is a game changer when working through contingency plans in case things go wrong. Over time, they may come to be seen as a valued alternative offering a balance between cost and security that differs from insurance or other endgames. More consolidators and a new legislative framework could offer trustees further options for securing their schemes' liabilities.

No public sector consolidator on the horizon for now

In early 2024, the DWP consulted on options for DB schemes. Of the 40 questions, 26 were about establishing a potential PPF-run public-sector consolidator (PSC) by 2026, which suggests that the government was seriously looking at this.

However, legislation to create a PSC will not be in the Pension Schemes Bill. Instead, the government is "continuing to explore the best approach to establishing a consolidator that could complement the existing market"[3]. Any PSC would be a "small, focused" one. The government believes that the case for creating a PSC is strongest in relation to underfunded schemes (with sponsors effectively paying deficit contributions after a transaction and remaining liable for their pension obligations until the deficit is removed), and that there's a "less clear" case for extending its remit to "small, well-funded schemes".

Given the obvious risks to disrupt the market for commercial consolidators, we expect government to tread lightly and cautiously, if it goes there at all.

[3]Government response: Options for Defined Benefit schemes. Dated 29 May 2025.

Emergence and normalisation of other arrangements?

TPR's steps to clarify expectations for 'capital-backed arrangements' may help the emergence and normalisation of such arrangements. We continue to see strong interest from a diverse range of capital providers willing to put capital at risk to underwrite member benefits, in return for a compelling risk-adjusted return and there's a wide range of potential bespoke solutions.

Whilst the master trust model is common in defined contribution pensions, it's perhaps to date less well established in DB. DB master trusts tend to operate as an alternative to an 'own trust' arrangement, with the aim of giving schemes the benefits that come from scale. For schemes that may otherwise view themselves as too small to run on efficiently, a master trust could lower the cost burden and give schemes of all sizes the options a more credible alternative to insurance and path to run on.

Other emerging solutions for small schemes include operational, rather than structural, consolidation models. Typically, these offer some benefits of scale without the restrictions of a master trust, through bundling and streamlining of various services.

Other impacts on governance

With the focus on endgames for many schemes, we're also seeing changes to how schemes are run.

Professional trustees play a significant role, and we have also seen growth in the use of professional corporate sole trustees, particularly amongst smaller schemes. For example, good trustee governance will help to navigate and secure a successful insurance deal. TPR has signalled that a greater focus on trusteeship is a key priority and will be targeting engagement with professional trustee firms this year reflecting their growth and systemic importance to the operation of pensions schemes in the UK.

Another theme is more collaboration between trustees and employers. Indeed, the views of the employer score as a key factor in deciding whether to run on for most trustees. Endgame planning will be most effective when the trustees and sponsors agree on the scheme's long-term objective and are pulling in the same direction. In most cases, collaboration with the sponsor over the use of any surplus will be necessary. Ultimately, without a common vision there's a risk of wasting management time and excessive spending on adviser costs, with both parties pulling in opposite directions for their desired end goals.

What does it all mean?

The DB endgame landscape is evolving, offering trustees and sponsors more choice and flexibility than ever before – and the pace of innovation shows no signs of slowing. There's an increasingly wide range of issues and opportunities for schemes to navigate.

Whilst it's still early to predict exactly how strategic thinking will shift, we're already seeing schemes spend more time carefully considering the range of options with an open mind. Few have made dramatic U-turns, but some have taken a pause, waiting to see how recent and anticipated government announcements unfold.

Buy-out via insurance remains a highly secure and attractive option, and the market has responded to growing demand. At the same time, the market for alternative solutions continues to develop, and a growing number of schemes are actively exploring run-on as a serious long-term option. Many are also turning their attention to surpluses and the potential benefits for both members and sponsors. That interest has likely intensified further following the announcements in recent weeks.

Importantly, there is no one-size-fits-all solution. The optimal endgame approach will depend on a scheme's specific circumstances. Nor is endgame a binary decision: a scheme might choose to run-on for a period before buying-out.

With UK DB schemes better funded than they have been for decades, what is clear is that endgame planning is a priority. Discussions are becoming more collaborative, and more nuanced. We expect to see many thoughtful, forward-looking conversations between trustees and sponsors about how to deliver the best long-term outcomes for all stakeholders.

What actions can you take now?

Trustees and sponsors now have a wider range of endgame options than ever before – and with greater choice comes greater complexity. Here are some of our suggestions for effectively navigating this choice:

- **Start engaging on your endgame strategy early.** Even if the outcome for now is to keep options open and maintain flexibility, early discussions set a strong foundation.
- **A purposeful run-on strategy requires a shared vision.** Where schemes are looking to run on to generate and share value, it's crucial that trustees and sponsors agree upfront on the overarching principles. This ensures efforts are focused and avoids misaligned expectations.
- **Assess the impact of the Pension Schemes Bill changes.** For schemes considering long-term run-on, evaluate how the evolving regulatory framework may shape your strategy design and implementation. Review your scheme rules to consider how proposed legislative overrides could shift the balance of powers between trustees and sponsor.
- **Consider your investment strategy.** If there are illiquid assets, careful planning will be needed to manage potential haircuts or penalties on early exit. However, de-risking right down to a buy-out ready portfolio will not be the most appropriate approach for all schemes. For those exploring run-on, there may be greater flexibility to aim for slightly higher returns, and careful consideration will be needed on how to support that – potentially through modest allocations to growth assets or selected illiquid investments.
- **Stay alert to market and regulatory developments.** Trustees and sponsors should keep an eye on the latest developments, and what might be on the horizon.

With the growing range of strategic options and a clear shift in regulatory direction, now is the perfect time for trustees and sponsors to re-examine their long-term objectives.

The landscape is changing quickly, and early planning will help ensure your scheme is well positioned to seize opportunities. If you have any questions on anything covered or would like to discuss further, please get in touch.

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