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CHAIR



Andy Cheseldine, Professional Trustee, Capital Cranfield

Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB arrangements, he is able to use his wide knowledge for the practical benefit of trustee boards. He has served on the Pensions UK DC Council since 2013 and has a successful record of advising on regulatory, governance, change management, investment (particularly asset security), provider selection and communication issues.

PARTICIPANTS



Samantha Chandler, Head of Bulk Annuity Solutions, Lumera

Samantha leads Lumera's bulk annuity propositions, helping trustees understand and solve their data and operational challenges to achieve their endgame objectives. Collaborating with insurers, she oversees their due diligence and data-related projects, providing tailored solutions to unblock transaction progress. She participates in working groups to produce guidance for the industry. Samantha has over 30 years of industry experience, starting as an in-house DB administrator and spent 14 years as head of pensions at The Cheviot Trust.



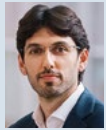
Adam Davis, Partner and K3 Lead, Isio

Adam has been a leading figure in the growth and development of the bulk annuity market in the period since it began its expansion in 2007. Before he founded K3 Advisory, now acquired by Isio, he spent four years leading KPMG's buyout advisory practice in the North of England and Scotland. Adam is also a regular contributor to the pensions press.



Alexa Mitterhuber, Director, Pension Risk Transfer, Standard Life

Alexa is a director in Standard Life's pension risk transfer (PRT) team. She joined Standard Life in 2024, supporting prospective and existing clients with their de-risking objectives through the origination and execution of bulk annuity transactions. Alexa has worked in pensions for over 12 years, holding a number of previous roles across both pension insurance and pensions and investment consulting. She is a regular contributor to the pensions and insurance press.



Jeremy Rideau, Global Head of Exposure Management, State Street Investment Management

Jeremy is a managing director and global head of exposure management at State Street Investment Management. Jeremy is responsible for leading the firm's liability-driven investing (LDI) and currency portfolio management teams, as well as developing global capabilities across LDI, currency, and other solution-oriented fixed income investment strategies. Prior to joining State Street Investment Management, Jeremy was at Legal & General Investment Management.



Alasdair Smith, Partner, Linklaters

Alasdair is a partner in Linklaters' market leading pensions group. He has acted on behalf of trustees, employers and insurers on some of the largest and most complex insurance de-risking transactions in the market. His experience includes large buy-in transactions including with complex premium payment mechanics in respect of illiquid assets and termination rights as well as the conversion of existing longevity swaps into buy-in transactions. Alasdair is a regular contributor to the pensions and HR press.



Matthew Swynnerton, Partner, Arc Pensions Law

Matthew is a partner in the London office of Arc Pensions Law and has three decades of experience advising on all aspects of pensions law. He is also the current elected Chair of the Association of Pension Lawyers. Matthew has advised on a number of significant transactions in the pensions risk transfer market, and has developed unrivalled expertise in relation to advising gig economy sector entities on their pensions duties and negotiations with The Pensions Regulator. Matthew is also been a member of the Pension Scams Industry Group.

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Chair: How is the UK pensions de-risking market evolving? What are the key developments and trends trustees should be aware of?

Samantha Chandler: First of all, it's great to see so much flexibility with the various new options in this area. The industry has recognised schemes need a more bespoke approach to meet their objectives and 'one-size-fits-all' is outdated. With this, though, comes the need for trustees to have more knowledge and training to enable them to understand what is available to them, what they need to do to get there and what questions they should be asking of their advisers. The endgame is no longer just about buyout, with alternatives such as run on, superfunds and surplus now in the trustee tool bag for them to consider.

Taking a step back and not forgetting the traditional options, such as Pension Increase Exchange (PIE), enhanced transfer value exercises, etc – all still valid ways to de-risk. So, various changes but, saying that, we are in the pensions industry, and we never stand still.

Jeremy Rideau: I would highlight the increased complexity trustees are now facing. For a long time, when I would sit down with trustees, the conversation would be simply around how to improve funding levels. And that's easy to know. The complexity now is around questions such as: What is my endgame? Have I reached it? What should I do at that stage? I think, as a trustee, it's now harder to do your job than it was 10 years ago, because these decisions are complex.

All the different solutions out there have their own merits, and now there are also conversations being had around surplus extraction, which makes things even more complicated!



The evolving UK pensions de-risking market

➤ **With so much change on the pensions agenda, our panel of experts asks what challenges and support systems are out there for schemes on their de-risking journeys**

On surpluses, from an asset management perspective, it's even harder for trustees to understand what they should do, compared to when they had a deficit. What do they do with that surplus? How do they manage it? How do they manage their asset allocation? How do they manage their hedge? Also, once you have a surplus, you don't want to lose it, and you need to make sure you protect yourself accordingly.

Matthew Swynnerton: The item I would add is the focus on what professionals see as small schemes. What I would say about that is, whilst some professionals often see them as small schemes, they are still often multi-million-pound vehicles and, for members, the size of the scheme is largely irrelevant. It's about whether the correct benefits are delivered during their retirement. So, it's great that there is a focus on the small schemes, and it's great

if that helps remove competitive tensions in the market. It's obviously not so great if it results in benefit leakage if the correct entitlements aren't being insured and won't be corrected later.

Alasdair Smith: Thinking about this from a macro and then micro perspective – from a macro perspective, trustees need to be aware of all the alternative endgame solutions out there but, before they get to that position, it's important for them to refocus on their core duties. The point made around security is key – that should be the starting point, then everything else jumps off from that. So, it's about understanding your core duties before you get into any decisions around future strategy.

Then also understanding the powers under the rules: What powers do the trustees actually hold? What options are open to them unilaterally? What options does the employer have? And

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engaging with the employer around that to ensure that everybody understands their respective positions before you even get into formulating what that strategy looks like.

From a micro perspective, it's also about being aware of developments from the insurer side on alternative options that are coming to market – for example, for active deferred members where there's continuous salary linkage, how you can build that into the contract. That's now something which some insurers offer. Or options for cash balance members which may have been limited in the past. Then the potential defined contribution (DC) connection or reconnection options which insurers now offer too.

Alexa Mitterhuber: In terms of how the market is evolving, we're currently seeing a continuation of many trends that started a few years ago. Funding levels remain quite strong across the board – not for all schemes of course, but on the whole. We're also still seeing a trend towards increasing insurer capacity – small schemes have been mentioned earlier and, over the last few years, we've seen small schemes getting very good attention in the market through new entrants and through the development of insurer propositions.

We've also seen a focus more widely,

as has been highlighted, on de-risking and endgame strategy – many clients pausing to think. That doesn't mean that they are moving away from buyout – quite the contrary; many pause, think, and then go back to pursuing their previous plans. But the surplus extraction discussions, the wider discussions around endgame, are on everyone's minds at the moment, and that can only be a good thing because it means that trustees and their companies are reconsidering, from all aspects, what is the best strategy for their scheme.

"Codification of discretions is again important right at the outset, and there's no reason why that can't be done before you enter into that transaction"

Adam Davis: Just thinking about the defined benefit market (DB) in general, there are approximately 4,800 DB schemes, and around 3,300 of those are sub-£100 million, then maybe around 1,800 of them have less than £10 million in assets; and it depends how you measure things when you talk about these trends. I was in a conversation

with a bank the other day, and they said the buyout market had been in decline over the last couple of years, but what they were talking about was market volumes by premium, because that's been somewhat flat because larger schemes have maybe paused to think about their next steps. The actual number of transactions, though, in the market has been going up faster than ever.

But also, the majority of assets and of members who benefit from DB benefits are actually in a relatively small number of very large schemes (only c.200 schemes with assets in excess of £1 billion).

Looking then at the trends, what we're seeing is lots of activity in the buyout market, lots of activity on wider solutions. We've currently only got one authorised superfund, but several more close to being authorised, and some of those may target smaller schemes. We've also seen the Aberdeen/Stagecoach solution, which seems to be the territory of large schemes, but you never know – other asset managers could look at it and consider what they might do there.

So, activity in de-risking is pretty much at a peak, and the buyout market by number of transactions is at a peak, therefore what's going to be interesting and more challenging for trustees is to think about how you deal with your schemes in a vastly fast-declining market. I think roughly a fifth of all schemes in the universe will wind up in the next two-to-three years. And, as you start to lose those scales, and insurers start to focus more about back-book management than new business function, there'll be a very different market for trustees to navigate in de-risking.

Challenges

Chair: What are the biggest challenges



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facing pension schemes as they de-risk? What support and solutions are available to help?

Swynnerton: I mentioned benefit leakage earlier, and one of the challenges in all of this is the time pressure that trustees face in relation to these transactions. Rushing into a bulk purchase annuity (BPA) deal, for example, has been described as being a bit like going on a blind date and waking up married, because you can get the deal across the line but, from that point on, trustees have very little negotiating power; and a lot of the issues, in particular around benefit leakage, can be avoided by better due diligence and better negotiation prior to the buyout stage.

These are commercial transactions that are taking place in a trust framework, and often insufficient attention is paid to managing legal risks; but there is a solution and that's basically getting lawyers involved earlier, not necessarily just focusing on BPA terms, but also planning right through to completing the winding up because the fact that they still have to decommission a multi-million pound pension arrangement is often something that's overlooked and comes as a bit of a surprise to trustees and employers once they get through the transaction.

Smith: The biggest frustration I would say is caused by delays – that might be an unavoidable delay, there might be capacity issues with the insurer, there might be capacity issues within your administrator, but a lot of that could be managed through better preparation. For example, ensuring your benefit specification is accurate, that there isn't going to be something coming out of the woodwork. We've had a number of cases where we were acting on the

employer side, and only the current rules had been reviewed, and then equalisation issues come out once you've already entered into the buy-in contract. That is absolutely not ideal because you're having to renegotiate the terms of the buy-in policy, the benefits that are covered, and then you're having to go out to do a rectification exercise with members.

Codification of discretions is again important right at the outset, and there's no reason why that can't be done before you enter into that transaction.

In terms of how we can improve things and offer solutions, something that we're working on is using AI in this space – we've been really pushing on benefit specification preparation using AI. It's never going to be able to provide the final draft, but it can certainly help in preparing initial drafts, and that can save significant amounts of time. So, it's certainly not in a position where it's press-the-button-and-go, but it's something that, as an industry, we should work on because preparation of benefit specification is currently lengthy and costly.

Mitterhuber: I agree a lot could be done early – legacy benefit complexities, for example, should ideally be raised and dealt with early. Scheme administration capacity is also a challenge – that is a clear problem in the market at the moment. Things like GMP equalisation (GMPE) projects are large, technical, take a lot of resource, and admin teams are stretched.

Managing illiquid assets as part



of transactions is another ongoing challenge; while a new one is balancing sponsor/ trustee objectives around surplus extraction.

And, if we're looking outside of insurance de-risking, there are other challenges – one is complexity because there are lots of business models, and they are all slightly different, so trustees and their advisors have to make difficult calls around value for money and really understanding what's on the table.

Another key challenge for anyone who's thinking about de-risking without breaking the sponsor link is the ongoing assessment of covenant strength, thinking about, 'is my company strong enough to support this pension scheme for the very long term?' The ultimate aim should always be the long term security of members.

It's worth noting that defaulting to run-on is also a decision in itself. You still have challenges that need to be assessed in that particular situation – the admin challenges, the covenant challenges, and so on.

Chair: What do you see as solutions here?

Mitterhuber: On admin and data-cleansing challenges, there's a lot more focus on this area now, which is a positive because the problems are recognised more than they used to be. One possible solution there involves consulting

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teams putting together tag-teams that can parachute in to fix a data issue, for example, which we've seen as effective in a number of cases.

Also, insurers, on the whole, are getting better at planning out the journey and helping schemes through it. For example, we are putting together simple guides on all the key topics where we see issues arising, such as on GMPE and augmentations, which can now be provided to the trustee teams early in the process as additional support materials.

On illiquid assets, there are lots of solutions out there including deferred premiums, sale support and in-specie transfers. Illiquids have also become slightly less of a problem, simply because more water has flown down the river since the initial spike in funding levels. Schemes have had a lot more time now to find their own solutions before coming to market. So, on all challenges there are various solutions out there now, and the market is developing. But it is a complex

Davis: I would highlight bandwidth as one of the challenges facing pension schemes as they de-risk – and I don't think it's just in relation to administrators, but across the industry – trustees as well. There's a lot of activity going on. The de-risking market from an insurer's perspective is at a peak of activity, but that's been combined

unhelpfully with a lot of other activity that is peaking – GMPE, dashboards, etc. Given the number of buy-in transactions that have happened over the last few years, insurers have got a lot more schemes in the buy-in to buyout

phase, so they are putting a lot more attention on it because it's becoming a problem for them otherwise. So, we are seeing solutions to help schemes with a smoother path through that. Isio for example has developed PenUltimate which for smaller schemes who are aiming to buyout it gives a fixed timescale and a fixed fee to get the scheme all the way to wind-up.

But, to a certain extent, the issue of bandwidth is a problem that will solve itself because these GMPE projects are on a set timetable, most of them will be done over the next couple of years, dashboards will become business as usual (BAU), and de-risking transactions in four-to-five years' time may be a lot simpler than they are today.

Additionally, schemes need to have an up-front understanding of their true objectives and thinking hard about them because, what we see in the de-risking space – and particularly in the insurance space in this higher interest rate environment we're in – is that pricing is quite tight. In the low interest rate environment, it was common for one insurer to be ahead of the pack, and price became king. In a lot of transactions we see now, it's much tighter between insurers. So, thinking about what else you want in terms of these non-pricing factors such as good member service.

What do you actually mean by good member service? What are you hoping to get out of it? What do different insurer offerings do in that space? These are things we see coming much more to the forefront. So, schemes/trustees need to be very clear on their objectives up front.

The last challenge is surplus – it can cause a paralysis in some schemes. Over half of the transactions I've led over the last two years have been in surplus to buyout, and often that surplus hasn't been high enough on the agenda, and it can actually start to delay wind-ups – it's often called a 'champagne problem', but it is a problem, nonetheless.

Chandler: Focusing on the data challenges, we see a common theme resulting from the question of, 'the difference between data readiness and data preparation?'. There's a misunderstanding between having perfect data, or data that is good enough to enable insurers to price a transaction. Data which is prepared specifically for each step of the transaction process in isolation of the entire journey versus having data ready from the outset to undertake each step smoothly and effectively. There is a misconception schemes are stuck in the buy-in to buyout window due to lack of preparation, when in fact we are dealing with two types of schemes. Those who wanted to take advantage of pricing, transact a buy-in quickly and deal with data cleanse, remediation and verification at a later date. And those who are fully data cleansed or have a clear data improvement plan prior to engaging with insurers. For the former type, these schemes are only now realising the different data requirements for pricing, for truing-up a transaction, for migrating and onboarding data to the insurer admin platform in readiness for

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BAU administration. It is only now they are addressing these tasks, realising the costs involved and coming up against a bottleneck of issues to deal with.

Secondly, I do believe trustees have been 'led down a garden path' with The Pensions Regulator (TPR) data scores – they think their data is accurate or near perfect because they've got a 98% scoring. That may be a great score, and sufficient for BAU but uses the wrong parameters for measuring data accuracy for an insurer transaction. Trustees need to understand how their data will be used and when it will be needed. This has got to be considered from the outset and part of the journey planning. We are seeing failure to do this results in some cleanse activity needing to be revisited or re-purposed.

On this point, some of the capacity challenges maybe down to needing to do things twice or not doing them in the right order – don't complete your GMP equalisation exercise before you have cleansed your contingent spouse pensions, or undertake this within your equalisation project.

What support is there for trustees? Trustees need to understand their administrator's constraints, they need to be aware of what their administrators are primarily focussed on; they are good at dealing with the scheme's BAU, knowledgeable on the benefits provided by the scheme and servicing the members' requests. What they're not so familiar with, have capacity for or necessarily good at is the tasks, steps and additional work insurer transactions bring, this is no criticism of the administrator, it's just this is not their area of specialism. Trustees should be advised of alternatives, be looking outside of their day-to day advisers. At Lumera, we are data experts; data analysis

and improvement is our BAU, and it's that level of knowledge and experience we can bring to the trustee board table to ensure a smooth journey whatever the endgame.

One final comment on the challenges – trustees must be aligned to the sponsor's objectives, we are still finding that trustees don't know what the sponsor is trying to achieve or in what timeframe.

"It is harder to be a trustee now than it used to be. Once we get to a point where all of the solutions on the table are normalised, it will get easier"

Rideau: We have talked about complexity – that's one of the big issues. It is harder to be a trustee now than it used to be. Once we get to a point where all of the solutions on the table are normalised, it will get easier. We don't want new solutions coming in every six months because that will potentially delay or pause what trustees may want to do. Hopefully soon we will get a full understanding of what surplus legislation looks like too, and then people can move on with their surplus discussions.

Second, on the topic of consolidators, we still only have Clara as of today in terms of authorised superfunds. Once we have more authorised consolidators, that will be normalised and, once Clara starts printing more deals, again consolidation will become more normalised. At the moment, it's something that trustees still don't fully understand – what a consolidator is and what exactly they can get by going on that journey.

Finally, on the markets themselves,

we're in a position where it is harder for pension schemes to be able to keep up with how quickly their funding levels can move. If in a week you can gain or lose 3/4/5 points of surpluses, you need to be very agile in the way you manage this. So, the solution is relatively simple – you need to delegate away some of the day-to-day, have a plan and make sure someone implements the plan very quickly when markets move. That is important, and we are seeing more and more trustees doing this – having a delegated plan that gets implemented by the asset managers through their consultants or fiduciary manager. That makes a difference – it keeps that funding level more stable and helps their schemes.

From buy-in to buyout

Chair: What are the key factors trustees should consider when moving from buy-in to buyout – and what is often overlooked? Are we placing enough emphasis on the member experience? Are scheme administration resource constraints becoming a significant issue? Do illiquid assets continue to create challenges? Sorry lots there to tackle!

Smith: On the security of member



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benefits and how to approach the question of buy-in versus buyout, we've seen trustee boards get stuck in the position of buy-in and not being able to move to buyout because they think that it could potentially be less secure because you're losing the employer covenant and you're just relying on the insurer covenant. Framing that question so that trustees focus on what's an appropriate level of security rather than the absolute level of security is key so that they can move beyond that question and move to buyout whilst still ensuring they satisfy their wider fiduciary duties.

Also, ensuring trustees understand the position around residual risks at the outset, and how those are going to be allowed for post transaction. There's residual risk insurance obviously, but that's generally for larger schemes and most trustees aren't going to be looking at that. Most trustees therefore just focus on the employer indemnity as providing protection post winding up. Now, that's an important protection for the trustees, but a lot of trustees focus on that as being a protection for members, but actually, in practice, when you play it through, that doesn't provide very much protection at all for members, or at least it is very hard for members to claim under that route. This is on the basis that, firstly, the exoneration clause will continue to apply unless it's been disapplied in the

indemnity (so it's very unlikely that a member is going to be able to bring a claim against the trustees). Secondly, the trustee itself will have been dissolved and so, relying on third-party-rights under indemnity doesn't necessarily get members the protection that the trustees think they're getting through that employer indemnity.

I don't think that necessarily means that the trustees can't just wind up with that employer indemnity, but they should understand at the outset where the risk lies, and the fact that there are limited protections for members after they wind up, unless they agree something specific with the employer to allow a direct claim against the employer post winding up. So, it's about understanding the position, not necessarily doing something different.

Mitterhuber: Price does remain an absolutely key factor for trustees to consider as part of buy-in processes, but we've definitely seen a big move over the last year or so towards non-price factors being a key consideration as well. So, member experience and member security are very much now front and centre of trustees' minds, which is a good thing.

In terms of what's overlooked, if on wind-up you do end up in a position where you have a sponsor surplus, it is good to have those discussions early about what you want to do with it. If you

want, for example, the insurer to uplift members' benefits, that's absolutely something we can do and we're very open to doing. But it would be helpful to have that discussion and plan out the timescales, so there's a bit of work around that. Then thinking through what you want

that to look like as there are different options available.

The other area often overlooked is the transition from buy-in to buyout period itself – everyone works towards signing on the dotted line for the buy-in, but there is still a significant portion of work that then has to follow. The focus there is very much improving, but historically it has been overlooked.

Davis: Picking up on member experience, historically not enough focus has been put on that in certain areas – that buy-in to buyout period that has been mentioned, for example. People often think, because the scheme continues, and the administration continues, then there's no impact on members; but there can be impact on members if it's done badly – things like retirement calculations, transfer values, etc. Now there needs to be an interaction between the administrator and the insurer. I've seen examples of where that's not gone well and members are now getting a slow service, so it is directly impacting members. So that should be thought about in advance of doing a buy-in.

Communication with members around these projects is also key – historically, maybe, on doing a buy-in, you didn't used to do any member communication, but it is important. We have therefore developed a suite of communications throughout that journey from buy-in to buyout, and more focus should be put on that and the member.

Chair: Do you think illiquid assets continue to create challenges?

Davis: On illiquid assets, in the majority of cases we're not seeing illiquid assets pose much of a problem, but for some schemes it does. You can have extremely illiquid holdings that you can't liquidate and, depending on what those



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assets are, it can be difficult for any de-risking solution to deal with them. There is a range of solutions available more than ever on these, but often they still incur some kind of haircut on those assets, and there's a question there for the trustee and the sponsor – when sat in a well-positioned, well-funded scheme with a strong covenant, why take that haircut now? If you believe the asset is good, then should you wait before taking that step?

Chandler: In terms of key factors trustees should consider, part of the initial planning has to be to understand the entire data journey expectations – and what action is needed to complete the associated milestone. This understanding means trustees are better placed to set objectives, assess what resource they're going to need, understand what capacity they have internally, and what external support they may require. This latter option of using external providers is often overlooked.

At Lumera, we support trustees with setting their data improvement objectives based on their endgame strategy, agreeing a realistic plan with pragmatism and a clear focus of ensuring accurate data to pay members their correct benefits.

As mentioned in the previous question, more schemes are commencing the buyout process and whilst there is good guidance and preparation for buy-in, buyout brings different data requirements, handling of larger data extracts and very different tasks to that of a buy-in. I consult on projects where there is misalignment between the administration data, the data used for pricing and more critically the data does not support the benefit specification. Establishing the 'source of truth' and resolving these considerably impacts the insurer's capability to migrate the scheme



data, set up calculation automation, and take on the future administration, leading to potentially poor member experience.

This 'implementation phase' needs more focus and requires a joined up plan with the activity undertaken for buy-in.

Rideau: Coming back to the asset side of things, we've talked about illiquid assets, and there are solutions usually for larger funds, but you can also see them being a real stumbling block at some point where you need to consider such questions as: How illiquid is illiquid? When I want to sell something, is there a haircut? Is it three months? Is it six months? Am I part of a queue because other people are trying to do the same thing at the same time as me?

I would argue that trying to exit some of the assets that you don't want to hold for the long run allows you to be better prepared. We've seen clients trying to exit strategies and they're still in the queue – they've been in the queue for months because they don't want to take the haircut. That could be a real impediment – if you're ready but the asset side is not.

Also, it is important to be ready to implement that price-lock portfolio, for example, when it's the last hurdle – it's easy for me to say on the asset side, but it's often overlooked because everybody has focused on everything else and

suddenly the asset is assumed to be a very simple thing to change. You can see some complexity there.

Swynnerton: On member experience, for most trustees it does matter that insurers can show that they will look after their members. And I agree, member comms from trustees can sometimes be somewhat lacking, even with the input of advisors.

The welcome material from insurers, though, is generally good and, from the member perspective as well, we tend not to experience any complaints or issues provided the right money is getting paid into their bank account. I've not generally come across many members being concerned that it's now coming from an insurer rather than the usual source. That, though, is dependent on making sure that they are getting what they're entitled to.

On resource constraints within scheme administrators, there won't be many advisers that haven't come across this as an issue in some area of advising pension schemes – it does feel as if employers sometimes underestimate the price of decommissioning a pension scheme. What does seem to be intractable are the people constraints within administrators. They are dealing with numerous complex problems and projects simultaneously across their client bases,

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often with schemes in holding patterns in relation to projects like GMPE. Maybe it's something that AI could assist with, but I've not seen anybody willing to explore that on the administrator side. It seems like quite an expensive solution to the problem, but possibly the only one that can address the issue.

Alternative endgames

Chair: Are schemes still predominantly targeting buyout, or are alternative endgames becoming increasingly attractive? How should trustees assess emerging options such as run-on and surplus extraction?

Rideau: Buyouts are less popular, if you ask people, compared to where they were a few years back, because there are options now that didn't exist before. What is the benefit for pension plans? Price tension is a good thing – if we see more entrants in the buyout market, it will lead to better outcomes; better outcomes mean cheaper pricing for members. That's a good thing.

Also, in the last two-to-three years, we've seen better pricing. That is mainly driven by price tension and buyout providers being more creative in terms of what they do with their assets. In the background, credit spreads – which are a big driver of pricing – have

actually remained incredibly tight. If you look at what has happened in the last couple of years, pricing has improved because of the price tension. That's a good outcome for members.

My second point is about the

consolidators – it is great to have other options to provide potentially better pricing of different solutions, like we've seen with Clara. We've been working with Clara for over 3 years now, and it's good to see that we are normalising a solution that, in the early days, was very difficult for pension plans to get on board with as it was so new.

On surplus, having a surplus is great, but preserving the surplus is the number one priority you should have. We should be cognisant that markets are being incredibly supportive to pension plans. After about 10 years of being terrible for pension plans, everything has aligned – we've got rates higher; we've got inflation high, but not that high in the grand scheme of things in the long end; and we've got risky assets incredibly supportive. It won't last forever. So, as much as I want to be positive about this, pension plans need to be careful about protecting that surplus. By that I mean understand what risks could be detrimental to your surplus on the liability side; and, on the asset side, what could cause you to lose some or most of that surplus? Because if you start extracting the surplus, it's going to be hard to get it back. I know TPR wants to be careful about this, but there are many adverse consequences that could make

you lose that surplus, so be cognisant of that.

Swynnerton: In terms of assessing run-on and surplus extraction, trustees need to consider all the alternatives and how they might play out; and understand that surplus release sits within a broader range of options that trustees have, some of which may be more or less appropriate for their circumstances, including buyout and running on.

But, on surplus release, employers and trustees will probably look at this slightly differently but will need to be aware of how each other views it too. From the employer's position, they should see this as an opportunity rather than an entitlement, and understand that trustees, the decision makers, ultimately have fiduciary duties and statutory safeguards. Employers should see this as a structured trustee engagement process and try to frame any proposal in terms that will help trustees discharge their duties. For example, look at things like the scheme's funding position, the covenant, alternative uses of surplus, alternative options to run-on, the treatment of members and the long-term future of the scheme. From the trustees' perspective, they should be waiting for an employer to make a proposal and then consider whether a surplus payment is permitted and whether an exercise of that power is for a proper purpose; but ultimately, in relation to all of these options, the member position is the most important one for the trustees.

Smith: In terms of the alternative solutions, I think it's back to basics for trustees. It's about focusing on your trustee duties as a starting point. What are those trustee duties? There's not a duty to buy out. The duty of the trustee is to ensure that the benefits are provided and the way in which they do so is

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consistent with their powers under the rules, their wider fiduciary duties, and so on. So, being aware of that starting place is important when you're assessing other options, otherwise you would always end up in the position of going down the buyout route, and I don't think the trustees have to do that.

But equally, when assessing the alternative options, you have to be aware of the positives that the buyout solution does provide in terms of security of benefits. So, it's about balancing that potential for upside for members, but always making sure that you comply with that primary duty of ensuring that the security of members' benefits is paramount.

Mitterhuber: I think that the majority of schemes are still targeting buyout, even if that might not be immediate. I would also argue that, for the majority of schemes, it does not make sense to run down to the last member. Maybe you have a different solution for the next five years, maybe 10 – it all depends on scheme specifics; but I think scheme costs become so disproportionate relative to what you're still paying, at some point every scheme should ideally go to buy-in or buyout.

That being said, if you are considering alternative end games, it is back to basics. It's back to thinking about your investment strategy, thinking about your covenant, and making sure you don't think about your covenant in a point-in-time kind of way, but taking a long-term perspective as well. Value for money and complexity considerations also come into play again here, too.

When thinking about surplus extraction alongside securing members' benefits, one option of course is combining the two and buying in, then thinking about what to do with any

surplus. This gives certainty regarding the buy-in basis and member outcomes and removes the need to try to estimate a low dependency basis versus a buy-in basis over time. Also, when assessing a low dependency basis versus buy-in pricing – which is currently quite competitive – the two might not actually be as different as you might think. That gap has potentially shrunk from where it was, say, three years ago.

Every scheme fundamentally needs to come up with a solution that ensures their members' entitlements are secure. I do think, at least in the very long term, buy-in/buyout is the right option for pretty much every scheme.

Davis: If you ask the question, 'are the majority of schemes still predominantly targeting buyout?', I think the answer is yes, because the majority of schemes are small. But to the question, 'are the majority of member benefits and assets targeting buyout?', that's less clear. Again, it comes down to these small number of very large schemes and what they will do. Will they all buy out eventually? They might well do because they'll wind down to a particular size where it doesn't make sense not to. But there's been a pause in those very large schemes, which is where most of the DB universe are members.

From a trustee's perspective, it is quite tricky. Your duties are, not necessarily to buy out, that is not a given, but equally there's also no obligation there to provide additional benefits that members weren't promised either. It's to provide the promised benefits. So, when looking at the alternatives to a buyout, which is a gold standard of providing those benefits, if I'm going to run on, if I'm going to go to a superfund or if I'm going to do a sponsor swap, is that improving the chances of providing those promised benefits?

But it is a difficult one to balance.

Chandler: Trustees have a responsibility to consider all options and keep them under review. Their objectives (and those of the sponsor's) might change over time. So knowing the choices, and what needs to happen to meet the criteria of said choice will ensure a timely endgame journey whatever, and whenever that may be.

When trustees are considering surplus extraction and how this might be allocated, they need to be considering the wider impact, especially during the discussion to improve member benefits. How will this additional benefit change administration processes, how robust is the administration system to cater for the extra benefits ie time and cost needed to update calculation automation, what additional data fields or support maybe required from the platform providers etc. If the scheme is undertaking an insurer transaction, data requirements may differ depending on where in the process the scheme is, early discussions must be had with the insurer regarding the format of this extra data and how benefits will be priced etc.

And of course, if the scheme is still in the process of data cleanse, remediation exercises, these need to be completed before truly assessing the member entitlements.

