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# You choose the endgame, we'll build the bridge

➤ **Buyout, run-on or both? Whatever your scheme's preferred destination, we'll help you construct the way forward**

**A** seismic shift in focus for well-funded schemes. The DB pensions landscape is changing. Over the course of the past couple of years, significant moves higher in interest rates have led to dramatically improved scheme funding levels, with the PPF estimating that on a full-buyout basis, the net funding position of DB schemes improved from 79.2 per cent in March 2022 to 111.9 per cent in March 2023,

with 67 per cent of schemes being fully funded as at September 2023, according to The Pensions Regulator.

These shifting tectonic plates of markets and funding positions have resulted in a similarly seismic shift in DB scheme strategy, with endgame solutions now front and centre of scheme agendas.

At the same time, regulatory change moves forward apace. The Department for Work and Pensions (DWP) has confirmed the legislative framework for

the new funding code for DB schemes, set to apply to all scheme valuations after 22 September 2024. Meanwhile, the government has also launched a consultation on the options for defined benefit schemes, providing details of measures to make surplus extraction easier, resulting in increased focus on options to run on schemes to generate a surplus.

Yet despite this notable improvement in funding positions and the regulatory

progress, the way forward for schemes is still far from obvious, with a number of options now available to trustees.

### Three potential ways forward

We are seeing three preferred endgame choices emerging from conversations with our DB clients:

- **Buyout** – First, there are schemes wishing to ‘lock in’ the strong funding positions they currently have, with the focus on progressing towards buyout as soon as possible. For these schemes, we believe constructing portfolios that help prepare them for this endgame is crucial

- **Run-on** – At the opposite end of the spectrum, a number of trustees are clear that they want to ‘run on’ their scheme in perpetuity. In other words, they wish to remain invested and focused on paying pensions and running on the scheme until the final member benefit is paid in full. Schemes in this group may also be looking to harness greater value for members from a potential scheme surplus

- **Both** – There is also third and significant group of well-funded schemes that are keen to run on for now (and also potentially target a surplus), while keeping buyout in mind over on a longer-term horizon. For example, they may have illiquid assets or data issues to sort out before they can go to buyout. These schemes are perhaps understandably seeking to have the ‘best of both’ endgame destinations

### Bridging the gap to your endgame

Whether your scheme is focused on

buyout, run-on or both, Legal & General is here to help you construct the way forward by sharing our investment and insurance expertise in DB endgame solutions.

As part of a growing collection of content specifically tailored to the needs of DB schemes, our 2024 suite of DB material will feature flagship articles on each of these three key endgame options in turn:

**1. Buyout preparation** – How can schemes best prepare for and target buyout in the short and medium term? Discover how LGIM’s investment expertise and LGRI’s Pension Risk Transfer business work in partnership to build a complete bridge for DB schemes to an endgame of buyout

**2. Run on** – What schemes looking to run on in perpetuity may wish to focus on, including an integrated solution to pay pensions, manage risks and generate surpluses. This includes investing with a cashflow-driven investment approach in long-term contractual assets such as credit and potentially illiquid assets, to target a surplus by capturing long-term credit premium, seeking investment returns on surplus assets and accounting for better-than-expected realised longevity experience

**3. Run-on with the option of buyout** – How can schemes invest with a primary objective to run on (pay pensions, manage risks and generate surplus), while retaining a secondary objective to capture attractive buyout

pricing as and when potential opportunities arise. A key element of this approach is to be ‘execution-ready’ to mitigate buyout funding level volatility that arises from the difference between the scheme’s investment strategy and an insurer’s pricing portfolio, while seeking to capture the most opportune time to transact

As the DB pensions landscape shifts, the focus for endgame solutions across both investments and insurance is evolving with it, bringing flexibility and choice to the fore. The choice between buyout and run-on no longer needs to be binary. With the right strategy, we believe schemes can keep their options open and tailor their endgame to best suit their bespoke circumstances.

As ever, and whatever your scheme’s preferred endgame, please don’t hesitate to contact us if you have any questions or would like to hear more about how Legal & General can help you build the bridge to your chosen destination.



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In association with



### Key Risk Warnings

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