

➤ After Clara Pensions became the first UK superfund to gain TPR approval, Tom Dunstan examines the superfund landscape and provides an update on Clara's first deal, the approval of other funds, and what superfunds might mean for the industry

Superfunds are a relatively new and fresh concept in the UK pensions world, with only one approved superfund currently operating at present. However, although they are not yet firmly established, their full potential within the industry remains unknown. With this in mind, it is worth asking what superfunds are and how they have developed recently.

The one and only

Superfunds are a relatively new type of DB scheme solution. They allow a sponsor's responsibility to a scheme to be transferred to a separate body without it having to be distressed enough to fall into the Pension Protection Fund (PPF) or having to pay the higher cost of an insurance buyout. This sets it apart from other methods of separating sponsor's ties.

The first superfund to be approved by The Pensions Regulator (TPR), Clara Pensions, was officially approved in December of 2021. Since its approval as a superfund, Clara has yet to complete its first deal and has not committed to an exact timeline on when this first deal may be completed. However, it has said that it expects the details of its first transaction to be announced soon.

Explaining why its first deal is taking so long, Clara Pensions chief origination officer, Ashu Bhargava, says that "we are

Ready, set, go!



➤ Summary

- Superfunds are a new type of DB scheme solution that allow schemes to separate themselves from their sponsor and transfer to a separate body.
- Clara Pensions is the only superfund that has been approved by TPR but is yet to complete its first transaction.
- The Pension Superfund is currently undergoing TPR's approval process having already agreed two deals, subject to approval.
- The two models are separate and distinct, with Clara's being a 'bridge to buyout' and the Pension Superfund being a 'run-on' model.
- Superfunds could play a large part in the future of the pensions industry, but this potential will depend on how Clara and the Pension Superfund manage their superfunds.

working hard on our transaction as we want to make sure we get it done right rather than just get it done quickly".

Although there is no current concrete understanding as to when Clara's first transaction will be completed, there is some information as to the potential circumstances of the deal.

Bhargava states that he "suspects" that Clara's first deal will emerge from

one case in particular from Clara's pipeline. Namely, "a scheme with a number of sponsors who have not been able to undertake corporate activity for a number of years because of the scheme. However, more opportunities would open up if they were able to bring forward the scheme's settlement".

Bhargava also provides insight into how day-to-day operations have changed at Clara Pensions since its approval as

a superfund. He says: “What’s been the biggest changes has been the interest from the corporate side. Before the assessment we had greater interest from the trustee side, in particular if they had schemes where they needed to transact quickly and so they were working with us ahead of our assessment.”

Waiting in the wings

Whilst Clara is the first and only superfund to be approved by TPR, the Pension Superfund (PSF) is currently undergoing TPR’s approval process, hoping to be the UK’s second approved superfund. However, there is no exact understanding as to how far through the process PSF is, or when it expects to gain approval.

In order to appreciate the standards superfunds are held to by the regulator, it is worth understanding the approval process itself. This is something that Bhargava explains by detailing Clara’s journey through the approval process.

One of the most important aspects of TPR’s approval process, identified by Bhargava, is that the schemes that become a part of Clara’s superfund are supervised by the trustees rather than Clara or its investors. The process also involved TPR confirming that “the people at Clara were good and proper”, according to Bhargava.

Bhargava also describes that the process’s attention to detail was a source of comfort for those working with Clara. “The thing that a lot of people take comfort from is that the long and rigorous process that we’ve been through means that they can take comfort that TPR has scrutinised our governance process,” he says.

Although PSF is still undergoing TPR’s approval process, it has already agreed two deals, which it submitted to the regulator in 2019.

However, agreed deals and TPR approval are not the only ways in which Clara and PSF’s superfund differ.

LCP partner, Steve Webb, explains

these differences by describing Clara’s model as a ‘bridge to buyout’, looking after a scheme until it reaches a funding level necessary to achieve buyout with an insurance company. Webb describes the PSF model as a ‘run-on’ model, using its larger size, access to capital and collective nature of the fund to invest for growth after the scheme’s sponsor has passed the scheme onto PSF.

Clara’s model allows the assets and liabilities of each pension scheme to be consolidated into its scheme, to become their own section supported by their own ring-fenced and funded capital. This capital will remain available to that section until all members’ benefits are secured through a buyout.

In contrast, PSF’s ‘run-on’ model is more aligned to scheme self-sufficiency, as each year one-third of any improvement in PSF’s funding level above 100 per cent will be paid into a separate members trust. PSF then determines if this will be used as a one-off payment to members or held in reserve.

One of the biggest challenges for superfunds recently has been market volatility, causing changes in the schemes seeking superfund assistance. This point is made by Bhargava who says: “As a result of recent changes, the schemes we were working with at the beginning of this year were able to achieve buyout,” thus not requiring the assistance of a superfund as a result.

In the future

Looking forward, the potential of superfunds in the UK pensions landscape seems difficult to determine right now due to its relative youth.

PwC consolidation market lead, Matthew Cooper, expresses his frustration from market participants about the potential of superfunds given the long time period for them to be assessed and complete a transaction. Cooper points to an alternative he believes is gaining traction in the

pensions market: “What I’m seeing in the marketplace is more interest in underwritten journey plan solutions rather than superfunds.”

Cooper went on to clarify that, whilst there may be more interest in alternative solutions, there was still potential for superfunds in the pensions industry. He says: “If the two superfunds who are in the market complete a few transactions, this will increase market confidence in the solutions. There will most likely be a place for superfunds within the market.”

Webb repeats this sentiment: “If the Clara model is seen to work you could see why other funds may enter the market with a similar model”.

Webb also makes clear that, whilst it is unclear just how significant superfunds could be in the future, it is not wise to write them off just yet, saying they are “potentially very significant”.

Additionally, the superfund landscape could change significantly in the future as its guidance changes. This is something that Hymans Robertson head of alternative risk transfer, Iain Pearce, points out: “We are currently operating under interim guidance so there will be future legislation covering how superfunds are allowed to operate and the biggest model at which they can draw profit”.

The world of superfunds seems to be in a bit of a strange place recently, simultaneously being quiet and busy. Although Clara has been silent on its first deal, its hard work continues behind the scenes. Although PSF cannot give any concrete details concerning its approval, it seems internal workings with TPR remain underway. It does seem as though, whilst superfunds have not grabbed as many flashy headlines recently, the work they do remains continuous throughout. As to what to expect from superfunds in the future, the only advice seems to be: Watch this space.

 Written by Tom Dunstan