



The journey to buy-out

THE EVOLVING ENDGAME

2026

Introduction

This is our fifth publication focused on “The journey to buy-out”



THE EVOLVING ENDGAME

DB schemes in the UK have entered a new era. A vibrant bulk annuity market remains the foundation for those schemes wishing to de-risk; however, stronger funding positions have meant that the market has evolved. And so too have the questions facing trustees, sponsors and advisers. Increasingly, the debate is not simply about reaching buy-out, but about what the right long-term destination looks like, how to get there, and what good member experience really means.

Against this backdrop, we are excited to bring together a collection of articles from leading figures across the industry, exploring the themes, opportunities and challenges currently shaping today’s BPA market: from the evolution of the market itself to predictions for what comes next. Further, as we enhance our offering for schemes below £100m, this year’s publication examines how the industry continues to adapt to meet the needs of schemes of all sizes.

Some of the authors consider the changing regulatory and strategic landscape, including consolidators and the current debate around run-on versus buy-out. Others explore the practical realities of transactions, such as the role of custodians, AVC considerations and the decisions schemes face when determining exactly what to insure. Meanwhile, emerging topics such as anti-obesity medicines and their potential impact on longevity demonstrate how the future landscape might evolve.

“ We are excited to partner with the ECB and to become title sponsor of Test Match cricket. Rothesay is purpose-built to provide security for UK pensioners, and we are delighted that we can also help to secure the future of Test cricket aiming to inspire all generations by making cricket a game for everyone. ”

TOM PEARCE
Chief Executive Officer, Rothesay



Member experience has always been important, however stronger funding positions have meant that trustees can now afford to choose their long-term insurance partner not just on price but also on the care and service their members will receive after buy-out. Articles on member experience, insurer service standards and Lasting Power of Attorney highlight the growing importance of post-transaction outcomes and the responsibilities that continue long after a deal completes. In that same spirit, we explore how Nest has helped create a blueprint for the future of retirement, reshaping expectations across the industry.

We also widen the lens internationally – in chapter 5 we explore bulk annuity and pension risk transfer markets across the US, Japan, Germany, Canada and the Netherlands.

We hope the insights shared throughout this publication inform, challenge and encourage discussion as the market continues to evolve.

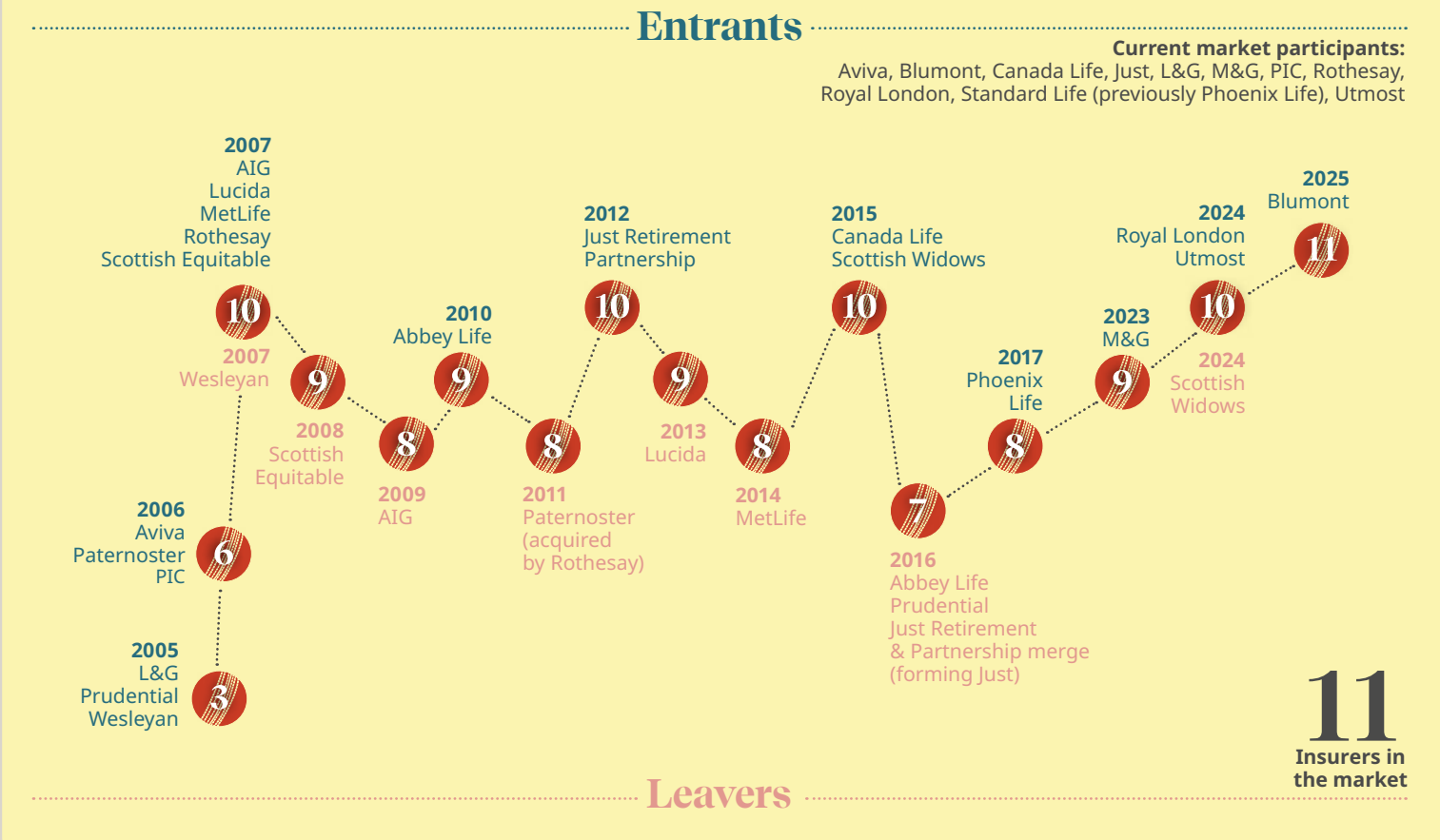
Katie Overton



Róisín O’Shea



History of market participants



Friends Life, Synesis and Nomura are not included in this chart as they never wrote bulk annuity business, although they did quote for business

Top 20 transactions in the bulk annuity market

Name	Size (£m)	Insurer	Date	Type
RSA	6,500	PIC	Feb 2023	Buy-in
NatWest	6,100	Rothesay	Sep 2024	Buy-in
Boots	4,800	L&G	Nov 2023	Buy-in
GEC 1972 Plan (telent)	4,700	Rothesay	Sep 2019	Full buy-out
Ford Motor Company	4,600	L&G	Oct 2025	Pensioner buy-in
Rolls-Royce	4,600	L&G	Jun 2019	Pensioner buy-out
British Airways	4,400	L&G	Sep 2018	Pensioner buy-in
Rolls-Royce	4,300	PIC	Aug 2025	Buy-out
Co-op	4,000	Rothesay	Nov 2023	Buy-in
Allied Domecq (Pernod Ricard)	3,800	Rothesay	Sep 2019	Buy-in
Asda	3,800	Rothesay	Oct 2019	Full buy-out
NatWest	3,500	Rothesay	May 2024	Buy-in
British American Tobacco	3,400	PIC	Aug 2019	Buy-in
IBM	3,000	Rothesay	Dec 2020	Pensioner buy-in
ICI	3,000	L&G	Mar 2014	Pensioner buy-in
National Grid	2,800	Rothesay	Oct 2019	Pensioner buy-in
Thales UK	2,700	Rothesay	Dec 2023	Buy-out
British Steel	2,600	L&G	May 2023	Buy-in
TRW	2,500	L&G	Nov 2014	Pensioner buy-out
Nortel Networks	2,400	L&G	Oct 2018	PPF+ buy-out

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CHAPTER
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The evolving BPA market

“
No matter how much cricket you
have played, you are always learning.
ALASTAIR COOK
”

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The evolving BPA market:



Surging scheme demand



Consolidation



Outlook

Over the past two decades, the UK bulk purchase annuity (BPA) market has moved from niche to mainstream. From the very smallest to the very largest schemes, de-risking solutions are now widely regarded as a core endgame strategy for trustees and sponsors.



In recent years we have seen record activity, both in total premium volume and total transaction numbers. In 2025, for the first time, the total number of BPA deals reached 367 – more than one transaction, on average, for every day of the year.

The scale of growth has been striking. Total UK in-force annuity books now exceed £300bn, with around one in every 25 individuals in the UK covered by a bulk annuity policy. Combined with continuing innovation and robust demand from schemes, it is little surprise that market commentators are aligned in forecasting annual volumes in the region of £50bn–£60bn for the foreseeable future.

Market growth and context

Two important factors are combining to drive this growth:

- Improved funding and surplus: Since 2022, scheme funding levels have continued to improve. Many schemes are now finding themselves financially “transaction-ready” far more quickly than expected. For a growing number, there is now the added question of how best to manage surplus.
 - Buy-out remains the dominant endgame: Despite the emergence of alternative endgame strategies – including various forms of “run-on” and commercial consolidation options – Aon surveys and research confirm that buy-out remains the ultimate destination for the majority of schemes.
- Set against these supportive tailwinds, there are also some constraints:
- Scheme-side readiness and complexity: Data and benefit readiness, together with increasingly complex asset considerations, are requiring more careful planning. Growing numbers of schemes are now targeting a more gradual transition to the insurance endgame, both to optimise value and ensure a smooth implementation process.

- Insurer-side capacity and asset origination: On the insurer side, asset origination (particularly in the current environment of tight credit spreads) and the need to expand operational capacity – both people and technology – remain key to supporting ongoing deal activity.

Consolidation and the current set of insurers

The BPA market today is characterised by a mix of large multi-line insurers, specialist pension insurers, and recent and returning new entrants. The size of individual insurers’ books varies widely – from a newer entrant with under 10,000 members insured to the largest players covering over one million lives each.

It is salutary to note that growth has come from several areas:

Underlying organic growth of the market as schemes mature and focus in on the insurance endgame. Transaction volumes and numbers both underline the ongoing appetite from schemes wishing to lock down risks and provide a long-term secure home for members, and from sponsors wishing to remove legacy defined benefit pension promises from the balance sheet;

- While the backbone of the market continues to be the high numbers of small schemes purchasing insurance solutions, total premium volumes have been super-charged in recent years by the emergence of the “jumbo” deals. Multi-billion deals have become the norm, with activity accelerating sharply since 2018.
- Growth has been further supplemented by M&A activity, with a number of the insurers participating in back-book acquisition deals to accelerate balance sheet growth.

To some extent, we have seen the development of a tiered market, with some insurers very focused on the smaller end of the market and others with a greater appetite for multi-billion-pound transactions. But the past 12 months have demonstrated that even this is changing quickly, with the lines becoming increasingly blurred with regards to what is now considered “small” or “jumbo”. Indeed, the depth of capacity in the market means that the very smallest of schemes are still able to attract competitively priced capacity, and that deals over £1bn are becoming business as usual, rather than market-defining exceptions.

Market innovation and looking forward

From a buyer’s perspective, it is reassuring that the market is competing hard for business and, in doing so, driving innovation in both products and processes. In recent years we have seen major strides in several areas:

- Illiquid asset solutions: New structures now enable schemes to transfer or reshape illiquid holdings – for example in private credit or property – as part of, or alongside, a BPA, rather than waiting for assets to run-off or be sold at a discount.
- Digital platforms and member experience: Many insurers have significantly upgraded online tools and member services. This includes enhanced digital portals for data exchange and member communications, online access to retirement options and modelling tools after buy-out, provision of independent financial advice to deferred members, and a willingness in some cases to continue options such as Pension Increase Exchange (“PIE”) or Bridging Pension Option (“BPO”) post-transaction. With a stronger focus on service quality and support for vulnerable customers, this is clearly an area of ongoing focus for both insurers and schemes.
- Use of AI and automation: Looking ahead, technology is expected to play a growing role. In the near term, AI could make the quotation process easier by automating elements of data validation and initial benefit specification review. Over the next five years, AI could also enhance pricing models and administration – for example, automatically flagging data inconsistencies or supporting member enquiries through intelligent chatbots.
- Small scheme solutions: More insurers are now actively participating in the smaller scheme segment. At the same time, we have seen a strong drive for efficiency through streamlined platforms, with standardised terms and processes that increase capacity and improve affordability for this part of the market.

The regulatory and economic outlook

Regulators have been clear that the BPA market is now central to the UK’s defined benefit pensions landscape and is systemically important. The Prudential Regulation Authority (PRA) has emphasised that rapid growth must be matched with strong capital management, robust risk controls and disciplined pricing. This is directly influencing how insurers think about capacity allocation and case selection.

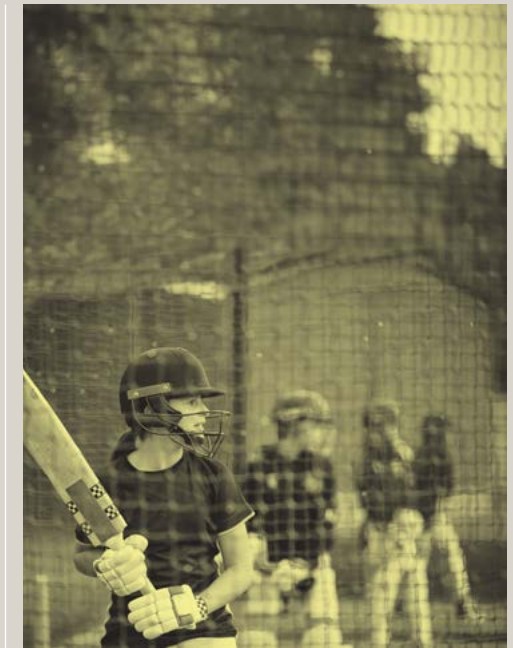
At the same time, the BPA market is becoming a cornerstone of productive finance, delivering both financial security for pensioners and broader societal benefits. Insurers are committing significant capital to UK infrastructure and real-economy projects and are embedding these investments into their long-term strategies. Over 2024 and 2025, insurers channelled billions of pounds of assets into sectors such as healthcare, education, transport, renewable energy and housing, with plans to deploy significantly more over the coming years.

This regulatory and economic context sends an important message for pension scheme decision makers seeking confidence in the sector’s future direction.

Capacity, competition and choice

The BPA market has grown rapidly on the back of improved scheme funding and strong sponsor appetite to de-risk. Insurers are competing hard for business, driving innovation in products, processes and service.

Strong regulatory oversight, coupled with a sustained pipeline of scheme demand, suggests that growth will continue and that the market is unlikely to stand still. For trustees and sponsors, the message is clear: the market today offers more capacity, more competition and more choice than ever before – but it also demands higher levels of preparation and strategic clarity.



Those who invest early in data readiness, benefit specification and clear transaction objectives will be best placed to benefit from this evolving landscape and navigate the busy market, secure insurer engagement, and, ultimately, achieve the right outcome for their members.

Martin Bird
Aon



Martin Bird is a Senior Partner and Head of Risk Settlement at Aon. Martin established the Aon team and has been advising on pension risk transfer since market inception in the mid-2000s and has led many of the industry’s highest profile buy-in, buy-out and longevity swap transactions to date, including working with Barclays, BBC, BP, National Grid and talent. Since 2019, the Aon team has led over 30% of all UK bulk annuity transactions.

A history of the BPA market

The journey



During the peak of the pandemic in 2020, we decided to create an authoritative guide to the Bulk Purchase Annuity (“BPA”) market. The name of the publication, “The journey to buy-out”, reflected the ongoing trend for schemes to “buy-out”, a process whereby a pension scheme is wound up and its members’ benefits are provided directly by an insurer.



to buy-out

Sammy Cooper-Smith
Rothesay



Sammy is Head of Business Development at Rothesay and has worked in bulk annuities for over 20 years. He started his career at Prudential UK, before joining the founding team of Paternoster, which was then purchased by Rothesay in 2011. Sammy has worked on over £80bn of liability transactions ranging in size from £500k to over £12bn.

Introducing the journey to buy-out

During the peak of the pandemic in 2020, we decided to create an authoritative guide to the BPA market. The name of the publication, “The journey to buy-out”, reflected the ongoing trend for schemes to “buy-out”, a process whereby a pension scheme is wound up and its members’ benefits are provided directly by an insurer. For much of the preceding 15 years pension schemes had typically chosen to de-risk via a pensioner only buy-in, which covered only a portion of their liabilities. These buy-in insurance contracts were often seen as an investment of scheme assets, however, for many it turned out to be the first material step towards the buy-out and wind-up of the scheme. In the same year that we published the first edition of “The journey to buy-out” in 2020, c.8% of schemes were in surplus on a “buy-out basis”. Whilst this was a material improvement on the position only a decade prior, we could not have foretold just how different the landscape would look only 6 years later. With annual bulk annuity volumes now exceeding £40bn year-on-year, we find ourselves in a world where the journey to buy-out has never been more relevant for trustees and sponsors of DB pension schemes.

Key elements of the UK’s

occupational pensions

system and why it matters

To reflect properly on where we are now, it is useful to look back and reflect on how much things have changed. Firstly, some context as to why this topic matters. The UK’s pensions industry has the third largest stock of pension assets in the world.

The UK’s occupational pensions system sits on top of state pension provision and is made up of three key elements:

- 1. Public sector defined benefit (“DB”)** – this is pension provision to public sector employees which is a combination of unfunded (such as the NHS Pension Scheme) and funded arrangements (i.e. the Local Government Pension Scheme (“LGPS”));
- 2. Private sector defined contribution (“DC”)** – contract and trust-based workplace and personal money purchase savings plans; and
- 3. Private sector DB** – employer-sponsored and trust-based provision in the form of occupational DB pension schemes.

The private sector DB element has been, for many years, the largest of the three. This is likely to change in the coming years because of:

- the run-off of DB liabilities; and
- the growth of the private sector DC following the introduction of statutory employer duties (known as automatic enrolment).

Private sector DB is currently the second largest store of national wealth behind personal residential property. This means that the investment decisions and asset allocation of funded UK DB schemes affect the macro-economic position of the UK. It is for this reason that funded DB pension schemes are relevant to the nation, and not just to the members of the schemes.

International comparisons

It is worth pointing out that, whilst the UK’s pensions system is huge, it is also incredibly fragmented.

The Canadian retirement saving system is dominated by 8 schemes (often referred to as the Maple 8) that account for a significant majority of total retirement savings in Canada.

The Australian market is dominated by the 14 largest superannuation funds that represent c. 40% of assets under investment in the system. This compares to the 5,000 UK based DB schemes, 3,900 of which have less than £100m in assets and 1,080 trust-based DC schemes with more than 12 members (c. 73% with fewer than 1,000 members).

How did we end up where we are today?

The beginning of the journey to buy-out – the changing nature of the DB pensions promise

The UK’s private sector DB market really started on its journey to buy-out in the 1970s (despite the UK’s trust-based private-sector occupational pension schemes emerging as far back as the mid-1800s). Schemes became increasingly complicated whilst legislation changed the nature of the pension promises made by the employers that sponsored DB schemes.

Legislation introduced in this decade (e.g. IR limits, pension requirements for early leavers, SERPS and the related “Contracting Out” and GMP regimes) began the trend of government intervention in private sector DB schemes.

...we could not have foretold just how different the landscape would look only 6 years later.

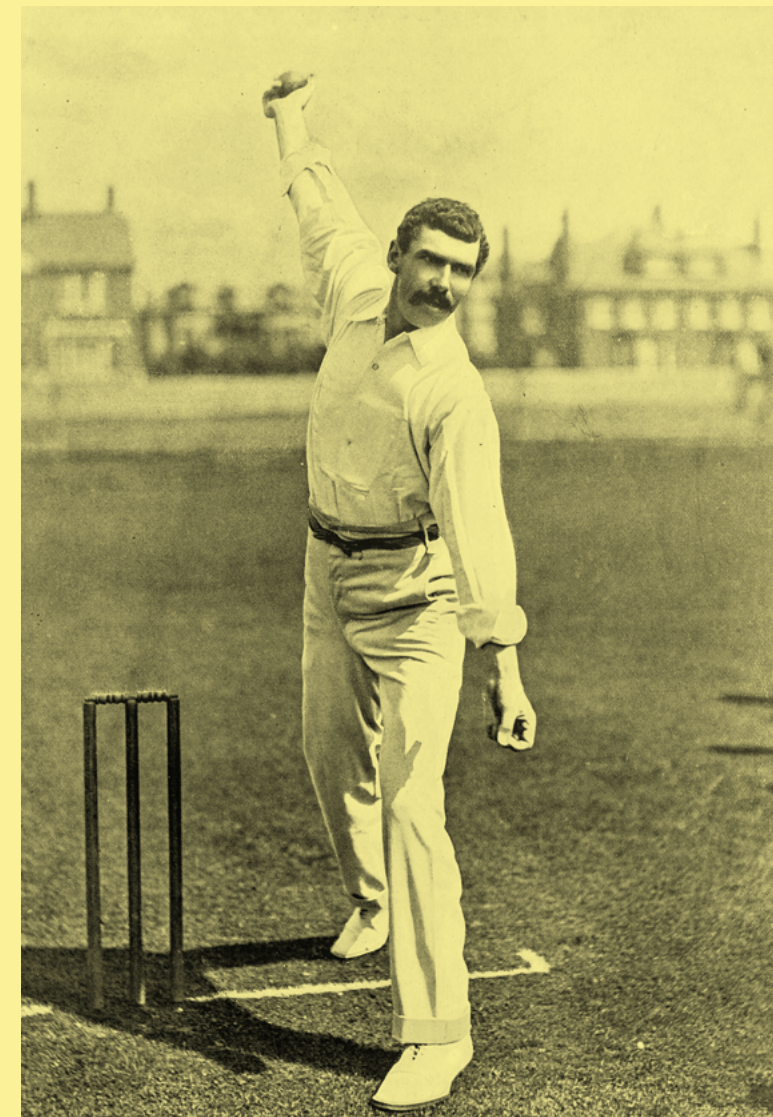
Transformation continued into the 1980s, with preservation, GMP increases and the notoriously complicated “anti-franking” regime. Changes in the 1990s were just as consequential, with the introduction of statutory pension increases and statutory transfer rights.

In addition to legislation, decisions of UK and European courts would have a major impact on private sector DB pension schemes (most notably Barber in 1990 – the requirement to equalise pension benefits between men and women).

All of these developments combined to place much more stringent obligations on sponsors of DB schemes than they had likely ever anticipated.

The DB schemes of the 1970s, 1980s and 1990s became a significant financial burden for many companies. The era of contribution holidays and discretionary increases was over. In their place, the race to close these schemes to new members and future accrual of benefits for existing members had begun.

A desire to protect and even enhance the rights of members of private sector DB schemes ended up finishing off the private sector DB promise as a concept. Instead, the build-up of further risk in such schemes was to be curtailed, liabilities cut back if possible and deficits managed.



The journey to buy-out has now entered a new phase...



The creation of the modern occupational pensions statutory and regulatory framework

Change carried on into the new millennium. The Pensions Act 2004 added material protections for members of DB schemes. Whilst a DB pension is one which most people see as the ultimate promise, there still exists material jeopardy for the members. Whilst ongoing, a scheme can rely on its own assets and the strength of the sponsoring employer, however, should there be no employer (e.g. because of insolvency), then any underfunding is immediately crystallised.

The Pension Protection Fund ("PPF") and the Financial Assistance Scheme ("FAS") were therefore introduced to provide protection for members of DB schemes. The FAS was to protect members of schemes who had lost their sponsoring employer between 1 April 1997 and 5 April 2005. Meanwhile, the PPF was an industry lifeboat designed to protect members of schemes who lost their sponsoring employer after 5 April 2005. It didn't promise full pensions, and, in fact, for many years it was foreseen that even schemes rescued by the PPF could see further pension cuts, a distant memory now.



Today's pensions buy-out landscape

This upshot has created a landscape almost unrecognisable from just a few years ago. In 2023, over £49bn of annuities were purchased by schemes, which adjusted for interest rates, is akin to £85bn back in 2019. 378 pension schemes de-risked during 2025, which is c. 7% of all schemes in the UK making a material step on their journey to buy-out.

The journey to buy-out has now entered a new phase. Improved funding has driven renewed levels of demand from schemes, bringing more new entrants into the market and driving some key shareholder shifts over the last 12 months, with notable interest from US asset managers. Competition has led to innovation and greater choice for pension schemes. These are arguably signs of a well-functioning marketplace. However, in this exciting new world, as an industry we mustn't lose sight of the fact that the heart of all we do is our overarching responsibility to make sure members get paid the right benefits, at the right time; members who are at a point in their life when they are increasingly reliant on receiving these payments as a source of income when change is often unwelcome. At Rothesay, our focus really is on securing pensions for the future; that means not only ensuring that we are adequately capitalised with robust risk management in place, but also that we remain operationally resilient as we grow so that we can continue to deliver for all of our policyholders.

We look forward to working with trustees and their sponsors to secure the pension obligations of many more schemes over the coming years.

The Pensions Regulator ("TPR") was introduced by the Pensions Act 2004 as a new and stronger regulator for occupational pensions. One of TPR's statutory objectives was to reduce the risk of calls on the PPF – aiming to protect the PPF from being swamped by schemes.

TPR has a broad range of statutory roles and responsibilities, one of which was overseeing funding agreements between pension schemes and their employer. Scheme funding practices that would artificially lower employer contributions through lengthy recovery plans, aggressive asset return assumptions or imprudent longevity assumptions were to be viewed with suspicion.

From deficit to surplus – the end of the era of ultra-low interest rates and the impact on scheme funding

Broadly, the changes delivered by the 2004 Act saw a wall of sponsor contributions move into UK DB schemes from 2005 onwards. With this shift, we saw the BPA market starting to more closely resemble the one we know today, with new insurers entering to compete with the long-term incumbents in the wake of expected improvements in scheme funding levels. Unfortunately, this period would also coincide with a substantial lowering of interest rates. The underfunded nature of schemes meant that they had not fully hedged interest rates, so as rates fell, liabilities rose. Employers were making contributions in order to stand still, and whilst many felt that the low rates of 2009/2010 were an aberration, the entire DB market became used to the concept of "lower for longer".

Low rates were here to stay, deficits were huge and the obligation for past service was a millstone to be carried forward. From 2009 through to 2014, pension schemes purchased £35.7bn of annuities (based on lower rates this amounted to c.3% of pension assets*). Of this, only £14.7bn was for buy-out, and something akin to only 1% of all DB schemes managed to achieve buy-out over a 6-year period. The Journey was going to be long and winding.

From 2015, 10 years on from the introduction of the PPF and TPR, annuity volumes started to pick up. Employer contributions were working and scheme funding had improved such that, by 2019, the journey to buy-out had moved into a new stage where either buy-out or self-sufficiency was looking increasingly feasible. The infancy of the 1970s, 1980s and 1990s and the troublesome teens of the noughties and 2010s was firmly in the past.

Then, in September 2022, the government made an announcement, known as the mini-budget, which changed the market almost overnight. The mini-budget was poorly received by the gilt market. Interest rates rose, and rose quickly.

UK DB schemes were now better hedged than they had been in the past (but still far from fully hedged), and suddenly had to meet large collateral calls on their interest rate hedges. Liquidity was needed and the most liquid assets either had to be sold for cash or posted. Gilts started to be sold at scale and a "doom loop" began. The Bank of England stepped in to provide emergency liquidity. Markets calmed, and, when the tide went out, UK DB funding had improved significantly. The journey to buy-out had suddenly accelerated by many years.

What's to come...



Barnett Waddingham



PwC



EY



Aon

... market predictions

for the future



Market volumes

The number of schemes transacting in the bulk annuity market grew by almost 30% in 2025, increasing from 294 to 378. Over the last two years, the number of schemes transacting has grown by 67%. This growth has come entirely from sub-£100m schemes, with the bulk of the growth amongst sub-£50m schemes.

I expect 2026 to be another record year for the UK bulk annuity market, building on the strong foundations laid in recent years. Activity will remain elevated, and I expect the 400 transaction mark to be comfortably broken for the first time (sticking my neck on the line I'll take a guess at 437). In premium terms, I anticipate volumes reaching the high £40bns – whilst this will fall short of the record £49.1bn of premiums written in 2023, I expect it to be a record once you adjust for changes in market conditions.

I expect the growth in transaction numbers to continue to be driven by smaller schemes, as insurers continue to streamline their processes and expand their capacity to serve this segment efficiently. Supporting this trend, I expect to see an increase in the number of insurers actively seeking to participate in this part of the market given demand levels. As a result, competitive processes involving three insurers will become the norm down to around the £10m mark.

However, I expect schemes below £10m to remain underrepresented. While there will continue to be some innovation in this space, the structural challenges – most notably relatively high fixed costs and the demands of data preparation – are likely to persist. Consequently, the very smallest schemes will continue to have more limited options available to them.

At the larger end of the market, I expect there to be modest growth, with the number of transactions for over £100m bettering the 64 such transactions that have been completed in each of the last three years. Growth will be limited though, with around 70 or so transactions completed in this space, as many of the largest schemes (particularly £bn plus schemes) continue to pause for thought and consider run-on (at least for a period of time).

Pricing levels

That continued lull in activity at the very large end will continue to drive attractive pricing levels throughout the year in the mid-market. This attractive pricing will help to sustain high levels of market activity, encouraging some trustees and sponsors that might not otherwise have done so to lock in their improved funding positions and secure member benefits.

Insurer offerings

I expect decision-making to increasingly extend beyond price, with non-pricing factors – particularly administration capabilities and the quality of member experience – playing an ever more prominent role in insurer selection. Given this, I expect to see insurers continue to enhance their offerings, with more sophisticated administration platforms, improved member communications, and a wider range of member options and policy add-ons becoming available across insurers.

Investment in insurers

I also expect continued interest in the bulk annuity sector from external investors. The market's scale, growth trajectory, and relatively predictable risk profile make it an attractive destination for capital, and this ongoing investment should help underpin both capacity and innovation across the insurer landscape.

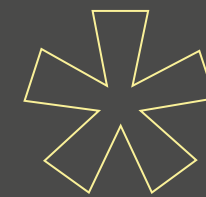
Alternatives

The consolidator market will gain new entrants over the next 18 months, and gain increased momentum. However, I expect this to remain relatively niche with no noticeable impact on bulk annuity demand.

Starting to clear the post-transaction logjam

Finally, I expect to see meaningful progress in the post-transaction phase. In particular, innovation will begin to reduce the time between buy-in and buy-out. A key driver here will be the tech-enabled streamlining of data cleansing processes to cut down on iterative exchanges between schemes and insurers.

I also expect to see an expansion in the number of insurers playing an active role in supporting schemes through the end-to-end journey, helping further accelerate post-transaction timelines.



Taken together,
I expect 2026 to be
characterised by
sustained high volumes,
growing accessibility –
especially for smaller
schemes – and the
continued evolution
of insurer offerings.

Barnett
Waddingham

Andy Smith
Barnett Waddingham

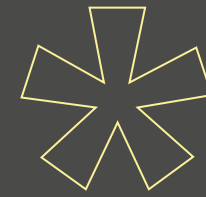
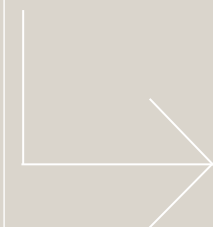


Andy is a Principal in Barnett Waddingham's Risk Transfer team. He has advised on transactions ranging from under £1m up to circa £1bn, covering both schemes with solvent sponsors and those in PPF assessment. Andy posts regularly on LinkedIn, sharing his views on risk transfer developments and wider pensions topics, and the occasional novelty Christmas video.



Looking at the current rate of BPA being written in terms of number and volume of transactions, and where in the market insurers are targeting, we see the following trends:

- We expect that there will continue to be over 350 transactions a year for schemes with assets below £1bn. This will be a steady baseline run rate of circa £20bn – £25bn of volumes for insurers. We expect circa 80% of the circa 4,500 private sector pension schemes with assets below £1bn could consolidate into insurance in the next 8 years.
- For the circa 200 schemes with assets over £1bn, the future is unclear. Many sponsors and trustees are still waiting on the outcome of the surplus sharing regulations before deciding on their preferred endgame. A proportion of these will certainly still come to insurance, but the timeframe and number of transactions a year is uncertain. The number of insurance transactions could be 5 to 20 per year and aggregate volumes could vary between £15bn to £30bn with this likely varying year-on-year.
- On that basis, the insurer market in the UK could be anywhere between £35bn and £55bn in a given year. We expect volumes to oscillate year-on-year with annual outturns dependent on a small number of large transactions.
- The number of UK private sector DB schemes is likely to reduce from 4,700 to under 1,000 in the next 8 years (albeit there will be some stragglers still getting from buy-in to buy-out).
- Changes to market conditions, material changes to insurer pricing, and developments in regulation and legislation across both the insurance and pensions landscape could have material impact on these predictions e.g. an onerous surplus release regime from a sponsor perspective could accelerate some larger schemes looking to insure sooner.



A key challenge for the industry will be the transition of over 3,500 pension schemes from buy-in to buy-out over the next decade. This is an area where we are already seeing considerable investment and innovation from both insurers and advisers.

Advances in technology, including the use of AI, will play a significant role in addressing this.

Matt Cooper
PwC



Matt Cooper is a Managing Director and leads PwC's Pensions Risk Transfer Team. He is a qualified actuary with over 20 years' experience advising trustees and sponsors on DB pensions. He has led the advice to clients on risk transactions for pension schemes ranging from £2m to over £1bn.



After several years of exceptional activity, the UK bulk purchase annuity market enters 2026 with strong momentum. Scheme funding levels remain robust, trustee engagement remains high, and insurers continue to invest heavily in pricing capability, operational delivery and member experience.

While we expect headline transaction volumes to remain elevated, we predict that the more significant shift in 2026 may be more qualitative rather than purely quantitative. Greater choice, continued product innovation and an increasing focus on member outcomes are, in our view, set to reshape what a “standard” buy-in or buy-out looks like and to broaden the range of schemes for which insurance is a viable solution.

Against that backdrop, we set out four key themes that we expect to shape the BPA market over the year ahead.

1. More choice than ever for small and mid-sized schemes

One of the most notable developments in recent years has been the expansion of insurer appetite across the smaller and mid-sized end of the market. Looking ahead to 2026, we expect this trend to continue, with many schemes benefiting from more choice than ever before.

We predict the emergence of more dedicated small-scheme propositions, including among insurers that have historically focused on larger, more complex transactions. We expect this to be supported by increasingly streamlined underwriting,

more standardised data requirements and more efficient execution models. As a result, we anticipate that schemes which may previously have struggled to gain traction in the BPA market will find themselves actively engaged by a broader range of insurers.

For trustees and sponsors of smaller schemes, we expect this increased competition to translate into improved pricing tension, wider insurer engagement and greater confidence that attractive opportunities can be accessed. At a market level, we predict this will contribute to a more resilient and sustainable transaction pipeline, with activity spread across a wider range of scheme sizes.

2. Innovation continues to bring bespoke benefit design into the mainstream

The BPA market has long been associated with bespoke structuring for the largest and most complex schemes. In 2026, we expect many features that were once considered “innovative” or difficult to accommodate to become increasingly mainstream, as insurer flexibility around benefit design continues to deepen.

An example is the retention of links to DC cash. In some DB schemes, members may also hold linked DC pots that they

expect to use as their primary source of tax-free cash at retirement. Historically, accommodating this interaction between DB and DC entitlements within a buy-in or buy-out could complicate transactions, especially where DC pots were administered by separate providers, adding operational and administrative complexity to the insured solution. Looking ahead, we expect insurers to offer increasing flexibility in incorporating such structures within BPA contracts, enabling schemes to preserve member choice without creating execution barriers.

We also expect embedded member options at retirement – such as Bridging Pension Options – to be more easily accommodated. As the gap between scheme retirement ages and the State Pension Age widens, these options have become more common in DB scheme design. While once viewed as complications within BPA deals, we predict they will be increasingly integrated as part of standard transactions.

Overall, we expect insurer capability and experience to continue to develop, with these features increasingly priced and administered as the norm rather than the exception. In our view, this will broaden the appeal of BPA to a wider universe of schemes and reinforce insurance as a practical solution even where benefit design does not fit a traditional mould.

3. We predict technology will become even more central to the BPA journey

We expect technology to play an increasingly central role across the BPA journey in 2026, supporting both scheme readiness ahead of a transaction and the ongoing member experience after buy-in or buy-out.

For schemes, we anticipate continued growth in the use of digital tools to enhance market preparation, particularly through improved member tracing – including for overseas members – and more efficient data cleansing. We also expect technology to be used more widely to identify inconsistencies between trust deed provisions and administration data fields at an earlier stage, reducing execution risk and supporting greater confidence when approaching the market.

On the insurer side, we predict further investment in member-facing technology will continue to transform the post-transaction experience. We expect greater deployment of new payment and engagement tools, offering members increased flexibility over how and when they access pension payments – particularly where short-term cash-flow needs arise – while also strengthening support for vulnerable customers. We also expect digital solutions to make it easier for members and their families to report major life events, such as deaths, improving both service outcomes and administrative efficiency.

Taken together, we expect technology to move even further from the periphery to become a core enabler of successful BPA transactions and improved long-term member outcomes.

4. We expect new institutional clients to drive future demand

It is now almost 15 years since the introduction of automatic enrolment, and we expect DC master trusts to focus with increasing intensity on their decumulation offering. As assets scale, we predict a growing emphasis on delivering secure, predictable and well-governed retirement income solutions for members.

Recent market developments provide an early indication of this direction. Earlier this year, NEST announced a partnership with Rothesay as part of the design of its retirement blueprint, with bulk annuity solutions forming a key component of its approach to supporting cohorts of members in decumulation. We see this as an important milestone in the development of at-scale insured retirement income solutions for DC savers.

With DC providers now required to design and offer default decumulation pathways, we expect DC master trusts to become increasingly significant participants in the BPA market. We predict insured annuity solutions will play an expanding role, either within default pathways or as optional retirement income choices, reinforcing the insurers’ role in delivering long-term security in retirement.

EY

Eimear Kelly
EY



Eimear Kelly is a Partner in EY’s Risk Transfer team. A qualified actuary, she has over 20 years’ experience supporting companies and trustees to achieve secure, well-governed outcomes for their UK defined benefit pension schemes. Eimear has advised on a wide range of pension risk transfer transactions, helping schemes of all sizes – from under £10m to over £1bn – manage risk, improve member security and progress towards their long-term objectives.

EY



As the UK bulk annuity market continues to grow in scale and sophistication, attention is increasingly shifting beyond just executing transactions. While pricing remains vital, trustees and sponsors are now placing far greater emphasis on member experience, operational delivery and the insurer's long-term ability to support members throughout retirement and beyond.

This reflects a maturing market. With buy-ins and buy-outs now firmly established as mainstream endgame strategies, schemes are asking different questions: how will members experience the transition? How smoothly will post-transaction processes run? And how resilient and scalable are insurers' operating models as volumes remain high?

Encouragingly, the market has responded. At Aon, we have seen a growing willingness from insurers to engage with benefit flexibility that might historically have been seen as a barrier to transferring risk. Based on our extensive transaction experience, we are seeing solutions emerge that allow schemes to preserve important member options after the transaction, such as more flexibility on allowing members to switch back their DC/AVC funds to an insurer vehicle on retirement, to be able to retain use of these funds as the first source of tax-free cash, or retaining bespoke options such as Bridging Pension Options. This reflects a broader shift in mindset, that recognises that good outcomes for members are not just compatible with insurance, but central to it.

At the same time, insurers have continued to invest heavily in member-facing digital capabilities. Recent developments include insurer-led administration platforms, improved online portals, clearer retirement modelling tools covering DB and DC benefits, access to financial advice, and more tailored communication journeys. Alongside this, many insurers are strengthening specialist support for vulnerable customers (such as investing in voice analytics to identify vulnerable customers early) – embedding vulnerability policies into day-to-day servicing rather than treating them as an exception. Taken together, this represents a meaningful step forward in how members experience life after a transaction.

1. Member experience moves to centre stage

With pricing being highly competitive, member experience is rapidly becoming a differentiator in bulk annuity transactions. Trustees are increasingly focused on how insurers will support members through a period of significant change, particularly where schemes are complex, benefits are non-standard, or if there are vulnerable cohorts among the members.

The next phase of the bulk annuity market:

member

experience,

execution &

evolution

AON

2. Stronger post-transaction delivery

As transaction volumes rise, there has been understandable attention on capacity and timelines, particularly around converting buy-ins to buy-outs. However, focusing solely on headline numbers risks missing a positive underlying story.

We have seen that insurers are investing significantly in post-transaction teams, governance frameworks and technology to ensure that once a deal completes, processes run smoothly and predictably. This includes clearer handover models from transaction to administration teams, better data audit trails, and more proactive engagement with trustees and advisers during the post-buy-in phase.

Technology is playing an important role here. Automation and data analytics are increasingly being used to streamline benefit verification, flag inconsistencies earlier, and reduce manual intervention. Looking ahead, the use of AI has the potential to further improve efficiency – not just in administration but also in member interactions, for example by supporting routine queries and freeing up experienced teams to focus on more complex cases. Care will be needed of course to ensure it does not adversely affect the member experience.

These developments will be particularly important as activity continues across all sizes of scheme. As more insurers expand their footprint in the smaller-scheme market, the ability to deliver consistently at scale, without compromising service quality, will be paramount.

3. A market that continues to evolve

Looking forward, further evolution in the insurer landscape is likely. The past decade has already seen new entrants, returning participants and acquisition activity reshape the market. Given the scale of opportunity and the long-term nature of bulk annuity books, we expect this dynamism to continue, and more insurers look to enter this space.

Some insurers will focus on building scale through core BPA growth. Others may seek to accelerate through acquisitions or partnerships. At the same time, there is increasing clarity around different insurers' strategic sweet spots – whether by scheme size, complexity, or journey to buy-out. This will give trustees more choice but also reinforce the importance of selecting the right long-term partner.

What is clear is that competition remains strong, innovation is continuing, and both schemes and members are benefitting as a result. Insurers that combine financial strength with operational resilience, strong member outcomes and a clear strategic focus will be well placed as the market enters its next phase.

Looking ahead

The bulk annuity market shows no signs of slowing. But success is no longer defined simply by completing a transaction. For trustees and sponsors, attention is increasingly on the full journey – from preparation and execution through to member experience and long-term delivery.

The insurers best equipped for this environment will be those that continue to invest in people, in technology and in service models that recognise the central role they play in members' retirement security.

As the market evolves, that focus on experience and execution is set to become just as important in shaping future outcomes as price.

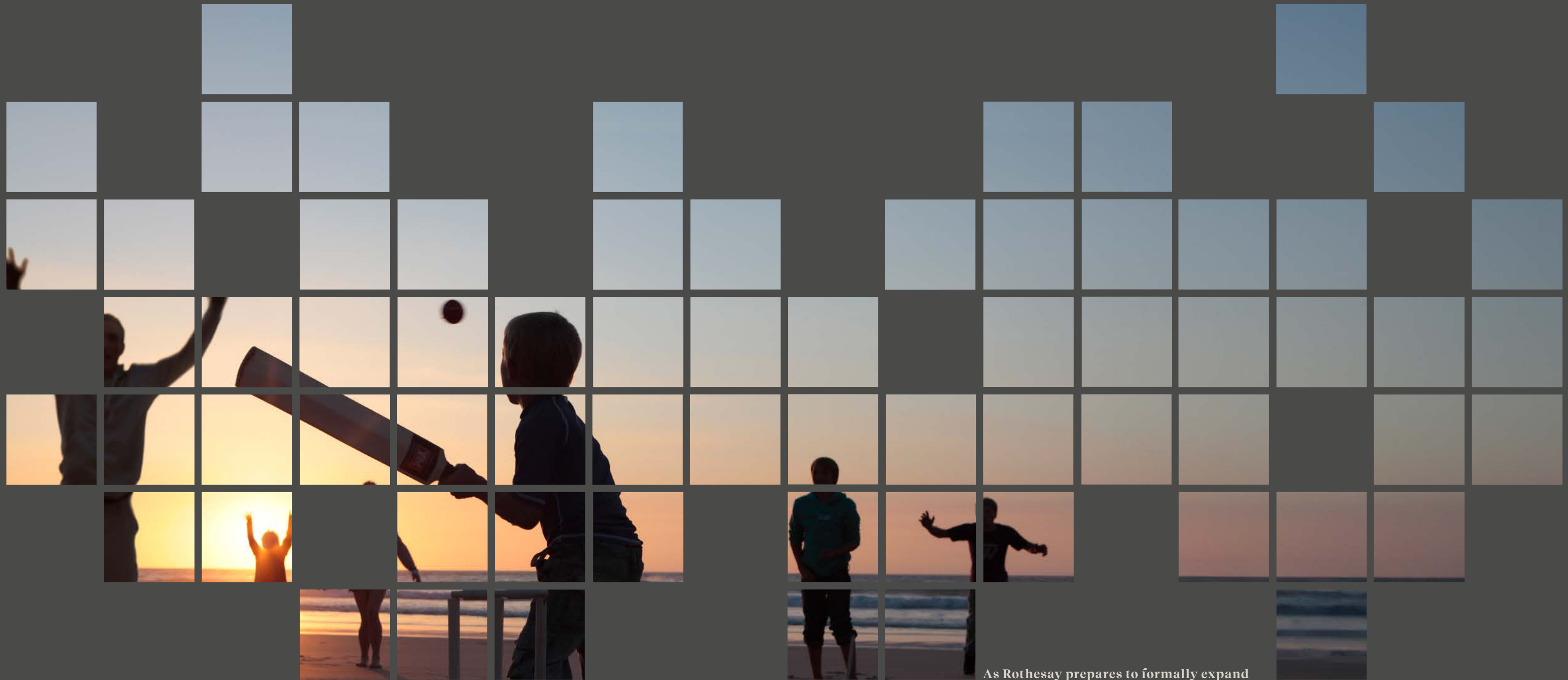
Matt Cook
Aon



Matt is an Associate Partner in Aon's Risk Settlement Group, advising trustees and sponsoring employers of pension schemes on risk settlement transactions. A qualified actuary, Matt has 18 years of experience in the pensions industry, the last 8

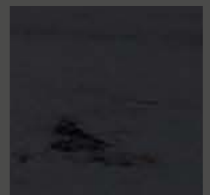
of which has been within the risk settlement space, working on both the advisory and insurer side of the fence. He has advised on schemes of all sizes, ranging from £5m to £2bn, working with insurers to manage bespoke structuring requests for his clients. Matt is also a member of the Endgame Perspectives Group, working with other advisers across the industry to provide insight and support for pension schemes working towards their endgame.

AON



Opportunities for
smaller schemes

As Rothesay prepares to formally expand its bulk annuity offering for smaller schemes, Simon Bramwell reflects on the incredible recent growth in that segment of the market, and the lessons learned in preparing to launch **RothesayRadius**.



Before joining Rothesay, I was a risk transfer adviser, helping schemes consider, prepare for, and ultimately complete a buy-in on the path to buying out.

The nature of our client base meant the majority of the schemes I worked with were below £100m in assets. For these cases we used to feel fortunate if we had as many as three insurers willing to quote; for sub-£50m cases the conversation was frequently centred around whether we had to consider a sole insurer process or could convince at least one other insurer to join and demonstrate a competitive process for our clients. Add in the costs associated with filling out individual insurers' templates – a relatively new requirement at the time – and you have a recipe for a tricky advice process: weighing up the pros and cons of a limited number of insurers with varying levels of willingness to participate alongside the challenges of a finite budget to get everything done.

However, fast forward just a few years and the landscape for smaller schemes is dramatically different. This article discusses why we have now decided to enter this part of the market and reflects on what we have learned along the way in understanding the competitive dynamics, and how it has evolved and differs from what we know of the larger end of the market.

Why are we entering the market now?

It would be an understatement to say that the smaller end of the market (defined here broadly as sub-£100m transactions) has seen significant growth in the last few years. That statement undersells the level of investment, innovation, and structural change that has occurred to help facilitate that growth. The following numbers, provided by Andy Smith at Barnett Waddingham, demonstrate how explosive this growth has been since 2021, when I was advising clients:

	2021	2025
Number of <£100m transactions completed	100	314 (+214%)
Total £ volume of <£100m transactions completed	£2.8bn	£7.2bn (+157%)
<£100m transactions as a proportion of all transactions (by number)	65%	83%
Number of <£10m transactions completed	29	122 (+321%)

This staggering increase in growth in smaller scheme transactions – driven by improved funding levels, increased insurer capacity, and years of preparation and planning for buy-out – is in contrast to £100m+ transactions where growth has continued but at a slower rate. Whilst the larger transactions still dominate the headlines and drive total volume numbers that we get excited about in the industry, the reality is the number of £100m+ transactions completed has only nudged up in the last few years: from 55 in 2021 to 64 last year (and, strangely enough, in 2023 and 2024 respectively). Of course, some of this has been driven by higher interest rates shrinking asset sizes – the PPF's Purple Book showed 72% of all DB schemes were below £100m in size in 2021; in 2025 this had increased to 80% – a meaningful shift in overall scheme distribution.

There are also different dynamics and decisions for larger schemes versus smaller schemes when considering their endgame objectives and buy-out options. Larger schemes typically have the luxury of time, resources and budget to consider their options – even before surplus extraction became a meaningful consideration – whereas smaller schemes generally have less incentive to run-on any longer than necessary.

It was against this backdrop – significant demand from smaller schemes, with less predictable activity from the larger schemes that have always been our focus – that spurred us in late 2024 to consider whether we could meaningfully participate in the smaller end of the market.

What have we learned?

On the face of it, expanding our target client base to smaller schemes should be straightforward. Same product, same industry, same competitors, same processes, same outcomes – right? Not quite.

The challenges in understanding the feasibility of this are split into three broad questions:

1. How does the smaller end of the market function in practice?
2. Can we quote on, win, and implement significantly more transactions than we've ever done before?
3. How does this translate into what we offer schemes?

How the market functions

Given our large market share, we like to think we understand the larger part of the market well. We didn't pretend to understand the smaller part of the market as well – so we engaged and consulted with experts: trustees, consultants, lawyers, administrators, and clients. Through these discussions it became clear that:

- Smaller schemes are highly incentivised to present themselves to insurers as clean and attractive propositions – they don't have the buying power to wave through data issues nor the benefit of guaranteeing multiple insurers will quote;
- There are trade-offs for smaller schemes in many areas and these frequently factor into their preparation: benefits that can't be insured easily, budgets that don't stretch to multiple templates being filled out or detailed due diligence, being flexible on timing to fit in with insurer pipelines;
- There is an emphasis on standardisation – from the use of templates to present data and benefits through to the requested terms, insurer deliverables, and the quotation process itself;
- Getting to buy-out promptly and efficiently is arguably more important, with more schemes having completed their GMP equalisation work and looking to minimise the ongoing running costs.

We also had the feedback that whilst significant strides have been made in improving insurer capacity and competition for smaller schemes, the market would welcome another participant with a proven track record.

Setting ourselves up internally

To make this worthwhile, you need to write a meaningful number of smaller transactions. Going from being a business that has historically completed 10-12 transactions a year to perhaps 40-50 represents a substantial change and, with it, potential risks. If this was going to be viable, we had to prove to ourselves that we could scale up in an efficient and risk-managed fashion. In expanding our target market, this could not be at the expense of the diligence, customer service, and policyholder focus we pride ourselves on.

This has required work on several fronts:

- Determining, with feedback from the industry, how we can use standardised materials to help quote and implement in a scalable manner;
- Reviewing our transaction governance and processes throughout the business, which hitherto have been developed to cater for large, complex, and bespoke cases;
- Utilising technology to automate and minimise manual intervention; and
- Forming a specialist team of existing and new hires dedicated to this work and resourced to meet the increased demand in cases.

To test all of this, over the last 18 months we have quoted on more than 60 sub-£100m transactions (and winning some along the way). The feedback and learning from these transactions have helped to shape our offering to the smaller end of the market, which we have called **RothesayRadius**.

RothesayRadius

This is not a new product. But we have given this route into getting a smaller scheme quotation from us a name – RothesayRadius. There are some differences, and the name helps to provide that differentiation. So what is RothesayRadius?

In developing it, we have sought to keep close to established market practice, but also push for better and improve on what can be offered. In short, this means:

- A data and benefits template – kept deliberately straightforward and intuitive to keep adviser costs low;
- Terms and conditions based on the same terms we offer all clients, with some pragmatic simplifications to keep the operational requirements proportionate;
- A simple and transparent gilts-based price-lock mechanism;
- Equipped to incept on a GMP equalised basis;
- A dedicated contact during buy-in – no generic email inbox;
- Accurate funding/payroll provided from day one to reduce reconciliation work later on and smooth the path to buy-out; and
- Automated quotations provided to the administrator during buy-in.

More broadly, there will be no requirement for exclusivity and, if it fits into our data and benefits template, we will provide a guaranteed quotation.

The smaller end of the market has seen substantive change in just a few years, helped by trustees and their advisers who've worked hard to ready themselves for buy-out, and an insurance market that's invested heavily in their propositions to support the demand and provide more options for schemes. We look forward to working with more schemes to support the continued growth in this market.

Simon Bramwell
Rothesay



Simon is part of Rothesay's Business Development team and has led the development of RothesayRadius. Prior to working at Rothesay, he was a Partner in Barnett Waddingham's risk transfer team.

CHAPTER
02

Market trends



“
Growing up, my education about Test cricket came from dad’s video of the 1981 Ashes series – and Ian Botham’s incredible match at Headingley.”

JAMES ANDERSON

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Regulatory updates

Oliver Dixon
Rothesay



Oliver Dixon is Rothesay's Chief Capital Officer. He joined Rothesay in 2013 and is responsible for the continuous monitoring of the firm's solvency position as well as its economic and accounting valuation measures. Oliver's role

involves the assessment of the capital implications of new asset and liability transactions, including the impact of any changes to the regulatory capital rules. Prior to joining Rothesay, Oliver worked for Willis Towers Watson as a consultant in their life insurance practice.



Overview

A decade has passed since the UK voted to leave the European Union. Over that time, many areas of policy and regulation have changed, with a wide range of sectors impacted. As part of these changes, following HM Treasury's (HMT's) 2022 review of Solvency II, a new regulatory regime tailored for the UK insurance market, called Solvency UK, was born. While the Solvency UK developments have been evolutionary rather than revolutionary, there are several ways that they are impacting the regulatory landscape and behaviour of insurers today. A few of them are explored opposite.



Changes introduced to Matching Adjustment investment eligibility

The Matching Adjustment (MA) was introduced into the EU Solvency II Directive at a relatively late stage, primarily as a way to allow UK insurers to appropriately provision for annuity liabilities. However, like other elements of the long-term guarantees package, because it was brought in relatively quickly in order to hit the implementation date for Solvency II, the MA was necessarily quite limited and idealised. In particular, if any one of the strict MA eligibility requirements for assets or liabilities were not met, significantly higher capital requirements would result.

The HMT review recognised that the nature of these rules was limiting the ability of insurers to invest in UK productive assets, particularly because the requirement for entirely fixed payments on assets made it more difficult for insurers to invest in assets that supported certain types of infrastructure and energy transition projects.

The Solvency UK reforms have introduced more flexibility around the MA eligibility requirements, meaning that a small subset of insurers' annuity related investments can be made into debt instruments with highly predictable, rather than entirely fixed, cash flows. These reforms have allowed insurers to commit to invest significantly into UK productive assets, supporting the growth of the UK economy. Also, because these changes allow insurers to better diversify their asset holdings into investment classes which are backed by underlying physical assets, they should help to further improve the security and reduce the overall risk profile of the investments that insurers hold.

Life Insurance Stress Testing (LIST)

Following the global financial crisis, stress testing was introduced for the UK's largest systemic banks and building societies. Although there has been no similar type of stress event in the UK insurance sector, there is a general recognition that stress testing has helped improve transparency around the resilience of the UK banking sector. Therefore, as part of HMT's review, they have looked to extend the same kind of stress testing framework across the UK life insurance industry.

LIST 2025 was designed as a simulation of a severe market shock event. It built on previous exercises in 2022 and 2019, introducing published firm-level results for the first time. The LIST exercise underlined Rothesay's robust capital position and balance sheet resilience, showing a post-stress SCR coverage ratio for Rothesay Life Plc of 213%, the highest of any of the LIST participants, and surplus Own Funds above capital requirements remaining at almost £5bn, only a 10% reduction on pre-stress test levels.

While the LIST results provide a useful demonstration of the strength of the UK life insurance sector, forming direct comparisons between insurers proved difficult because solvency coverage ratio impacts are significantly exaggerated for firms that start with higher base solvency coverage ratios. Also, because the LIST was specifically focused on annuity business, the impacts appear to have been diluted for multi-line and composite insurers, whose businesses are sensitive to different types of stresses which weren't explored in the LIST. Nonetheless, the LIST process marks an important step in communicating how insurers manage and respond to a wide range of external shocks, with further refinements to the exercise expected in the future.

Potential reforms to the treatment of funded reinsurance

The LIST highlighted the reliance of some insurers' capital positions on funded reinsurance – a mechanism by which premium assets received as part of annuity transactions are transferred to reinsurers, who are typically based outside the UK and so are not subject to UK regulatory capital rules. The reinsurance contract then sits as an asset on the UK insurer's balance sheet rather than more traditional investments, and it is the reinsurer who invests into assets which back the annuity liabilities.

Under inherited Solvency II rules, the capital requirements associated with funded reinsurance for UK insurers are typically materially lower than other assets held in MA portfolios. In recent weeks, the Prudential Regulation Authority (PRA) has launched a consultation which looks to level the playing field between funded reinsurance and other investments in the Solvency UK framework. If the proposals in the consultation become policy, this may result in less funded reinsurance being transacted, more investment being made directly by UK insurers and more capital being held in the UK insurance sector.

What next?

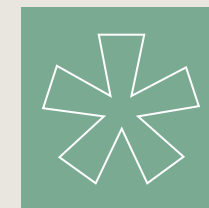
The 2022 HMT review identified targeted changes which could be made to the regulatory capital rules for UK insurers, and a lot of work has been undertaken by the UK government, the PRA and insurers to make these changes happen. However, HMT's review also identified many areas where the inherited EU Solvency II rules and regulations were working as intended, and the core of this framework has remained unchanged.

So, is regulatory reform finished now? Of course not. Where market trends indicate that rules are not functioning as intended, further reforms will rightly be considered, as evidenced by the funded reinsurance consultation. However, there seems to be some consensus that it would be deeply unhelpful for long-term liabilities backed by long-term investments to be subject to completely different capital rules every few years. So, while continued evolution of regulations is a natural part of the financial services landscape, I suspect there will be more stability in the next ten years of insurance regulations than the last.

Solvency UK has introduced a number of positive changes, now it's time to see them put to work.



CONSOLIDATORS AND THE GATEWAY TESTS



THE UK DB CONSOLIDATOR MARKET

The UK defined benefit pensions world is changing. For years, the endgame was clear with schemes working towards buy-in or buy-out with an insurer, securing members' benefits and drawing a line under the journey. That remains true today.

But alongside it, a new option has been taking shape in consolidators, or DB superfunds.

It's tempting to frame this as a choice between two competing models. In reality, that misses the point. Insurance and consolidators are better thought of as parts of the same system: each with a distinct role, each solving a different problem, and together offering trustees more flexibility than ever before.

MORE OPTIONS FOR SCHEMES

The DB universe is large and while funding levels have improved significantly in recent years, schemes remain in different places. Some are within touching distance of buy-out while others still have ground to cover, whether due to funding gaps, sponsor constraints, data and benefit issues, or simply timing.

That's where the idea of choice becomes important. Insurance remains the clearest and most secure destination for many schemes, but it isn't always immediately achievable. Consolidators help fill that gap, offering a way to strengthen member security when funding is not sufficient to reach insurance.

The result is a more nuanced endgame landscape, giving trustees a range of options that can be tailored to their scheme.

WHY INSURANCE?

There's a reason buy-out is still seen as the "gold standard". Once liabilities are insured, they sit with a regulated provider backed by a strong capital regime. For trustees, that means confidence that benefits will be paid. For sponsors, it means closure with no more pension risk on the balance sheet.

The market itself has evolved too. Insurers have scaled up, processes have become more efficient, and transactions that once felt complex are now well-trodden. For schemes that can get there, buy-out remains a highly attractive endpoint.

WHERE CONSOLIDATORS COME IN

Consolidators allow schemes to move into a larger environment, backed by external capital rather than the original employer covenant (or in some cases with an element of that covenant remaining). This reduces reliance on the sponsor and replaces it with a combination of scale, governance and a defined financial buffer.

There are practical benefits too. Larger pools of assets can be managed more efficiently. Governance is streamlined and investment strategies can be more sophisticated. Crucially, member security can improve compared to staying where the scheme is.

For schemes where funding is not yet there for insurance, that can make consolidators a compelling option. In some cases, they may even act as a stepping stone towards buy-out further down the line.

THE GATEWAY TESTS

With more choice comes the need for clear decision-making. That's where the gateway test plays its role.

At a high level, these tests ask a simple question. Is a transfer to a consolidator the right thing to do, given the alternatives?

In practice, that means two key considerations. First, how close is the scheme to being able to insure its liabilities? And second, would moving to a consolidator improve the chances of members receiving their full benefits?

The gateway tests encourage trustees to take a step back and look at the bigger picture. It's not just about today's funding level, but about the likely journey from here. How quickly could the scheme realistically reach buy-out? What assumptions sit behind that? And how does that compare to the security a consolidator could offer now?

It's a structured way of making sure that all options are properly weighed and that decisions are anchored in member outcomes.

HOW THE TESTS WORK

In reality, applying the gateway tests involves a fair amount of judgement.

Two schemes with similar funding levels might reach different conclusions, depending on their sponsor strength, cashflow profile or investment strategy. One might have a clear path to buy-out in a relatively short timeframe. Another might face a longer, less certain journey.

The gateway tests don't force those schemes into the same answer. Instead, they create a framework within which trustees can make a reasoned decision.

Crucially, insurance remains the benchmark. It's the reference point against which other options are assessed. But the framework also recognises that consolidators can offer a meaningful improvement in security where buy-out isn't immediately within reach.

A SYSTEM THAT WORKS TOGETHER

Insurance provides the destination for many schemes, but consolidators provide an alternative route, helping schemes move forward when that destination isn't yet accessible.

The gateway tests link the two. This ensures that decisions are made thoughtfully, with a clear focus on outcomes, while still allowing flexibility where it's needed.

And perhaps most importantly, it reflects the reality that there is no single "right" answer for every scheme.

LOOKING AHEAD

As more transactions complete, trustees will have more real-world examples to draw on. Processes will continue to evolve and the framework around consolidators will become more established.

What's unlikely to change is the need for both options. The DB landscape is simply too varied for a one-size-fits-all solution. Having multiple, well-designed routes to securing benefits is a strength, not a complication.

FINAL THOUGHTS

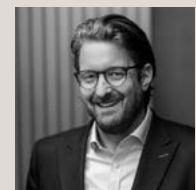
The underlying role of a trustee is to ensure that members' benefits are paid in full, with as much certainty as possible.

Insurance and consolidators both contribute to that goal, in different ways.

The gateway tests, for their part, help ensure those tools are used thoughtfully, guiding schemes towards the option that best fits their circumstances.

Interestingly, the consolidator market has now operated for some time with one approved consolidator acting as a bridge to buy-out. As more consolidators with differing models enter the market, trustees will be faced with even more optionality and the ability to closely analyse each model and its pros and cons for a particular scheme and circumstance will become as important as any gateway test analysis.

Tom Stockley
Aretas Trustees



Tom is a senior professional trustee, qualified solicitor and former Partner at the global law firm Gowling WLG. As a professional trustee he has acted as chair, sole trustee and board trustee across a wide range of scheme sizes including

those in excess of £1bn in assets. Tom's experience includes completing two of the five Clara Pensions transactions to date – he led the trustee board of the Debenhams Retirement Scheme through its well-publicised superfund transaction and recently led the sole trustee team through the most recent transaction with Clara.



Run-on or buy-out

- The Pepsi Challenge



In 1975 Pepsi faced a huge challenge. It had survived bankruptcy twice and was distant second in a soft drinks market dominated by the brand power and marketing spend of Coca-Cola. Every advertising and marketing executive “knew” that consumers preferred Coke.

Pepsi did something unexpected and innovative – they asked consumers directly. In local malls across America, shoppers were asked to take a sip from two white cups. In the majority of tests, consumers chose the sweeter taste of Pepsi rather than the incumbent market leader.



What does fizzy pop have to do with closed defined benefit pension schemes?

Imagine replacing the white cups and cola with two anonymised investment opportunities (representing buy-out and run-on) and presenting these to a sponsor's CFO.

	 Cup A Buy-out	 Cup B Run-on ¹
Upfront Capital Required	£0m	£0m
Maturity	-	10 years
Annual Cash Flows	£0m	£(6)m
Surplus/(Deficit) at Maturity		
Best case ²	£0m	£450m
Expected ³	£0m	£200m
Worse Case ⁴	£0m	£(100)m

It is obvious which cup contains the sugar and caffeine, but does this mean that run-on is "The Choice of a New Generation" of sponsors and trustees?

Blind taste tests are flawed. Consumers may prefer one sip of a sweeter alternative, but would they drink a whole bottle? Would they be willing to only drink Pepsi forever? Is it even healthy?

Run-on can deliver a sugar rush of returns, but sponsors and trustees must consider the risks with their eyes open. Importantly, they need to consider whether they would serve a solution to their shareholders and members.

Strategy

Running on a company's DB scheme will not make "the beer (or Coke) taste better", will not drive sales and will not impact operating margins. Running on a DB scheme is like running a levered credit fund and the sponsor's management team need to honestly explore whether this is consistent with their corporate strategy, or at the very least a justifiable distraction.

This question is equally relevant to financial institutions, whose business is financial risk. Is pension risk the best use of their regulatory capital? Banks that have completed buy-ins over the last few years must have concluded not.

Purpose

A coherent run-on strategy needs to have a clear purpose or objective so that progress and risk can be measured. There are valid arguments for different purposes which can range from maximising member benefits (in return for continued covenant risk) to maximising the sponsor's share of surplus. The key is for the purpose and downside risks to be clearly articulated and agreed by all the stakeholders.

The more of the current and/or future surplus a sponsor agrees to share with members the less naturally sweet the opportunity will be for the CFO and the shareholders. At a certain point you have more artificial sweetener than sugar and you are running on "Just for the Taste of It".

1 Our experiment is based on a closed DB scheme with £1 billion of assets, a duration of 15 years and which is 100% funded on buy-out today. In run-on the scheme is targeting a return of gilts +1.5%. Modelling is illustrative.
2 95th percentile of outcomes.
3 50th percentile of outcomes.
4 5th percentile of outcomes.

Fairness

If surplus is only shared upfront with members through a permanent improvement in benefits this is unfair to the sponsor who not only gives up surplus but also increases their economic risk.

If future surplus is to be shared between sponsor and members, the split must recognise (i) the unequal sharing of risk (weighted entirely towards the sponsor as the first loss carrier of investment, longevity and operational risk); and (ii) that deferred members are likely to disproportionately benefit at the expense of current pensioners.

There is a valid debate whether former employees with relatively generous DB pensions are deserving of more surplus and have a greater call on the sponsor's covenant than Generation DC, who are the current employees.

The current CFO may agree to a run-on strategy, but it will be one of their successors who gets the cash flow windfall when surplus is crystallised. Equally a future management team may have to deal with foreseeable and unknowable downside scenarios. This is particularly relevant to listed companies.

The unknown

Running on leaves the sponsor (and indirectly the members) exposed to unpredictable and unmanageable policy, legislative and legal risk. The Virgin Media judgment is a good example of this.

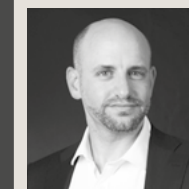


Buy-out vs run-on is a false choice, but a profitable question for the adviser ecosystem. Buy-out is a run-off strategy and run-on is nothing new. Until recently, the endgame of choice was to run-on closed schemes until the trustees could afford buy-out.

Even those that choose to run-on for longer will run off at some point. "The Real Thing" is the question of when.

Apart from trustees with the strongest covenants and/or Crown guarantees, we will all end up drinking Coke.

Adam Saron
Greycross



Adam is a founding partner of Greycross Partners, an independent pensions advisory firm. He is the founder and former CEO of Clara-Pensions, the first and only DB superfund to complete the Pensions Regulator's assessment process, and one of the driving forces behind the creation of the UK's DB consolidation market. Adam has worked in financial services for over 28 years, beginning his career at Goldman Sachs. Before moving into UK pensions he was an investment banker and portfolio manager for 18 years.

Nikesh Patel
Greycross



Nikesh Patel is the Chief Investment Officer for a UK OCIO, a trustee and chair of investment committee for the Church of England Pensions Board and the Smart Pension Master Trust, and a specialist in investments, ESG, and UK pensions from the perspective of asset managers, owners and sponsors.



For most of my career, DB pension schemes have typically been perceived by corporate sponsors as a complex and stubborn legacy issue absorbing management time, requiring cash contributions with little to no prospect of recovery, and creating balance-sheet uncertainty. While buy-out was often the long-term aspiration, it typically depended on significant additional funding which companies rarely considered a good use of cash, except where the scheme was a blocker to corporate activity, such as M&A.





Since late 2023, the landscape has shifted:

the rise in interest rates means many schemes are in surplus for the first time in decades. This improvement in funding levels and the upcoming legislative reform to allow ongoing surplus extraction has led sponsors to revisit their priorities, moving from “How do we reduce the risk of having to put in cash?” to “How do we manage the scheme in a way that benefits the members and also supports the business?”



Relationships between sponsors and trustees, which have often centred on valuation discussions and deficit contributions, have a real opportunity in the “surplus era” to shift towards more constructive dialogue on long-term strategy, risk management and how any surplus might be used. WTW’s Endgame Report 2026, which reflects the views of over 130 individuals and more than a quarter (£300bn) of all private sector DB scheme liabilities in the UK, found that sponsors and trustees are not yet fully aligned on endgame strategy in over a third of schemes, highlighting that whilst the majority of schemes have made good progress in agreeing shared objectives and journey plans, there is still some way to go for others.

Increased interest in “enhanced run-on”

Our survey also indicated that around a third of schemes are expecting to run-on (rising to around a half for schemes with over £1bn in assets), at least for a period of time, with the rationale for many being to generate surplus for the sponsor along with the opportunity to improve member benefits. The survey also showed that 60% of respondents were anticipating surplus sharing outcomes that favour the sponsor in run-on.

It is not surprising that most of these schemes are towards the larger end or have stronger covenants, where the potential surplus justifies the associated costs and governance of continuing to operate the scheme, and the stronger covenant acts as an enabler to continue to support risk on the balance sheet. Many schemes have already reached agreements which allow material cost savings for their sponsor, for example through using surplus to pay DC contributions, whilst others are beginning to negotiate frameworks that will accommodate the expected legislative changes on surplus extraction, in return for applying some of any surplus generated to enhance member benefits. Effective risk management is key to making these strategies work, ensuring that the likelihood of deficits re-emerging is low. We have seen this driving a renewed interest from schemes of all sizes in longevity swaps as a way to manage a significant and unrewarded risk.

Buy-out is still the most likely endgame

Despite the increased interest in run-on, the majority of schemes in our survey are still targeting buy-out in the short term. From a corporate perspective, the removal of liabilities from the balance sheet and removal of the associated risk and governance requirements is a key driver.

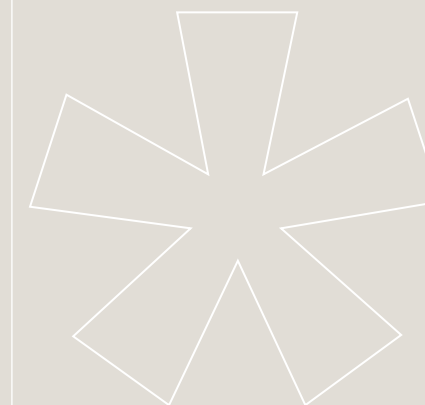
With annuitisation now affordable for many schemes, the bulk annuity market has seen record numbers of transactions with over 25% growth in the number of deals written in each of the last two years. For those of us working in risk transfer it has certainly felt like a very busy period and there are no signs of demand slowing.

Although the need for additional contributions may be less common, it is imperative that trustees and sponsors are fully joined up on their strategy for buy-out, with key issues to discuss including: the impact on sponsor accounts; the share of any surplus between members and the business; trustee expectations with regards to the continuation of any sponsor indemnity to provide protection to the trustees against contingent risks that remain after wind-up and the ability to agree an operational framework to support any member claims that may arise after the buy-out.

Both parties should be keen to get around the table early in these projects to seek agreement on these areas.

In bulk annuity transactions the shared trustee and corporate priority remains to secure members’ retirements – both in terms of the benefits promised and how these are administered – at a fair price. However, with the ongoing costs of running a scheme being substantial, we are seeing increased focus from sponsors on ensuring the certainty of both the time and cost of achieving this goal, as well as more pressure to achieve it in a shorter timetable than has historically been the norm.

The bulk annuity market is currently writing more transactions than are moving to buy-out each year – our recent research suggests that 159 schemes reached buy-out in 2025, compared to the 374 new buy-ins agreed, so the fear of becoming stuck in a backlog is real. Corporates are looking for reassurance – from both the trustee and the insurance provider – that this process will be managed effectively and completed efficiently. This is likely to be particularly relevant where there is a material surplus on wind-up; until late 2027 (when surplus release regulations are likely to come in force), wind-up is likely to be the only option available to sponsors to access these surpluses. Insurer willingness and ability to expedite buy-out is increasingly a key factor identified in insurer selection processes.



So, have corporate priorities changed?

I would say “maybe”.

The shift from deficit to surplus in many schemes has removed a financial burden, which has been welcomed. However, when it comes to agreeing how best to use the opportunities that surpluses and the future potential for surplus extraction may bring, there still remains a wide range of views amongst corporates depending on scheme-specific circumstances.

For some, the change has been significant, with corporates actively exploring routes with their trustees which will allow them to extract value from their pension scheme. But it remains the case that for the majority of corporates, the priority is getting the scheme off their balance sheet, freeing up resources to focus on their core business.

And any return of surplus this may generate is always welcome!

Sadie Scaife
WTW



Sadie is a Managing Director in WTW’s Transactions Team, with 20 years of experience in this space. She regularly works for trustees or corporates of some of the largest DB schemes on buy-ins, buy-outs and longevity swaps.

Conflict

of

interest



Buy-out vs run-on –
are adviser conflicts
a scandal waiting
to happen





Buy-out vs run-on – are adviser conflicts a scandal waiting to happen?

A couple of months ago I read a piece suggesting – in effect – that defined benefit pension schemes should **always** buy-out when they can, and that advisers who argued otherwise (that run-on might be preferable) were likely motivated by conflicts of interest. The implication was that advisers, wishing to continue charging schemes fees year after year, might allow that steady income stream to colour their advice, and recommend solutions that don't serve their clients' interests.

I'm sure it's not the first time any of us have heard that broad sentiment, although I've rarely seen it expressed quite so strongly and (dare I say it) with such cynicism.

Whether to buy-out or run-on is one of the most important questions currently affecting DB schemes. It provokes strong views, in either direction – some will shout from the rooftops that buy-out is always better; others that it never will be, and that the trend in that direction over recent years owes more to herd mentality than hard-headed analysis. I've even seen advocates of one option present the other as a choice that “no reasonable trustee could make” (which, if true, would make such a decision legally invalid).

In both legal and practical terms, these extremes of course go too far. Buy-out remains – and is likely to remain – a strong preference for a great many schemes, but running on is – in the right circumstances – also a legitimate choice.

At the outset, it's important to recognise that in some cases the question simply doesn't arise. If an employer becomes insolvent, and the scheme is too well funded to go into the PPF, a wind-up and buy-out (with whatever assets are available) will often be obligatory – the Pensions Act 2004 does not always give trustees the option of running on. In other cases, one or other choice will only be feasible if everyone around supports it – most trustees will have the ability to buy-in (in consultation with the employer) but a move to wind-up and buy-out will very commonly need explicit employer consent. The reverse can also be true – there are schemes where the employer can insist upon a buy-out (with no discretion for the trustees to do otherwise). Trustees can't ignore scheme rules, or applicable law, however strong their views.

Where there is a choice, the reality is that neither approach is inherently better – each brings its own blend of advantages and disadvantages:

- **Buy-outs** generally offer greater certainty – not absolute security, as has sometimes been widely assumed, but a very high level nonetheless, supported by stringent capital requirements and access to the Financial Services Compensation Scheme. They also offer finality for embattled employers. Occupational pensions have become increasingly complex and heavily regulated over recent decades. It's easy to sympathise with a Finance Director who, having become a reluctant pensions specialist, and faced repeated dire warnings of potential personal liability, wishes to spare their successors the same fate.
- **Run-on** by contrast may offer greater potential for benefit improvements – rather than using surplus to cover the costs of buy-out, it can be used to provide full inflation protection, or to enhance members' and employers' positions in other ways. Those are legitimate considerations (at least once a scheme is in surplus – there is caselaw to the effect that schemes in deficit shouldn't generally be looking to improve benefits in a way that increases that deficit).

Each approach offers different **types** of advantage to members, and (once a scheme is in surplus and likely to remain there) there is no legal principle that one type is more important than the other. Security and benefit improvements often pull in different directions, and how strongly they pull will depend on the circumstances (including employer covenant), and the views of any given employer or trustee. It's impossible to marry them entirely, but fortunately schemes don't have to – the objective is not to reconcile the irreconcilable, but to weigh the relevant factors and make the decision that seems right for them.

Any adviser who allows themselves to be influenced by a conflict of interest has, of course, gone badly wrong. The proper role of a good adviser is to explain clearly the advantages and disadvantages of the options available: to help clients understand the degree of security a buy-out provides and how that compares with a sensible run-on investment strategy; to assess what additional benefits might realistically be generated through running on, and how those balance against the risks; and (increasingly) to explore whether hybrid options might capture elements of both. Once a decision is made, our job as advisers is to help implement it effectively, not to shape it in our own image.



And if there are conflicts, it's perhaps worth noting that they don't all point the same way – it's true that a scheme that runs on may be a source of business for years to come, whereas work on a buy-out may only last a couple of years. But they can be an intense couple of years.

Hywel Robinson
Temple Bright



Hywel has over 30 years' experience advising on all aspects of Pensions. He joined Clifford Chance in 1994, becoming a partner in 2004 and serving as the firm's head of pensions from 2011 to 2025 before joining Temple Bright. Hywel has been consistently ranked in directories as a leading individual in pensions law over many years and is a former chair of the Association of Pension Lawyers.



The Pension



Schemes Act 2026

The Pension Schemes Act 2026 makes various changes which will materially impact the broader UK pensions landscape. In this article we look at the four changes which have the most potential significance for pensions risk transfer transactions.

1.

The Virgin Media remedy

This is relevant for schemes that were previously contracted out on a reference scheme basis and where the required actuarial confirmations for historic rule amendments were not, or may not have been, obtained or cannot now be located. Stephen Longfellow explains this in more detail in his article in Rothesay's 2024 Journey to Buy-out publication.

The Act provides a remedy that enables such amendments to be retrospectively validated, provided the actuary can give a prescribed confirmation. Crucially, the actuary only needs to confirm that the amendment itself would not have caused the scheme to fail the relevant statutory test – the actuary does not need to confirm that the scheme in fact continued to meet the test after the amendment was made. Taken together with the helpful guidance for actuaries issued by the Financial Reporting Council (FRC), this represents a significant and welcome development that should fix most “Virgin Media” issues. The remedy can only be exercised by trustees before wind up. For trustees involved in or contemplating a buy-out transaction, the completion of any required remedial steps to deal with Virgin Media risks may need to be addressed before approaching the market or added to data cleanse action plans.

The nature of the confirmation required, and the practical and pragmatic FRC guidance, makes it difficult to envisage a change that should be capable of being saved (so where the scheme actuary could have provided the relevant section 37 confirmation at the point of amendment) and which can't be saved under these new provisions.

But there are some potential rough edges for trustees. One difficult area is where potentially invalid amendments were made in a predecessor scheme from which current scheme members have transferred. The legislation helpfully automatically validates all changes made by a scheme that has wound up before the provisions of the Act came into force. But the position is more complex for trustees who have provided benefits on a bulk transfer on a “mirror image” basis (where benefits for transferring members are identical to those provided by the transferring scheme), but where the transferring scheme has not wound up. Here control of the corrective remedy effectively sits with a set of third-party trustees. Those trustees may have no reason to cooperate with the receiving scheme trustees, either in providing information about any remedial steps they are taking or the timetable for doing so. This could cause delays in the steps required to move to buy-out where trustees have identified issues that need fixing.

2.

Increases on pre-97 Pension

Protection Fund (PPF)

compensation

This will only be relevant in a smaller subset of cases – those contemplating, or possibly midway through, a “PPF plus” buy-out or superfund transfer (where the intention is to secure benefits above those that members would receive if the scheme were to enter the PPF). But where it is relevant, the implications could be extremely significant.

The Act amends PPF compensation rules to provide PPF increases (CPI capped at 2.5%) on compensation derived from pre-97 service, where currently no increases are provided. The new increases come in two varieties:

- The “full fat” version entitles a member to PPF increases on all their pre-97 derived compensation. This will apply where the scheme rules provided increases on any part of the member's pre-97 pension in excess of GMP. So members in a scheme where indexation was introduced at a point before 6 April 1997, perhaps shortly before that date in anticipation of the introduction of the statutory minimum requirements, would qualify for PPF increases on all pre-97 derived compensation.
- The alternative “skinny” version will apply if, in relation to pre-97 pension, the member was only entitled to increases on post-88 GMP. In this case, only a prescribed percentage of the member's pre-97 derived compensation will qualify for PPF increases. This percentage is yet to be specified but will be a single percentage applicable to all members, regardless of the proportion of post-88 GMP to total pre-97 pension. Safeguard provisions prevent any additional increases that are provided on excess benefits as part of a dual records GMP equalisation approach from upgrading a member from skinny to full-fat PPF treatment.

The obvious consequence for all schemes where pre-97 increases are provided is that PPF liabilities will increase. The extent of this will depend on what pre-97 increases are provided by a scheme; the most material impact will be for schemes which provide increases on pre-97 pension in excess of the GMP.

For underfunded schemes in the process of winding up, these changes could affect whether a PPF plus transaction is possible at all. It will also affect the allocation of assets between members when applying the “statutory priority order”. This is because in a wind-up, priority is given to securing benefits for a member equal in value to the PPF compensation that would be payable; any additional scheme benefits are cut back proportionately. If the value of a member’s PPF compensation increases because of these changes, then so will the proportion of the member’s scheme benefits that fall within the PPF priority class. This change will create winners and losers compared to how assets would have been allocated under the previous PPF compensation rules.

An interesting quirk of the new PPF increases is that a member only needs to have some increasing pre-97 excess pension to become entitled to PPF increases on all pre-97 derived compensation. For some members this will mean the corresponding increase in PPF priority shares will not even directly correlate to the actual benefits enjoyed by the member under the scheme. A similar distortion could occur where a member qualifies for the “skinny” variety of increases, but where the prescribed percentage is not reflective of the actual proportion of the member’s post-88 GMP to total pre-97 pension.

These slightly odd consequences assume that the rules for determining PPF compensation will apply without any further modification in a winding-up scenario. The primary legislation does allow PPF compensation provisions to be modified when they are applied for other purposes. Changes could therefore be made to how PPF compensation is assessed when calculating members’ benefit allocations where a scheme winds up outside the PPF. There are likely to be data and administrative issues that understandably inform the broad-brush approach adopted by the PPF for paying PPF compensation; PPF compensation rules are intentionally designed to be generic and require limited look-back to the detailed provisions of the underlying scheme. These issues do not necessarily limit the more precise calculations that could be carried out by an individual scheme calculating liability shares on a wind-up. It is therefore possible that further legislation change could limit the potential distortions mentioned above when calculating member benefits in a PPF plus case.

The earliest that the PPF expects to be able to pay the new increases is January 2027, but this is still to be confirmed. We are expecting further transitional provisions to confirm when the new rules might apply to a scheme winding up outside the PPF. Trustees in a PPF plus situation (or who thought they were) and who are about to secure benefits with an insurer, or who are already in buy-in, will need to follow developments in this space very carefully. This is because the applicable effective date of these changes could impact the member benefits that need to be bought-out or, in extreme cases, whether winding-up outside the PPF is still the right outcome for the scheme.

3.

Superfunds regime and superfunds transfer

Superfunds have been part of the pensions endgame landscape for several years. The Act introduces a formal authorisation framework for superfunds, but this is not expected to significantly change the regulatory criteria for new entrants to this market. Of more interest is the extent to which the prescribed statutory “onboarding conditions” for moving to a superfund will make such transfers possible in a wider range of circumstances.

The statutory conditions will require TPR to be satisfied that the financial position of the scheme is such that buy-out is not affordable at the point the transfer application is made. The transfer must also make it more likely that the transferred liabilities will be satisfied in full. These conditions are similar to the gateway conditions set out in current TPR guidance.

However, the current gateway condition that the scheme has no realistic prospect of buy-out in the foreseeable future (considered by TPR to be a five-year period for most employers and schemes) is not replicated.

The removal of this condition may make it easier for some schemes to pass through the transfer gateway. However, it remains to be seen whether the assessment of the “more likely” condition in relation to a superfund transfer might still require some consideration of whether and when an alternative buy-out transaction might be affordable at a later date, especially where this is a realistic prospect in the near future.

The onboarding conditions are further modified if a scheme is providing benefits from an assessment period (so a “PPF plus” case). Here a scheme can transfer liabilities to a superfund if TPR is satisfied that this will result in a higher proportion of benefits being provided for members than an alternative buy-out and that members will not be worse off than if the transfer were not made. Corresponding changes are also made to the preservation legislation in relation to making a transfer without the member’s consent in order to facilitate such transfers.

In practice, much will depend on the approach adopted by TPR for assessing these conditions. It will be interesting to see how TPR will assess whether the financial position of the scheme is or is not strong enough to arrange an insurer buy-out at the point of application. In particular, how the employer’s current ability to meet any underfunding if a wind-up were triggered will be assessed, and what value will be ascribed to guarantees, security, or other contingent assets held by a trustee.

The entry conditions that are maintained in the Act demonstrate that superfund transactions are still aimed at a specific subset of the market. However, for certain schemes, these changes no doubt facilitate the range of alternative options available, bringing increased competitive pressure for both insurers and existing and new entrants to the consolidator market.



4.

Surplus sharing

The Act will allow trustees to amend scheme rules to permit the payment of surplus to an employer from an ongoing scheme. Regulations will also revise the statutory conditions that must be satisfied before such payments can be made. The current requirement that a payment must be in members’ best interests will be replaced with a test requiring that the payment be consistent with trustees’ fiduciary duties. The government has also said it will consult on lowering the funding threshold above which surplus payments can be made – potentially aligning it with low dependency funding rather than the current requirement for the scheme to be 100% funded on a buy-out basis.

The revised statutory conditions may lower the legal threshold for paying surplus to an employer. In practice, however, trustees may remain cautious about paying surplus to an employer if doing so would drop the funding level below buy-out – particularly in the absence of a strong covenant and/or the provision of other security.

These developments may make a run-on strategy a more attractive option for some schemes, at least from a sponsor’s perspective. However, these changes may only materially move the dial on strategy decisions in schemes where employers cannot otherwise utilise surplus before buy-out, either through a payment by the trustees or through offsetting contributions for the future (normally DC benefit provision). So it is the introduction of the power to make payments before wind-up which could be more significant than the changes to the conditions attaching to them. In some schemes, the strategic impact may also be limited to the timeframe for when the scheme might move to a buy-out (or alternative) endgame, rather than a change to the ultimate destination itself.

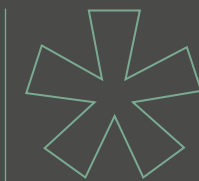
Somewhat counterintuitively, the more flexible rules on releasing surplus from an ongoing scheme may prove just as valuable in a buy-out and wind-up context. The new provisions could allow trustees to make payments to an employer immediately before wind-up as part of an agreement

on surplus sharing. This may unlock possible solutions for using surplus where scheme powers to pay surplus to the employer after wind-up are unduly restrictive. A typical example of this would be wind-up provisions which do not allow any return of surplus to employers (or only after extensive member benefit augmentations) and where scheme amendment power limitations prevent the parties being able to change those provisions.

Even where powers exist to pay surplus in wind-up after benefits have been secured, there may be scenarios where it is commercially preferable for the employer to receive part of an agreed allocation of surplus at an earlier stage in the process, because it can get a better return by employing that capital in its business. The new powers can be used to facilitate such payments. This could be of particular benefit where the scheme surplus is material (allowing trustees to be comfortable releasing some of this at an earlier point in time) and where the journey to buy-out is expected to take several years.

Outside of the Act, the government has also announced that legislation will be introduced to allow defined benefit schemes to use surplus assets to make one-off lump-sum payments to members. A new type of authorised payment will be introduced to facilitate this, subject to the scheme holding surplus on the same basis that applies to employer payments and provided the member is above the normal minimum pension age (currently 55, rising to 57 from April 2028).

Trustees may want to ensure that BPA provisions in relation to surplus use before buy-out are flexible enough to allow for these new payments to be made. In practice however, there are some obvious risks for trustees in utilising these new payments, notably the age restrictions which mean that only older members are eligible to receive such payments. We might expect trustees to be uncomfortable providing different cohorts of members with different benefits, especially where the reason for the different treatment is age. Or at least thinking very hard about what their objective justification for doing so would be.



These developments may make a run-on strategy a more attractive long-term option for some schemes compared with buy-out or consolidation, at least from a sponsor’s perspective.

Susie Daykin and Dan Naylor
Pinsent Masons



Susie and Dan are partners in the Pinsent Masons London pensions team, each with over 20 years’ experience advising in the pensions space.



Susie and Dan advise insurers, trustees and employers on risk transfer transactions. They have advised on some of the most high-profile and innovative transactions in the UK, including those for the TRW, Lehman Brothers, Nortel Networks, Asda and British Steel pension schemes.

NEST



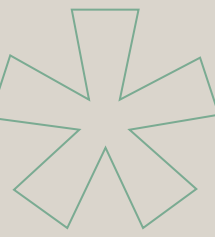
A blueprint

for the

future of

retirement





Providing lifetime income to the defined contribution, auto-enrolment generation



For millions of auto-enrolment defined contribution (DC) pension savers, retiring is likely to feel like walking along a path with pitfalls either side of you, with a bad map.

Having been placed into a workplace pension scheme by their employer, and years of saving by default, they are suddenly required to become both an investment expert and an actuary, and decide how their funds should be invested, how much money they can afford to withdraw each year, and even how long they are likely to live for.

At the same time, retirees are adapting to a new stage of life, with different priorities and family circumstances.

It is not surprising that many pension savers struggle to navigate these choices.

In recent years, industry research¹ on pension freedoms and choice has found:

- Limited understanding of options, with many people not accessing advice or guidance
- Retirees worrying about running out of money
- Risks of poor outcomes, including members withdrawing invested pension savings into cash

Nest's solution will be designed to respond to these challenges, supporting members to turn savings into a lifelong income without requiring them to become investment experts or actuaries to understand what to do.

Nest's approach to retirement income

In 2015, following the freedom and choice reforms, Nest set out a blueprint for the future of retirement².

This document was grounded in research that Nest's members see the primary purpose of their savings as a means of providing a lifelong income. A pension.

Our members told us they want flexibility in the early years of retirement so they can adjust to a new stage of life, but as they age, they are prepared to give up some of that flexibility for certainty that they will not run out of money.

As they are not likely to have access to financial advice, Nest's members want support to manage their income through default investment and income solutions.

How Nest's retirement income solution works in practice

What members will see from their Nest solution is a default investment strategy that provides a lifelong, predictable income, with Nest managing the complexity behind the scenes.

The solution will be made up of two core building blocks, managed by the Trustee.

1. **The first building block**, where the majority of members' funds will be held, is a flexible income fund in which assets would remain invested in capital markets. This approach allows most members' assets to continue generating investment growth well into retirement.

This building block provides members with an investment-generated income from the point of retirement until around 85. Members would retain full flexibility over these funds as they make the transition to life in retirement. They would be able to withdraw assets in whole or in part, including transferring to another scheme, if they wish to.

2. **The second building block** is a fund for later life protected income, to protect members against longevity risk.

Nest will use a small proportion of members' total pots to purchase a bulk deferred annuity for a cohort when they reach age 75. The annuity will pay out around 10 years later, at age 85, when the first, flexible income building block has been exhausted.

This continuity will ensure members do not run out of money in retirement.

The deferred structure of the bulk annuity, where some level of mortality is assumed for the 10 years of deferral, means that Nest can provide higher incomes to its members than a purely invested or purely insured solution whilst providing certainty against longevity risk.

We aim to provide some flexibility on member funds invested in the bulk deferred annuity, although we anticipate a trade-off with the income level, which will be important to manage carefully.

Why trustee responsibility matters in retirement income

Investing for retirement is famously the "nastiest" problem in finance.

Nest believes it is particularly unfair to place that problem on members, when they have spent much of their lives saving through default Target Date Funds, lacking information, and likely without access to financial advice.

Trustees should support DC members to navigate the complexity of retiring by placing members in a pre-planned strategy that they are able to opt-out of.

This strategy should manage key decisions for members, including on issues such as risk and return objectives, what a sustainable withdrawal rate is, and how to protect against longevity risk.

How Rothesay supports Nest's later life income solution

Nest is delighted to be working with Rothesay to develop the later-life protected income building block of our retirement income solution.

Nest and Rothesay are collaborating to co-design a bulk deferred annuity for DC pension savers – a market first in the UK. Once the co-design has been completed successfully, Nest will purchase bulk deferred annuities for cohorts of members from Rothesay, significantly improving member outcomes.

This partnership brings together the UK's largest specialist pensions insurer and the UK's largest workplace pension scheme by members to create an innovative and sustainable retirement model.

Following the completion of the co-design process, Rothesay will be able to use the lessons learned to deliver similar solutions to DC pension schemes in the UK and around the world.

As the shift from defined benefit to DC continues, there will be increasing need for these solutions. The challenge now facing DC pensions is not how people save, but how those savings are turned into an income that lasts.

The partnership between Nest and Rothesay has the potential to transform the outcomes for savers, showing how innovation, scale and strong governance can come together to support members through one of the most important periods in their lives.

Gareth Turner
Nest Invest



Gareth is Head of Business Strategy & Change for Nest Invest, the investment management subsidiary of Nest Corporation. Gareth is responsible for developing Nest's approach to providing longevity protection for its members.

Gareth joined Nest Invest in 2023 from Nest Corporation, where he was Head of Strategy. He was previously a Civil Servant in a number of government departments, including the Cabinet Office, HM Treasury, and the Department for Work & Pensions.

¹ See for example: Institute and Faculty of Actuaries, "Freedom and choice: public attitudes a decade on 2025 updated study"; Pension and Lifetime Savings Association, "Building on the pension freedoms: guided retirement income choices".

² NEST launches its retirement blueprint in response to pension freedoms.



Obesity and its associated complications are a major driver of ill health and mortality in the UK. Around three in ten adults in England are living with obesity, with mortality risk roughly 40% higher than for those of healthy weight. This increases to two-to-three times higher at ages 50 plus, for those living with severe obesity (BMI over 40). For pension schemes and insurers, this is not a marginal issue.



WEIGHING

UP THE EVIDENCE:

what do anti-obesity medicines mean for pensioner longevity?



A class of medicines – GLP-1-based drugs, including semaglutide (marketed as Wegovy for obesity and Ozempic for diabetes) and tirzepatide (branded as Mounjaro in the UK) – have emerged, that appear capable of delivering substantial weight loss at scale. The key question is whether this represents a genuine step-change in future life expectancy, or another promising development whose impact on longevity proves slower and smaller than anticipated.

A step forward, but not yet a step-change

The clinical trial evidence is persuasive, particularly in high-risk groups. Most notably, the SELECT¹ trial showed a 19% reduction in all-cause mortality (i.e. death from any cause) among non-diabetic patients with pre-existing cardiovascular disease and a BMI of 27 or above. For actuaries, this is the most decision-relevant datapoint currently available: a large, well-conducted trial showing significant mortality benefits, not just weight loss.

However, caution remains warranted. Trial populations are selected, so are not representative of the general population, and adherence (i.e. taking treatments as prescribed) is typically better than might be expected in routine practice. The durability of weight loss, extent of treatment discontinuation, and the impact outside high-risk groups are all still uncertain.

Access, not efficacy, is the binding constraint

Even if the clinical case continues to strengthen, the near-term impact on population mortality will be driven primarily by access.

Eligibility for treatment on the NHS has expanded, but remains tightly constrained. Only a small proportion of those who might benefit are currently able to access treatment through this route, and this is

likely to remain the case in the near term given cost and capacity pressures.

The private market therefore plays an important role. Private prescribing data from one large online provider² suggest that early users are around 80% female and concentrated in the 30–49 age range. This is not the core demographic of most defined benefit pension schemes. This mismatch matters. Early adoption may do little to shift mortality outcomes in pensioner populations, even if effects are material at the individual level.

Looking ahead, several factors could alter the trajectory. Patent expiries in some markets, beginning this year, are likely to place downward pressure on prices over time. New formulations, including oral GLP-1 therapies already available in the US, may reduce barriers to uptake and improve adherence. If these trends combine, adoption could accelerate rapidly.

Implications for future mortality

For longevity modelling, three dimensions are relevant.

First, direct mortality improvement. The evidence is strongest in individuals with obesity and existing cardiovascular risk, where risk reductions are significant. If treatment penetrates these groups at scale, the impact on aggregate mortality could be meaningful.

Second, selection effects. Early users of GLP-1 therapies are not representative of the pensioner population. In the short term, this could widen health inequalities, with benefits accruing first to those more able or willing to access treatment privately.

Third, effect on other health conditions. Cardiovascular benefits are now well evidenced. And these drugs are already established in the treatment of diabetes. Other potential benefits remain more uncertain. A recent trial result showed that oral semaglutide failed to slow progression of Alzheimer's disease, though debate continues as to whether earlier intervention or alternative endpoints may yet show any benefit.

Taken together, this points to a gradual but persistent downward pressure on mortality rates, rather than a discrete step-change. The key uncertainty is not whether GLP-1 therapies matter, but how quickly and how widely their benefits will be realised. And of course, this should be viewed in the context of other drivers of changes to mortality rates, some of which push in the other direction, such as healthcare pressures caused by our ageing population.

What does this mean for pension risk transfer?

For pension schemes and insurers operating in the bulk annuity market, this is best viewed as an emerging risk requiring ongoing monitoring.

As yet, there is little case for a near-term adjustment to base mortality assumptions. The evidence, while promising, is not yet sufficiently mature, and current uptake remains limited in relevant populations.

However, there is a credible risk of being slow to respond if adoption accelerates. There is value in scenario analysis, explicitly considering faster uptake and broader population coverage.

There is also a growing data gap. Traditional mortality investigations are backward-looking. Earlier signals may increasingly come from prescribing, utilisation and other health-system data. For actuarial teams, incorporating those signals into longevity thinking has become more important.

Insurers and reinsurers may differ in how quickly they reflect developments in their broader longevity thinking. This might ultimately be to the advantage of schemes who are already close to a buy-in transaction. Schemes with longer horizons are potentially more exposed to the risk that improvements emerge more quickly than expected.

A disciplined approach to uncertainty

GLP-1-based therapies are plausibly one of the most important developments in population health for decades. They offer, for the first time, a scalable intervention targeting a major driver of mortality.

But their impact on life expectancy will depend less on clinical efficacy – which is increasingly well established – and more on access, adherence and population reach.

For actuaries, the appropriate response is neither dismissal nor overreaction. The evidence base should be monitored closely, leading indicators should be tracked, and scenarios should be developed to capture a range of plausible futures.

Many defined benefit schemes have the endgame firmly in sight. Whether GLP-1 therapies materially shift the journey from here will depend on how quickly today's promise translates into widespread, sustained use.



Many defined benefit schemes have the endgame firmly in sight.

Stuart McDonald
LCP

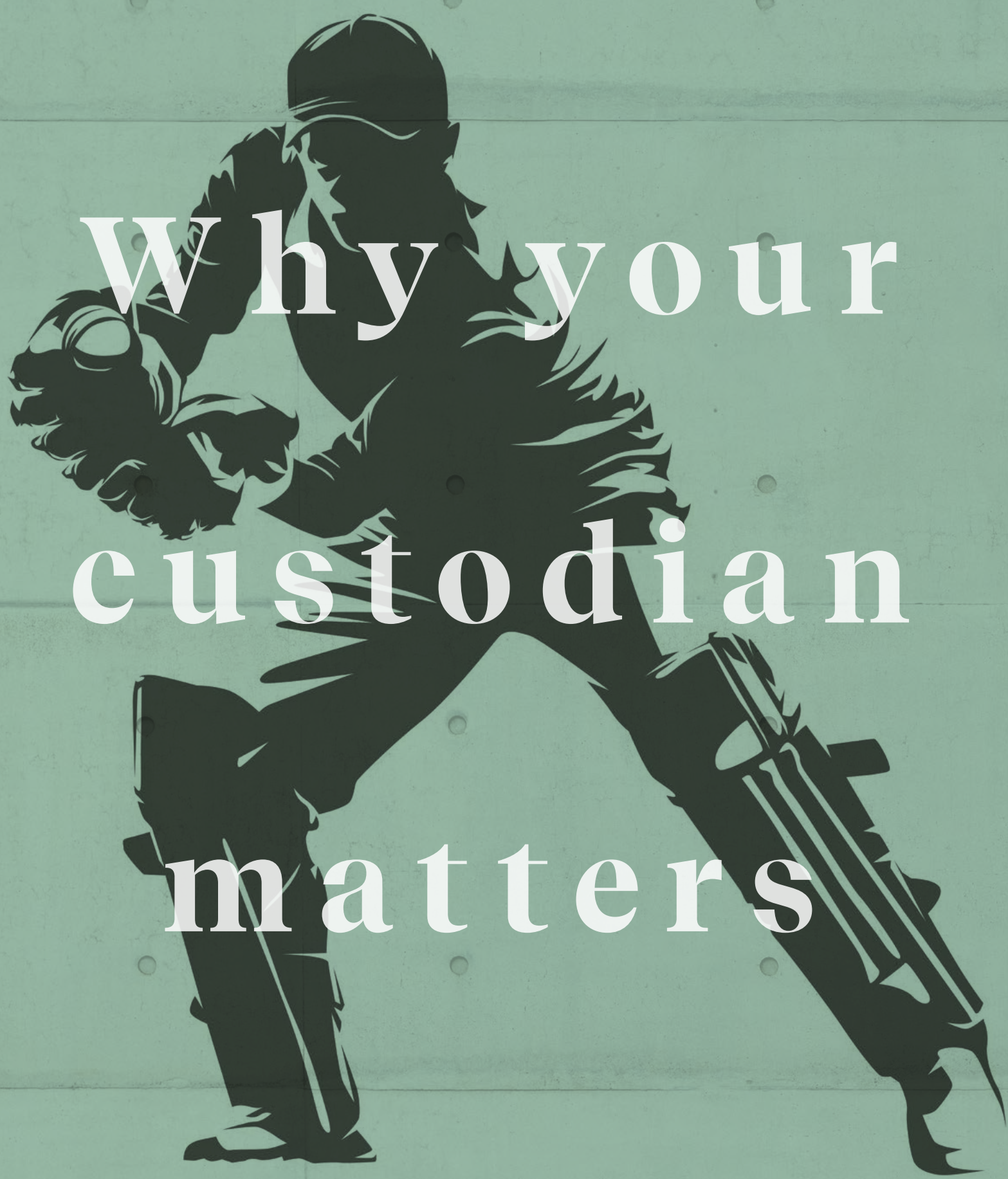


Stuart is Head of Longevity and Demographic Insights and a Partner at LCP. He helps clients understand how mortality and demographic trends affect long-term liabilities and risks, drawing on insights from LCP's Health practice.

He advises some of the UK's largest pension schemes as well as leading insurers and global reinsurers. He is Chair of the Continuous Mortality Investigation (CMI) and founded and co-Chaired the influential COVID-19 Actuaries Response Group. He was awarded an MBE for services to Public Health in the 2022 New Year Honours.

¹ Semaglutide and Cardiovascular Outcomes in Obesity without Diabetes | New England Journal of Medicine
² GLP 1 drug prescriptions for obesity – The Health Foundation

WEIGHING UP THE EVIDENCE



Why your custodian matters

When choosing an endgame strategy there is one provider that is going to have a role to play in every possible approach you land on: **your asset servicing partner, or custodian.** Whether you have opted for some form of continuation strategy or an insured risk transfer, be that a longevity swap, buy-in or full buy-out, the custodian is critically important to make the transaction smooth, painless and efficient. Importantly, this requires engagement and an understanding of the process and the lead times involved by all parties.



The key and first consideration is early engagement: just as the endgame decision takes time to research and execute, the support of the custodian also needs planning. Early engagement with the relationship team can help smooth the path significantly. De-risking transactions are increasingly common, so you will find that the relationship team has almost certainly supported transactions before and will be able to take you through the steps required, laying out a timeline and managing the asset side of the project effectively for you and your advisers.



The key considerations:

Transaction date: While it seems almost counter-intuitive to start with the end (your proposed transaction date), planning back from this point is essential as it will drive the timeline and many of the milestones. By their nature, most de-risking transactions require some form of asset transfer and even reshaping the portfolio for a run-on approach will involve asset sales and changes to the account structure. While all custodians have a specialist transitions group with expertise in managing the process, a transition date needs to be agreed between the counterparties involved, even if this is the same custodian for both your assets and the insurer. This date can often be a month or two away, depending on workload and considerations such as period ends and asset types. So locking in the date in advance is essential to ensure the transaction goes smoothly. It is worth noting most custodian agreements have robust confidentiality clauses, so disclosing the proposed transaction early will be appropriately covered should you wish to keep things private.

Communication: Once the date of the transaction is known and all the parties are engaged, a regular call or meeting is essential to ensure there are no last-minute issues and that all the milestones are met. Your adviser will typically chair these calls and run the project with input from the various other providers. In our experience these calls can be fairly short and are best held weekly for insured risk transfer transactions, with more flexibility where the transaction is in respect of run-on or a transfer to a superfund.

Legal and operational

documents: Legal negotiations always seem to take longer than expected and depending on your transaction could involve a significant amount of time and effort to finalise. At the simpler end, for example some form of run-on, there will be no real legal work involved, however, activities like a change of manager(s) would require new Investment Management Agreements which in turn drive new account openings, changes to performance benchmarks and internal asset reallocation at the custodian – all of which have a lead time. In a lot of the insured transactions there will be similar considerations around accounts and managers; but in some, particularly longevity transactions, there are a number of new legal agreements necessary. A typical longevity transaction will require an Account Control Agreement (ACA) between the insurers and the custodian plus a Collateral Agreement. Neither of these is complicated, but as with the ACA in particular there are three counterparties – that means three sets of lawyers at least.

Assets: There will be a process whereby the assets will need to be reviewed and those in scope identified. Sometimes this process can be most effectively achieved using a transition management service (outlined below in more detail). If a transition management service is not used, the asset lists will need to be agreed as an instruction to the custodian as part of the overall process. A key role of the transition team at the custodian is to follow up post-transfer to ensure deliveries settle, and then to manage any outstanding entitlements such as dividend, income and tax reclaims, which can take many months or even years to finalise.

Transition management: Transition management can aid a pension scheme entering a bulk annuity transaction by helping trustees reduce execution risk, improve price certainty and enhance insurer optionality. Transition management, in this context, is the disciplined planning and execution of asset changes – such as rebalancing, de-risking, or funding an insurer premium. It focuses on ensuring assets can be delivered to an insurer with efficiency and flexibility during the period leading up to and through a buy-in or buy-out transaction.

The viability of asset transition will depend on the size of assets, region and asset class. For assets over £100m, it is always worth exploring whether a transition management service would be more cost and risk effective.

In advance of insurer engagement, transition management supports disciplined de-risking by managing market timing, costs and liquidity as growth assets are reduced and portfolios simplified. It helps trustees stress-test how premiums would be funded in practice, ensuring assets can be liquidated or transferred within insurer settlement timelines without forced selling or operational disruption.

At early stages of insurer discussions, transition management provides practical insight into which assets may be acceptable in-specie, where rebalancing costs are likely to sit and how market and foreign exchange risks can be managed between pricing and settlement. By compressing execution timelines, managing transition-period risks and allowing trustees to respond flexibly to differing insurer structures, transition management underpins deliverability and reduces operational risks, supporting better outcomes while maintaining trustee governance, control and oversight.

Post-transaction: When the transaction is complete and the risk transferred, the asset mix will look very different to when the exercise began. At this point it is worth considering how the relationship with the custodian will look: what will the new fees be, how will the insurance policy be reflected in the portfolio, how will this be reflected in the Statement of Recommended Practice (SORP) and on the Office for National Statistics (ONS) return and more fundamentally, whether your custodian is willing to support a significantly reduced asset base?



Regardless of your preferred endgame, your custodian is a key part of the de-risking journey. Bringing them into your discussions early can not only help smooth the operational path to your chosen endgame, but could also add significant value.

Mark Austin
Northern Trust



Mark leads the growth strategy for Northern Trust's Pensions and Insurance business across EMEA. He brings over 40 years' experience in the management and administration of retirement assets and previously served as Head of Asset Owners, UK.

Mark is the Chair of Trustee of the Northern Trust UK Pensions Scheme and a Director of Northern Trust Fund Services Ireland Ltd. He was Chair of the Defined Contribution Investment Forum in 2024, having previously served as Vice Chair in 2023. His background spans asset management and asset servicing, with expertise across UK and European DB and DC markets, including de-risking, insourcing, and pension pooling structures.

CHAPTER
03



Member experience

“
People talk about cricket being an individual game but I really don't agree; everything is done in partnership.”
STUART BROAD

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How to compare insurer offerings

With funding improvements and significant investment from insurers, member experience has rightly had an increased focus over recent years, and trustees are keen to explore and test the administrative capabilities and member experience insurers provide in greater depth. Insurers have a regulatory duty to treat policyholders fairly, **but how does this translate to the experience members will actually get once the scheme is bought out?**



How to compare insurer offerings

As we know, a buy-out is an irreversible decision and whilst price is clearly a vital factor when selecting an insurer, trustees should also carry out an appropriate level of due diligence to ensure they have a good understanding of, and comfort in, an insurer's administrative capability and service delivery.

Trustees will typically rely on their adviser to provide a clear and objective insight into the insurer's capabilities in this area. The level of due diligence trustees wish to carry out above and beyond this will vary by scheme, reflecting the importance they place on member experience, as well as the timescales to transaction and the trustee's wider endgame objectives.



- **Administration model and resourcing:** i.e. how insurers deliver administration in practice, whether through an in-house team or outsourced, how those arrangements are overseen, and the scale, stability and future growth of the teams.
- **Transition management** with a focus on experience, processes and project management on onboarding a scheme efficiently and with confidence.
- **Member communications and experience:** i.e. the quality and consistency of member experience across both the deferred and pensioner populations. This includes details on the communication channels, retirement and post-retirement communications, accessibility of the communications and details of any accreditations and what those accreditations mean in practice.
- **Digital tools and online functionality** available to policyholders, including real-time pension illustrations, modelling tools, the ability to "flex" options such as tax-free cash, and mobile or app functionality. This could also include the functionality for end-to-end processing online, making a smoother journey for the policyholder.
- **Call handling and support standards,** i.e. service delivery, including call centre location, operating hours, call handling standards and escalation routes.
- How insurers **identify and support vulnerable customers,** providing insight into training, monitoring and processes designed to ensure fair and appropriate outcomes for all policyholders.
- **Complaints handling and improvements,** i.e. how insurers manage, monitor and learn from complaints, including volumes, root-cause analysis and escalation processes.
- **Service Level Agreements and performance** across key administration activities, including details of the governance structure, accountability and escalation where performance deteriorates.
- **Risk management, controls and resilience,** including governance oversight, external audit, disaster recovery, cyber security and data protection arrangements.

This insight is typically informed by advisers' experiences of working with insurers, and supported by the insurers' responses to a detailed administrative questionnaire. This provides a base level of due diligence for trustees to consider. By asking all insurers a consistent set of questions, this enables a clear, like-for-like comparison of their administrative and broader member experience capabilities.

This questionnaire should allow insurers to provide details on their administration model, processes and approach to member service, and typically covers a wide range of areas, including:

Whilst this can be a comprehensive starting point which has provided trustees with sufficient due diligence and comfort on the member experience and administration, they often focus on processes, rather than actual experience.

Some trustees additionally value a window into the look and feel of the member experience. There may also be certain options and support currently in place that are valuable to members, and trustees may wish to explore with insurers how these can be maintained during the buy-in period and after buy-out.

As such, some schemes hold an insurer admin day – typically only for those insurers who have made it to the shortlist after carefully considering these areas.

An insurer admin day is an opportunity for trustees, and sponsors, to ask questions that bring to life what is important to trustees and their scheme members. Ahead of the visit, the trustees' adviser can help prepare questions to really test the areas of interest, or even concerns, to ensure that trustees come away with a clear understanding of what that insurer would offer their members after buy-out and how their members will feel once they become policyholders.

As part of a well-rounded insurer selection process, trustees should consider the level of due diligence they wish to carry out to ensure member experience is given the focus it deserves.



An insurer admin day:

- Allows trustees to **get a feel for how members will be treated** after buy-out;
- Can play a crucial role in allowing trustees to see, first-hand, how an insurer **delivers member experience in practice,** by providing an opportunity to engage directly with the insurer's administration team, meet the key day-to-day contacts and onboarding specialists, and gain an insight into the **culture of the insurer's administrative team;**
- Enables trustees to observe **live demonstrations** of administration processes, internal systems and member-facing tools, including online portals and modelling functionality. This allows trustees to see **how a typical member journey would look and feel,** from the member first contacting the insurer through to the conclusion of their journey (be that a retirement, transfer or even a request to update their address); and
- Provides reassurance over how the **transition of administration** from the incumbent provider to the insurer would be managed. By discussing the onboarding processes in detail, trustees can gain greater confidence that the insurer is well equipped to deliver a smooth, well-controlled transition without negatively impacting the experience for members during this period.



Donna Prince
Hymans Robertson



Donna is the Head of Member Experience within Risk Transfer and Wind-up for Hymans Robertson, where she leads the development and delivery of member experience to ensure that schemes are equipped to place members' needs at the heart of their decision-making throughout their risk transfer project. She is also a Principal in Hymans Robertson's Buy-out and wind-up transition services team where she works with trustees and sponsors to help them prepare for, and subsequently buy-out and wind up, their schemes efficiently.





The following two articles look at Rothesay’s partnership with Alzheimer’s Society and our perspective on Lasting Power of Attorney.

Working

with vulnerable

customers



Scan the QR code
to watch videos on Alzheimer’s
Society & Rothesay partnership



There are around 1 million people with dementia in the UK and 1.8 million people in England who provide care for someone with dementia, often alone, sometimes to the detriment of their own health.

Without legal plans like a Lasting Power of Attorney (“LPA”) in place, many carers are left navigating decisions without authority: increasing stress, financial strain and the risk of crisis.

At Alzheimer’s Society, we make sure help is always within reach. Our Dementia Support Line is open seven days a week and staffed by expert Dementia Advisers, who can help with everything from navigating a complex care system to dealing with the emotional impact of a diagnosis. They can also connect people to additional services, such as specialist advice on accessing benefits, support to plan ahead by setting up an LPA, or appealing a care funding decision.

There are barriers – such as complexity, lack of confidence, digital exclusion or cost – which mean that many people who would benefit most from an LPA never set one up. This deepens inequality and risk. Since 2022, Rothesay has partnered with Alzheimer’s Society to fund and support our specialist LPA Support service, offering expert guidance to help people affected by dementia in England and Wales in setting up an LPA.

Alzheimer’s Society specialist Lasting Power of Attorney support for England and Wales

An LPA is a way for people to choose someone they trust to make decisions on their behalf. This person is called the “attorney”, and whoever is setting up the LPA can decide what decisions their attorney can make for them.

For people living with dementia, setting up an LPA can give them a greater sense of control and dignity. It can also help ease some of the financial pressure on families, by making sure the wishes of the person with dementia are heard and acted upon.

Dementia is a condition that gets progressively worse, and that means decision-making also becomes more difficult as time goes on. Deciding ahead of time who will help with decisions during later stages makes things easier for people living with dementia and those closest to them – it’s one less thing to worry about.

We advise anyone who has been diagnosed with dementia to consider an LPA as early as possible, and we offer specialist support along the way, so they can make the right decision for them and their future. Without one, no one – not even a spouse or next of kin – has the legal right to manage their finances, pay bills, or make health decisions for their loved one. This scenario can quickly create a financial and wellbeing crisis for families.

There are two types of LPA:

- **Property and affairs LPA** – so an appointed person can make decisions about property and finances.
- **Health and welfare LPA** – so an appointed person can make decisions about care and medical treatment.

It’s possible to appoint an attorney for either or both types of LPA, and the attorney can be the same person or different people.

Our specialist LPA support service helps people make more informed decisions, and guides them step-by-step through an often complex process. A person might not have internet access, or they might not have the skills or confidence to complete this process themselves. Over the phone, we use

accessible, easy-to-understand language to walk the person through the whole process of completing the required forms. Trained volunteers advise on registering an LPA and completing the various forms. They can also assist at any stage of setting up an LPA, helping people with dementia make sense of the process.*

For each person, setting up an LPA is a deeply personal decision. But it’s also part of a much bigger picture helping families avoid crisis, supporting carers and reducing the inequalities faced by people affected by dementia.

Alzheimer’s Society is transforming this situation. From specialist services like our Lasting Power of Attorney Support, to trusted information, campaigning for fair care, and investment in research that will change the outlook for years to come. We will give people the help they need today, and the hope they need for tomorrow.

It will take a society to beat dementia – with Alzheimer’s Society’s support every step of the way.

* Available in England and Wales, the service is free, but people who use it do need to pay a registration fee to the Office of the Public Guardian when registering their LPA.

Calls to action

To speak with one of our Dementia Advisers, call our Dementia Support Line on 0333 150 3456 or visit www.alzheimers.org.uk/getsupport to learn more about dementia support.

Email hotline@alzheimers.org.uk if you would like to discuss how your organisation could work with Alzheimer’s Society.

Helpful links

Lasting power of attorney for people with dementia | Alzheimer’s Society: www.alzheimers.org.uk/get-support/legal-financial/lasting-power-attorney

Andy Kendall
Alzheimer’s Society



Andy Kendall is a Corporate Account Manager at Alzheimer’s Society, the UK’s leading dementia charity. He oversees a portfolio of strategic partnerships, including Alzheimer’s Society’s collaboration with Rothesay, to deliver initiatives that improve outcomes for people affected by dementia. With over a decade of experience in the charity sector, Andy is passionate about helping families plan for the future and ensuring vulnerable people have access to the support and protections they need.

Lasting Power of Attorney – Rothesay’s perspective



How does Rothesay process and interact with policyholders who have an LPA in place?

Rothesay delivers a rigorous, clear and customer-focused approach to managing policyholders who have a registered LPA in place. We aim to make it easier for attorneys to support policyholders when it matters most. We recognise that LPA cases often involve vulnerable policyholders and our administration teams are trained to handle interactions sensitively without placing unnecessary barriers in the way.

We have processes in place to ensure that the LPA document received is registered and therefore valid. We also accept an “access code” for all LPAs registered since 17 July 2020, which means that we can check online without the need for the LPA document itself to be provided in the post or via email.

When an attorney makes contact with us, our standard data processing verification checks are carried out before progressing the request further, and we have enhanced controls in place for any requests involving redirecting policyholder payments to ensure that we are protecting the policyholder’s interests at all times.

We have an operational model that ensures that we maintain clear records of who can act and what they can do, and we maintain consistent handling with appropriate touchpoints built into the process for further review and/or escalation to senior management where needed.

How long does it take to set up an LPA?

As a policyholder, establishing an LPA is a detailed legal and administrative process which involves a lengthy form, which requires signatures from witnesses and a certificate provider. Any minor errors or omissions can result in delays, or in some cases having to resubmit the form from scratch and go right back to the beginning of the process. The document must also be formally registered by the Office of the Public Guardian before it is officially valid, and this process can take 8-10 weeks to register.

What if a policyholder is in the process of setting up an LPA but doesn’t have one in place yet?

We know that it can take time to set up an LPA. In the meantime we have a “family and friends letter of authority” form that a policyholder can complete that would allow friends and family to request information about the policy and copies of documentation. Whilst this doesn’t grant decision-making powers, it does help to alleviate some of the issues in the interim by allowing access to information that would otherwise not be available until a formal LPA is in place. This Letter of Authority would be valid for up to 2 years.



Promoting awareness of LPA

Unfortunately, we have seen that a lack of awareness often leads to delays which can result in an impact on payments and critical decisions. At Rothesay, we include helpful information on LPA on the policyholder section of our website and we signpost to trusted sources like the Office of the Public Guardian.

Trustees of pension schemes could also consider making their members aware of its importance by including reference to LPA in annual statements, retirement packs or any other key touchpoints, and can help build understanding by including FAQs on pension scheme websites or member portals.

Melina Aubeeluck
Rothesay



Melina joined Rothesay’s Operations team in 2012 and currently works in Customer Engagement & Resolutions. Her previous roles at Rothesay have included managing third-party administration, scheme migration, and conducting projects to cleanse inherited policyholder data. She volunteers for the Lasting Power of Attorney Digital Team at the Alzheimer’s Society, assisting vulnerable individuals with completion of required documentation to establish a Lasting Power of Attorney.

Introducing



RothesayOne

Good pension administration starts with doing the simple things consistently well: payments need to be made accurately and on time, records need to be updated without unnecessary delay, retirement quotes need to be clear and queries need to be answered properly.

For policyholders, these everyday interactions are often what shape confidence in the service behind their pension. That is the thinking behind RothesayOne: our multi-channel administration platform designed to make pension administration easier, efficient and more reassuring for policyholders.

* Introducing

RothesayOne gives policyholders more choice in how they engage with us.

For routine tasks, the online portal provides a simpler way to access information and complete key actions at a time that suits them. This includes important journeys such as the end-to-end online retirement journey, helping policyholders manage significant pension decisions efficiently with confidence. Self-service is an important part of the platform, but this is only part of the service – RothesayOne is not about

moving every interaction online, it is about making each interaction work better. Where technology can make a task simpler, faster or more transparent, we want policyholders to have that option. Where a policyholder needs explanation, reassurance or expert support, our dedicated administration team is there to help. That balance is central to the service we are building; some policyholders value the convenience of completing tasks online, whilst others prefer to speak directly to someone, and many will use both at different points in their journey. RothesayOne supports that choice, combining straightforward self-service with access to well-trained administrators who can provide clear, accurate and supportive answers when policyholders need it.



To deliver RothesayOne, we built a dedicated team within Rothesay

which brought together colleagues with experience across operations, technology, transformation, administration and customer experience. That mix of backgrounds has helped us challenge traditional ways of working and bring a fresh perspective to policyholder administration. In addition, the platform has been developed in partnership with Brightwell and Procentia, which allowed us to combine specialist administration capability with modern pensions technology.

Our partnership with Brightwell and Procentia is central to how RothesayOne operates today and how it will continue to evolve over the coming years.

RothesayOne

To strengthen the support we can offer to our policyholders, we have invested in smart technology from leading market vendors.

One example would be our telephony platform which helps us better understand the experience policyholders are having when they contact us and also supports administrators during live calls through surfacing appropriate knowledge. Tools such as sentiment analysis give us insight into call quality, help identify where additional support may be needed and

allow us to keep improving the way queries are handled. This means we can focus not only on how quickly we respond, but also on the quality of the outcome for the policyholder. Through RothesayOne, we are looking to continuously improve the technology stack that underpins the offering to ensure we are meeting our aims of offering best-in-market administration.

The RothesayOne platform has been built within Rothesay's own technology infrastructure which gives us greater control and operational resilience across the platform while also supporting our information security and data protection requirements. It also allows us to analyse real-time data and overlay smart reporting dashboards to enable our operational teams to proactively monitor service performance on a day-to-day basis, which helps us identify trends and ensures we can respond more quickly when needed.

Having this data and reporting capability within Rothesay also supports business continuity planning, particularly where important functions are outsourced to third parties. The setup gives Rothesay direct access to the operational insight needed to maintain oversight and respond effectively if disruption occurs.

This level of oversight and insight is important as Rothesay continues to grow, because we need an administration model that can scale while maintaining the quality of service policyholders expect. We are also learning directly from policyholders through feedback from portal usage, forums, surveys and other avenues – this ensures RothesayOne continues to develop based on real policyholder experience, not assumptions about what good service should look like.

For Rothesay, RothesayOne is a significant step forward.

It gives policyholders more choice, our teams better insight and our business a more scalable administration model. Most importantly, it supports our focus on caring for policyholders by making administration simpler and more accessible, while remaining personal where it needs to be. RothesayOne will continue to develop; we will keep enhancing self-service functionality, strengthening the support available through our administration team and use feedback and data to improve policyholder experience.

Our aim is to make pension administration easier, clearer and more supportive for every policyholder we serve.

Charlie Kowszun
Rothesay



Charlie leads administration strategy at Rothesay. Since joining in 2018 from Goldman Sachs, he has built extensive expertise across Rothesay's Operations functions. He led Rothesay's in-house buy-in administration project,

which was successfully delivered and won two industry awards, and now leads the development of RothesayOne, Rothesay's new administration offering. RothesayOne combines Rothesay's proprietary calculation systems with innovative open-market technology to deliver scalable, resilient and high-quality administration for schemes and policyholders.

LIFTING

ON SLAs

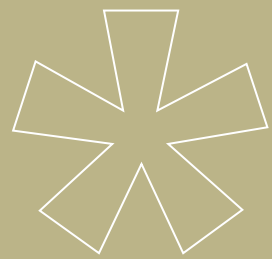
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Should SLAs be the only factor in judging insurer administration?

Service Level Agreements ("SLAs") are a familiar part of considering administration service, for both the insurance market and the wider pensions world. SLAs offer a simple way to compare providers and give comfort that core member services are being delivered promptly.

However, should they be the only factor for trustees to consider when judging an insurer's administration strength? In our view the answer is no – placing too much reliance on SLAs can result in mistaking activity for results. Good member experience is not just about whether a call was answered quickly, but whether the member received a clear response and knew what to do next.





**In this article,
I unpack
why SLAs are
a helpful tool,
but aren't the
full picture.**

SLAs should form part of the picture

SLAs are useful because they give trustees something concrete to compare – they are easy to measure and are generally consistently reported. They keep insurers accountable, and in my experience, short SLAs are often correlated with a strong overall member experience.

An insurer's ability to meet its SLA is also key. Meeting a longer turnaround time 100% of the time is typically better received by trustees than regularly missing a shorter turnaround time. But of course, it is in practice a balance of the two; let's not forget that the insurers set their own SLAs! The first step for a positive member experience is doing what

you say you're going to do. An insurer that takes a very long time to respond to a simple query, or regularly misses its deadlines, will not be providing a positive experience for members.

But they don't tell the whole story...

SLAs typically measure individual tasks, whilst members experience an end-to-end journey. A member requesting a transfer value quote doesn't think about whether each of their emails was answered within 5 working days. This member cares about getting their quotation quickly and with as little friction as possible.

It's entirely possible for a case to be "within SLA" and for the member to have a poor experience. An email could be unclear, a request could go unanswered, correspondence back-and-forth could mean that it takes weeks to resolve an issue. A member can receive many prompt responses without feeling like they've had the help that they need. This is particularly important in the pensions industry, as members typically only interact with their administrator around significant life events. This isn't routine for a member; these are important milestones that can quickly become stressful or complicated if not handled well.

This is where SLAs can provide a false sense of security. SLAs aren't inherently flawed, but they tell us about isolated tasks without telling us about the bigger picture. This is why end-to-end journey times can be more meaningful than headline SLAs.



Could we see end-to-end reporting?

The challenge is that end-to-end journey times are much less visible. They aren't generally reported in the same way that SLAs are, and lots of pension schemes don't report (or measure) end-to-end journeys in a way that allows trustees to compare an insurer's administration to their own scheme's. For instance, a trustee that is used to seeing a 95% 10-day SLA for their pension scheme might be quite alarmed and find it difficult to compare it to a 30-day end-to-end time for an insurer!

If the market wants to move towards a more rounded view of member experience, greater transparency would be a good place to start. Reporting on end-to-end journey times for key member events, first-time resolution, or the proportion of cases requiring repeated member contact would give trustees a better sense of how service is experienced in practice, not just how it is managed internally.

That said, more data is not automatically better data. If insurers are going to publish broader service metrics, these need to be meaningful, consistently defined and genuinely comparable. Otherwise, we risk replacing one imperfect metric with another.

There is a broader point here about outcomes. Consumer Duty has encouraged financial services firms to think about what good outcomes really look like – and insurers are rising to the challenge. It should make all of us think harder about whether we are measuring what actually matters to members, or what is easiest for us to count.

The underlying principle is clear: good service is not just about timeliness, it is about whether members get the support and outcomes they need.

What should trustees be asking?

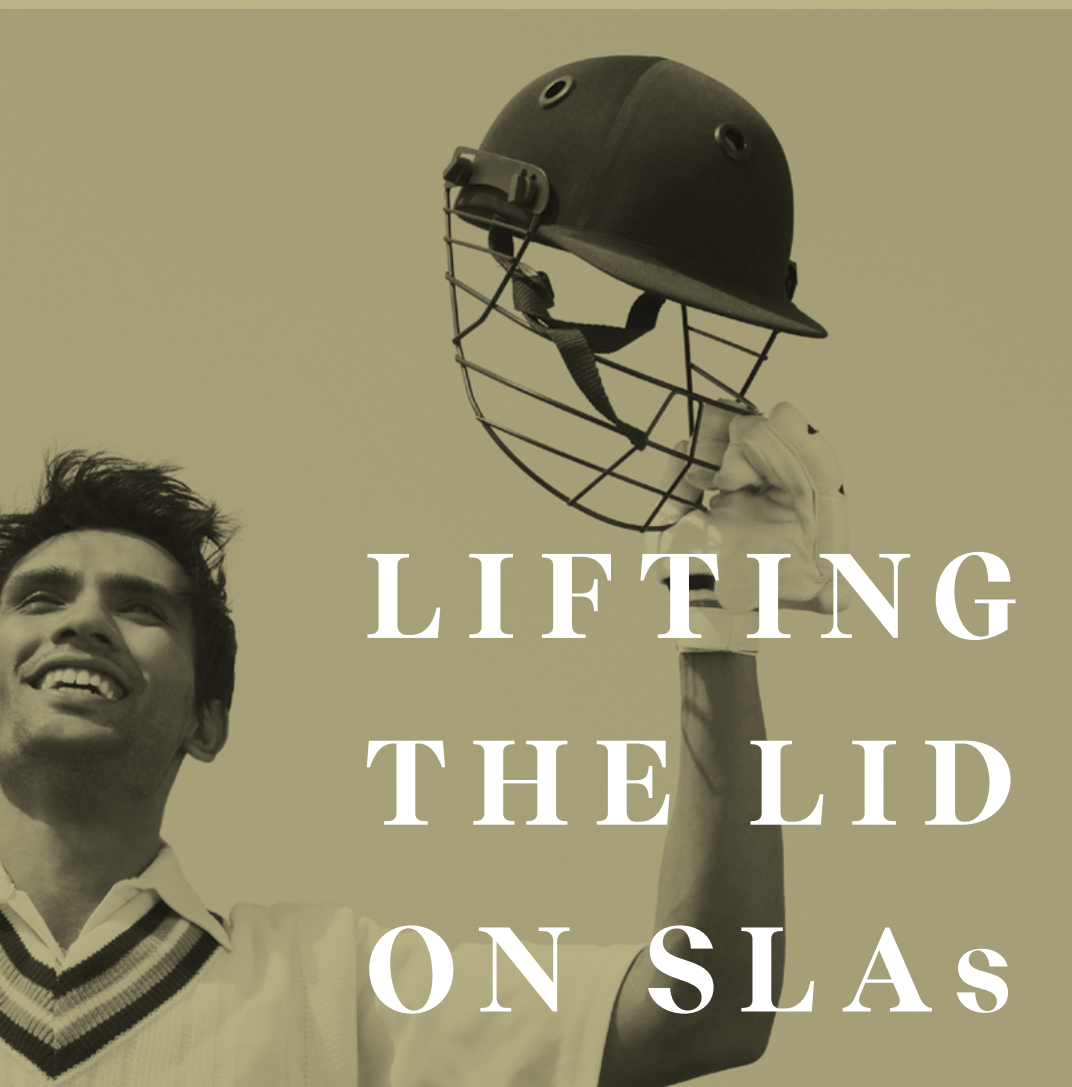
None of this means trustees should ignore SLAs. They remain an important part of due diligence, and often a revealing one. Weak SLAs are not an encouraging sign, and stronger, more ambitious SLAs often reflect broader operational strength.

But trustees should be careful not to stop there.

When assessing member experience, it is worth asking further questions to get closer to a member's real experience. How long do key journeys actually take from start to finish? What is the overall strength of the communication, web-tools and online support? How often are cases resolved first time? And how does the insurer know whether members found the process straightforward?

Looking at SLAs alone could give a false sense of security. Though they are useful, practical and often a good indicator of service quality, they are only part of the picture.

**For trustees, the
answer is not to
throw SLAs out.
It is to treat them
as the beginning
of the conversation,
not the end of it.
Members do not
remember the SLA,
they remember
the experience.**



LIFTING THE LID ON SLAs

Katie North-Walker
LCP



Katie is a Senior Consultant and member experience specialist in LCP's risk transfer team. She helps clients get to grips with the member experience side of a transaction and choose which insurer is right for their members. Katie is also part of LCP's post-transaction team and supports schemes to successfully reach buy-out and wind-up.

CHAPTER
04



De-risking transaction considerations

“
To me, cricket is a simple game.
Keep it simple and just go out
and play.”
SHANE WARNE

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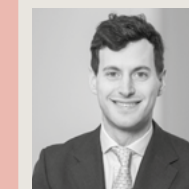
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what to insure

Oliver Cohen
Rothesay



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IT'S NO SECRET THAT THE WORLD OF DB PENSIONS IS FULL OF THE WEIRD AND WONDERFUL.

GMP equalisation is just the recent icing on a cake made up of layers of trust rules, legislation and case law.

When a scheme approaches the market and considers what to insure, the easy answer is simply "scheme benefits" – and for many schemes this will be achievable, operationally efficient and cost-effective. However, for others, their more complex ingredients mean that more careful consideration is

merited. Everything is possible, at a cost, but it's not always sensible. Wind-up is a one-time opportunity to consider the entire scheme and the form of benefits to secure for the long-term. Trustees, with the help of their advisers, will of course still need to be careful of the usual legal pitfalls if mirror benefits are not insured, but if these can be navigated then the benefits to all parties (including employers and members) can be significant. In this article I consider four common areas where a bit of pragmatism can go a long way.

Fixed factors

Fixed factor underpins exist in many schemes – sometimes through custom rather than legal entitlement.

For example, a scheme might use 4% pa early retirement factors, and seek to insure this as an underpin. To do so adds cost to a transaction, as insurers must consider the additional liability likely to result from the scheme's factors compared to using their standard cost-neutral factors. The cost implication is of course greater when the scheme's factors are "in-the-money" (i.e. more generous than insurer factors), but the option cost remains even when the scheme's factors are "out-of-the-money". In both cases you have additional operational costs which may be hidden in the premium, and legal costs (perhaps drafting a second, non-MA eligible, policy to accommodate the factors). The benefit of an early retirement factor underpin naturally accrues disproportionately to members who retire the earliest, which might not feel a very rational way to spend scheme assets. An alternative (to this, and many other similar complex, relatively expensive benefits that are poorly understood or little valued by a membership) could be to simply uplift benefits for all members. This is likely to deliver more "pounds-in-the-pocket" to members for each pound of premium, as there is less "bleed" to capital or on the expenses of administering the underpin, and doesn't randomise outcomes based on retirement age. It is worth checking whether fixed factors are a legal entitlement in the scheme's rules, or whether they are a discretionary practice which can be modified.

Revaluation and pension increase underpins

We often see surprising complexity in revaluation and pension increase underpins.

Again, these are rarely appreciated by members, and underpins may arise due to interactions with statutory minimums. Where these underpins exist, they can be harder to remove than those in relation to option factors, but it is still worthwhile asking your lawyer for some creativity. They are rarely administered properly, which could mean an expensive rectification, and insurers will charge for the option value of the underpin – so even an underpin that a scheme actuary might consider to be low value or out-of-the-money (such as CPI vs RPI pension increases) adds to cost, sometimes materially. This can derail a process on which resources will already have been committed. If you are making a change to benefits or approach, remember to ensure you don't make any problems worse or introduce a new underpin that wasn't there before!

Definitions

Across the industry, schemes operate a wide range of definitions for assessing spouse, dependant, child and ill-health eligibility.

Insurers will be looking for ease of administration, consistency across their book, definitions that are unlikely to lead to foreseeable complaints and that can be assessed with the minimum of discretion or ambiguity. The advantage to flexible trustees who can read across their definition more readily to an insurer is partly economic, but mainly contributes to greater clarity/certainty on likely eligibility. While uncomfortable, forcing consideration of unusual claim circumstances is important when entering a transaction as the trustee will not be around to make decisions after buy-out. While an open definition allows flexibility and discretion for an ongoing scheme, it

can lead to undesirable consequences in the longer term. We have case studies on our own backbook of outcomes that were not foreseen or likely to have come up before, especially on smaller schemes, and all insurers will take into account their own experience and risk appetite when agreeing definitions. It should be seen as a positive opportunity for trustees to learn from the real-life experience of insurers and to critically consider the true purpose of their scheme, rather than retaining loose or out-of-date language for the sake of it.

Member options

Commutation, early/late retirement, transfers are of course a given.

Surrender to purchase additional spouse pension, choice of level of pension increase, or optionality over some other benefit feature in the name of giving members extra choice are very much not. Lots of schemes have unusual, half-forgotten options like this. In reality very few members are aware of them and even fewer access them. Trustees should assess if including these options in a transaction is actually adding value. They may be free for schemes to retain in the

rules, but insurers will need to consider administration and reinsurance implications, as well as any obligations under Consumer Duty, and this could have an impact on premium. Very low take-up options could be removed for future retirements, which will simplify future retirement processes to little or no member impact.

Scheme size

A final consideration is scheme size.

- Larger transactions are likely to continue to seek insurance closer to scheme benefits – they have market power that means insurer appetite is unlikely to be significantly dampened by complex structures. Where the scheme is also seeking residual risk cover, it will be important to ensure any analysis supporting simplifications is shared with and agreed by the insurer.
- Smaller trades, in contrast, can access a broader range of pricing if they are willing to critically assess non-standard features and consider alternatives – so a double advantage of a more competitive process and more efficient premium spend.

In summary, don't just accept the status quo – there are big advantages to be had from challenging the current process. We are always happy to discuss with schemes the pricing implications of decisions that are being considered to help assess if a change is worthwhile.



AVC

considerations



Bulk purchase annuities
("BPAs") are designed to secure
defined benefit (DB) pension
promises with an insurer.

After a scheme has entered into a BPA transaction (a buy-in), scheme members still tend to expect the same "retirement menu" they had before the buy-in. Therefore, for trustees of DB occupational pension schemes where money purchase assets (e.g. from additional voluntary contributions ("AVCs"), or from a DC section under the scheme) can be used to provide a member's pension commencement lump sum ("PCLS") at retirement, the ability for deferred members to take tax-free cash efficiently is a valuable option they typically wish to retain, both during buy-in and after any subsequent buy-out when the insurer issues individual annuity contracts.



Why is this option valuable?

In short, the option to use money purchase assets to fund tax-free cash is considered valuable because it means that the member doesn't have to give up as much DB pension to provide the same amount of tax-free cash.



To use a very simple example, consider a hypothetical member at retirement with the following benefits:

- DB pension at retirement: **£20,000 pa**
- In-scheme AVC pot: **£80,000**
- Maximum tax-free cash available (within allowances): **£100,000**
- Commutation factor: **20:1** (i.e. £1 pa pension exchanged for £20 cash)

Scenario A – DB commutation only:

- Entire **£100,000** tax-free cash is generated by commuting DB pension
- At 20:1, this requires giving up **£5,000 pa**
- **Outcome:**
 - Residual DB pension = **£15,000 pa**
 - Total tax-free cash = **£100,000**
 - AVC pot = **£80,000**

Scenario B – “Money purchase assets first” tax-free cash:

- Member takes **£80,000** tax-free cash from AVCs
- Needs a further **£20,000** tax-free cash to reach maximum allowance, so commutes **£1,000 pa** of DB pension
- **Outcome:**
 - Residual DB pension = **£19,000 pa**
 - Total tax-free cash = **£100,000**

The difference

The hypothetical member has **£4,000 pa higher income from their DB pension under Scenario B than under Scenario A.**

Whilst the AVC pot under Scenario A could be used to purchase an annuity to provide additional regular income, it would be hard to replicate £4,000 pa of index-linked DB pension that is payable for life and (usually) includes a survivors' pension with an £80,000 retail annuity purchase. Additionally, Scenario B has the benefit of simplicity. Under Scenario A the decision-making burden for the hypothetical member would be much greater and, should the member purchase an annuity, they would have to manage two regular income streams.

Whether and how the option continues after a BPA transaction depends on what the insurer is prepared to support in its administration model and policy terms. However, over time, we've seen the market move to a position where all insurers can now facilitate the continuation of the option in some way, shape or form. But this is not “automatic” in all transactions; trustees need to request it.

In this article I'm going to highlight a few of the things that trustees should think about if they're looking to execute a BPA contract with an insurer and they want to make sure their insured deferred members retain the ability to use money purchase assets as the first source of tax-free cash.

Cost of the option

The first thing to note is that this is not a free option.

When pricing a BPA transaction, all insurers will make an assumption about how much pension will be commuted for cash at retirement.

All else equal, schemes with “money purchase assets first” functionality are more expensive to insure than identical schemes without it. This is because insurers will assume that there will be less commutation of DB pension, which means that the residual pensions in payment are higher, and that the longer duration, inflation-linked, liabilities remain intact.

As you can see in the simple example used above, in Scenario A (where the member only commuted DB pension to fund their tax-free cash) the member commuted £5,000 pa (or 25%) of DB pension. In Scenario B (where the member used money purchase assets to fund their tax-free cash), the member only commuted £1,000 pa (or 5%) of DB pension. This is an 80% reduction in DB commutation, and, across a scheme, that is a structural shift, not just a case of member choice variability.

Therefore, this option has a cost that will be reflected in the premium; either in the headline premium, or in premiums payable during the life of the buy-in (e.g. if information provided to the insurer turns out to be incorrect).

This cost will be greatest if members can still make contributions that increase the size of the money purchase pot available to them for this purpose because, in this instance, insurers are likely to assume that these members do not commute any DB pension.

Structures used by

insurers – specified

master trust

During buy-in, insurers will typically let trustees continue with their current arrangements. What trustees will need to understand is how insurers facilitate the continuation of the option post-buy-out once individual annuity contracts are issued.

There used to be a range of different ways that insurers facilitated this, but, typically, BPA insurers were not set up to provide retail-style DC flexibility as part of a BPA transaction. Therefore, the solutions that were available were not optimal from a policyholder perspective.

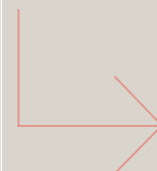
To address this, most, if not all, BPA insurers (including Rothesay) now have “transfer-at-retirement” arrangements in place with one or more multi-employer DC occupational pension schemes known as master trusts. Such arrangements act as a “flexibility wrapper” enabling policyholders to maintain a link between their money purchase assets and their insured DB benefits for tax-free cash purposes, without the need for the money purchase assets to be transferred to the insurer, thereby enabling policyholders to benefit from the greater flexibility offered by the master trust in terms of the options available for investing and accessing their money purchase assets.

Broadly speaking, insurer transfer-at-retirement arrangements involve:

- trustees bulk transferring relevant money purchase assets to the master trust specified by the insurer ahead of buy-out; and
- the insurer/master trust allowing individuals to transfer funds to the insurer at retirement to secure money purchase benefits under their deferred individual annuity contract which can be commuted to fund their PCLS entitlement.

Typically:

- individuals will not be permitted to contribute to the pot that is available to be used as part of the repatriation arrangement (as distinct from any other pot that the individual might have under the master trust); and
- the amount that can be transferred to the insurer is likely to be restricted to the maximum amount that can be used to fund the individual's PCLS entitlement, with any excess funds remaining in the master trust to be accessed by the individual in accordance with the master trust's governing documentation.



Protections

Where members have a protected pension age, it is important that trustees transfer the relevant members' money purchase assets to the master trust before the insurer issues individual annuity contracts in respect of those members. This is because, broadly speaking, in order to retain the protected pension age on buy-out, there must be a block transfer. This will only be the case if all of the benefit rights of each relevant member are transferred, as part of a single transaction, to their deferred individual annuity contract and this cannot happen if they retain money purchase benefits under the scheme.

The relevant members will lose their protected pension age in connection with their money purchase benefits on the transfer to the master trust, but it will effectively be regained when their money purchase assets are transferred-in to their individual annuity contract at retirement (under which they still have a protected pension age) and are used as part of the transfer-at-retirement arrangement.

Certain other pre-6 April 2006 tax protections attaching to money purchase benefits might be lost on a transfer-out and it will not be possible to regain these protections on the transfer-in. Therefore, it is important that trustees take appropriate legal advice when considering the options available to them so that they can make a fully informed decision.



Is each insurer's transfer-at-retirement arrangement the same?

As described above, each insurer's transfer-at-retirement arrangement will follow the same basic structure. For example, they will all require trustees to instigate the transfer and enter into a transfer agreement with the insurer's specified master trust, and they will all permit policyholders to transfer funds to the insurer at retirement.

Where you might see differences, however, is in how each insurer operates the transfer-at-retirement arrangement in practice and the extent to which they are able to provide a seamless retirement experience without the onus being placed on the policyholder to remember that the arrangement exists and without the policyholder having to fill in multiple different forms.

The FCA's Consumer Duty rules require insurers to ensure that the transfer-at-retirement arrangement operates in a way that delivers good outcomes for, and avoids foreseeable harm to, each policyholder who is able to use it. Therefore, in our view, it is essential that contractual arrangements are in place between the master trust and the insurer which cover data sharing arrangements, communications, and all other operational processes that need to be agreed to ensure a smooth retirement journey for the policyholder.



As a minimum, we would expect both the insurer and the master trust to remind individuals of the existence of the transfer-at-retirement arrangement in their retirement communications, and insurers should be willing to provide a commitment to trustees (in their BPA terms) that their deferred individual annuity contracts will contain an express reference to the transfer-at-retirement arrangement. Insurers should also be able to provide trustees with specific details about how their transfer-at-retirement arrangement will operate in practice.

We would encourage trustees to ask insurers for these kinds of details as a way of differentiating between each insurer in competitive BPA bidding processes; particularly when, at first glance, it might seem like each insurer is offering the same (or a very similar) solution.

Of course, we would be very happy to provide trustees with details of how our transfer-at-retirement arrangement operates and the processes we have agreed with our chosen master trust to ensure that we deliver a seamless retirement experience for our policyholders.

What if trustees already have their own transfer-at-retirement arrangement in place?

Some trustees have already transferred money purchase assets out of their schemes to a third-party money purchase scheme (whether that be a master trust, a group personal pension scheme or a stakeholder pension scheme, etc.) and operate their own transfer-at-retirement arrangements. As a result, trustees in this position will not be able to bulk transfer members' money purchase assets to the insurer's specified master trust without member consent in the same way that they would have been able to if the money purchase assets had not been transferred.

In this situation, insurers might be willing to agree to operate a transfer-at-retirement arrangement with the existing money purchase scheme. However, for the reasons mentioned earlier, we think that this is only a workable solution if contractual arrangements can be put in place with the insurer to provide an acceptable level of service to policyholders. This requires more than just a data sharing agreement and will potentially need the money purchase scheme to agree to change its standard processes (e.g. to provide bespoke member communications). This will involve a lot of additional work (and requires engagement from the money purchase scheme) and is likely to result in the retirement experience being compromised when compared to the insurer's standard offering. As a result, this isn't always the best outcome.

Alternatively, trustees can write to members as part of their pre-buy-out communications to inform them that they will only be able to continue using their money purchase assets to provide their PCLS at retirement if they transfer from the existing money purchase scheme to the insurer's chosen master trust by a specified date ahead of buy-out. In these circumstances, we would expect to work with the trustees and our chosen master trust to ensure that the transfer process is as smooth as possible for any individual who wishes to transfer, and this will be factored into the buy-out timetable.

Conclusion

Ultimately, whether and how trustees seek to preserve the ability for members to use money purchase assets as a first source of tax-free cash will depend on their priorities, membership profile and the specific circumstances of the transaction. While the option is clearly valuable to members, it comes at a cost and introduces additional complexity that must be carefully weighed against other objectives.

Encouragingly, the BPA market has evolved significantly, and insurers are now able to support this feature through increasingly well-developed transfer-at-retirement arrangements. However, outcomes can still

vary meaningfully depending on how those arrangements operate in practice. Trustees should therefore engage early with insurers, ask detailed questions about the member experience, and ensure that appropriate contractual protections and operational processes are in place.

By taking a proactive and informed approach, trustees can strike the right balance between securing members' benefits and preserving flexibility at retirement, ultimately helping to deliver good outcomes for members both at buy-out and beyond.

Stephen Longfellow
Rothesay



Stephen joined Rothesay in May 2021. He is a member of the Business Development team and, given his legal background, also oversees the execution of new bulk annuity transactions. Prior to joining Rothesay, Stephen was a pensions lawyer with over 10 years' experience. He specialised in pension risk transfer and advised Rothesay as external legal counsel as well as advising trustees and sponsors.



Competitive + creative

Competitive and creative solutions
to hedge longevity risk

solutions

The longevity risk transfer market has evolved rapidly over the past decade. What was once a niche and relatively specialised market has become broader, more competitive and innovative. For a corporate DB pension scheme sector that is well funded and considering running on in a risk-managed way, today's reinsurance market offers more streamlined and innovative solutions that are more flexible and cost-efficient than ever before.





1 Source: PPF Purple Book, data from 31st March 2020 and 2025.

The broader context for DB pension schemes

Increased focus on endgame planning

The aggregate buy-out funding position of UK corporate defined benefit pension schemes jumped from circa 72% to circa 96% between 2020 and 2025¹. The focus for many has shifted from one of closing the deficit to endgame planning and risk management.

This is no longer as simple as locking down risk in preparation for buy-out, as running on and distributing surplus is slated to become a real possibility from April 2027. Surveys typically suggest that for larger schemes (£1bn+), at least half have either decided to – or are seriously considering – running on. This is certainly what we see across our own client base.

Risk management and desire for flexibility

For the cohort of large, well-funded schemes, flexibility is key. Deciding to run-on “today” does not mean that a scheme will run-on forever – stakeholder risk appetites may shift over time, and most schemes will eventually get to a point where running on is not worth the hassle or ongoing expenses. It’s therefore important that investment and risk management decisions in service of run-on do not inhibit the possibility of future buy-out.

Equally, running on for the foreseeable future extends a scheme’s investment time horizon and increases the probability that it will experience a highly adverse downside scenario in its lifetime. That could be an economic and market crash (think Great Depression, climate crisis), or a longevity shock. Each of these could be an existential risk to schemes and their sponsors and should, at the very least, be understood, and possibly protected against.

It is difficult to predict and position a portfolio for an extreme market shock as it could take many forms – it is not obvious that a particular tail hedge (or basket of such) will protect a scheme in the actual scenario.

The case for longevity hedging

Longevity risk, unlike many other tail risks, can be hedged exactly with a longevity swap tailored to a scheme’s specific membership. As we discuss in this article, doing so is also available for far more schemes than it has been in the past, cheaper than it has been historically and contracts are more standardised and portable in the event of a subsequent insurance transaction.

We think this makes longevity hedging a far more compelling consideration for schemes today, regardless of whether they are planning to run-on for the longer term or are potentially looking to buy-out in the medium term.

Reinsurance market dynamics

Increasing intermediary competition driving efficiency

When pension schemes hedge longevity risks via a reinsurer, they require an insurer or a captive serving as an intermediary to facilitate the transaction. Historically, these transactions were heavily reliant on a small group of specialist intermediaries. With limited players in the market, intermediary costs were often high. These are costs added on top of the reinsurer’s longevity reinsurance fees.

In recent years, the intermediary landscape has shifted. More intermediaries have entered the market, increasing competitive tension – including Rothesay, who now intermediate swaps for pension schemes.

This growth in participation has delivered three key benefits:

- Reduced intermediary costs through competitive pricing;
- Intermediation options become available for more tailored reinsurance structures, such as contingent options; these were not previously available to pension schemes; and
- Some reinsurers are also keen to offer a vertically integrated option using their internal direct insurer as the intermediary.

Greater competition among intermediaries has effectively streamlined the value chain between pension schemes and reinsurers, allowing schemes to access reinsurance capacity more efficiently and at a lower overall cost.

From large pensioner blocks to diverse scheme profiles

Longevity swaps were traditionally more reserved for large pension schemes with substantial pensioner-only books. Smaller schemes, or those with significant deferred member populations, often found the market inaccessible or uneconomic.

This is no longer the case. Today’s reinsurer market supports:

- Smaller pension schemes, with reduced minimum size thresholds. Reinsurers have offered “flow reinsurance” solutions for bulk purchase annuity (BPA) insurers to automatically cover the longevity risk of smaller schemes. The reinsurance market is also increasingly open to accept smaller transactions on a one-off basis, which opens the door to the schemes with circa £100m-200m in liabilities.
- Deferred-heavy schemes, where future retirees form a significant portion of liabilities. Many reinsurers have transacted on a 100% deferred member basis.

Reinsurers are increasingly comfortable modelling more complex liability profiles, supported by improved data analytics and longevity modelling techniques. As a result, longevity risk transfer is no longer confined to the largest pensioner-only transactions. The market has become more inclusive, expanding the universe of schemes that can transfer longevity risk exposure effectively.

Structured solutions beyond vanilla longevity swaps

Another key evolution is the development of structured longevity solutions. Rather than offering only “vanilla” longevity swaps, reinsurers now provide a range of alternatives tailored to specific risk appetites and budget constraints, such as stop-loss longevity and contingent longevity swaps.

Together, these structured solutions reflect a market that has matured beyond one-size-fits-all products. Reinsurers are increasingly acting as risk partners, designing solutions aligned with scheme-specific objectives. However, it is worth noting that these two solutions are more designed for larger schemes with £1bn+ liabilities.

A more competitive pricing environment

Perhaps the most visible impact of increased competition, broader participation, and structural innovation, is pricing.

In earlier market conditions, pricing for pensioner-only longevity swaps could range around 5% of liabilities. With more reinsurer capacity and in a higher interest rate environment, recent transactions have seen pricing levels closer to 3% with pensioner-only pricing down to circa 2%, depending on scheme characteristics.

While pricing remains sensitive to demographic profile, data quality, and macro conditions, the overall trend is clear: increased market depth and optionality have materially reduced the cost of transferring longevity risk.

Conclusion

Often the most significant risks remaining for pension schemes and historically one of the hardest to manage outside of buy-ins, longevity risk transfer is now a key strategic option for many pension schemes. Recent advancements in the longevity reinsurance market have made longevity risk transfer more accessible, transforming it from a specialised tool reserved for the largest players into a viable option for a broader range of pension schemes, whether they are running on for the long term or looking to lock down risk on their journey to buy-out.

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Wei Hou Gallagher



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ASSETS



Insurer
appetite
for non-cash
assets as
premium
payment



Insurer appetite for non-cash assets as premium payment

As the UK bulk annuity market has evolved, insurers and pension schemes alike have become more sophisticated in how transactions are structured and executed. Price-lock mechanisms are now well established, and there is increasing focus on whether a wider set of assets can be recognised during the price-lock period or transferred in-specie as part of premium settlement.



As an asset manager, we are not a decision maker in respect of which investments are accepted in bulk annuity buy-outs. The negotiations typically occur between insurers and consultants that are best placed to assess the impact on pricing from the inclusion of various asset types. However, our experience of in-specie transfers across a range of insurers and consultants suggests that the following observations tend to apply.

Gilts

UK gilts remain the most straightforward and widely accepted asset class for both price-lock and in-specie premium payment.

They are highly liquid, operationally simple and directly aligned with the curves and instruments insurers use to price and hedge bulk annuity liabilities. As a result, gilts are routinely included within price-lock structures and are commonly transferred in-specie at settlement, subject to standard eligibility criteria.

Where a scheme's gilt portfolio closely matches the scheme's liability structure this can materially reduce execution risk for both parties.

Gilts on repo

Gilts held via repo are now a standard feature of leveraged liability-driven investment (LDI) portfolios. That said, repo positions are not operationally equivalent to outright gilt holdings. During a price-lock period, insurers will typically recognise the economic exposure represented by gilts on repo, provided the structure and unwind mechanics are clearly understood. At settlement, many insurers will almost invariably require repo positions to be unwound, with the premium paid using unencumbered gilts or cash.

Interest rate swaps

Interest rate and inflation swaps are central to most schemes' LDI strategies and are fundamental to insurers' own risk management. As such, they are well understood and widely referenced in transaction pricing.

Within price-lock structures, swaps are routinely recognised for their economic effect. Most insurers are comfortable using the scheme's swap exposure to manage interest rate and inflation risk between quotation and execution, provided documentation and valuation mechanics are robust.

However, when it comes to settlement, market practice is clear: insurers do not generally accept swaps in-specie as premium. Differences in ISDA (International Swaps and Derivatives Association) terms such as documentation standards, collateralisation, counterparty exposure and regulatory treatment make transfer unattractive. While novations are sometimes considered, swap positions are typically terminated or closed out ahead of settlement, with the resulting cash forming part of the premium.

Futures

Similar to interest rate swaps, insurers will acknowledge the economic purpose of government bond futures within a price-lock framework where appropriate. Futures positions are typically expected to be closed out prior to premium payment.

Foreign exchange

FX exposure usually arises indirectly, through overseas asset holdings or global credit mandates, rather than as a deliberate premium component.

Insurers typically expect the premium to be paid in sterling. While FX risk may be tolerated and managed during a price-lock period, particularly if transparent and hedged, insurers will generally require conversion to sterling prior to settlement.

In-specie transfer of FX instruments themselves is not market standard, and where non-sterling assets are accepted, careful consideration is usually given to ensuring that the economic transfer of hedging arrangements is executed without any slippage, typically through back-to-back FX forward trades. Allowing involved parties to speak freely to each other and empowering a competent consultant to handhold the process can be invaluable in avoiding unnecessary and costly last-minute delays.

Credit assets

Credit is where insurer appetite is most differentiated and most transaction-specific. Whereas in the past some insurers were very selective in cherry picking individual securities, the size of transactions coming to market relative to their overall book has fallen significantly as the industry has matured. As insurer portfolio diversification has increased, the materiality of each new holding has diminished. Schemes that implemented a partial buy-in in previous years may therefore be pleasantly surprised by the acceptance rate of their credit portfolio.

Acceptance depends on how well those assets align with the insurer's long-term portfolio construction, regulatory capital model and operational capabilities. A primary consideration in pricing portfolios is whether it is efficient from a regulatory capital perspective. Key considerations in this regard are whether the instrument has an attractive yield relative to its credit rating, and whether cashflows broadly align to the scheme's liabilities.

Public investment grade sterling credit with standard documentation and strong liquidity is most likely to be considered, particularly where it complements an existing "Matching Adjustment" (i.e. regulatory capital compliant) portfolio. As hold-to-maturity investors who are more interested in dictating terms and conditions of an investment than avoiding mark-to-market volatility, bulk annuity insurers have been early adopters and extensive users of private credit in recent years. Credit stress in some pockets of private credit may mean more complex exposures are less likely to be transferable.

Similarly, non-GBP denominated credit is likely to be highly insurer-specific and will be heavily influenced by the scale of the insurer, their process for investment monitoring and the liquidity of the portfolio.

Final thoughts

A consistent theme emerges across asset classes. Insurers are generally comfortable recognising a wide range of assets *economically* during the price-lock period, provided doing so reduces risk and supports pricing certainty. However, they remain disciplined about what they will accept *operationally* as premium.

Assets that are liquid, standardised and closely aligned with insurers' balance sheets – notably gilts and high-quality, sterling-denominated corporate bonds – transfer most easily. Derivatives are recognised for risk management purposes but usually not transferred. More complex assets tend to require simplification ahead of settlement.

For schemes, the most effective approach is early transparency. Understanding insurer appetite upfront, and engaging early on asset eligibility, is essential. While it can be a sensitive discussion to alert your investment manager that a buy-out is under consideration, it is often not a surprising outcome and if the relationship is robust then they are usually in a good position to ensure that the portfolio will be an attractive addition to an insurer's portfolio.

James Briggs
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with RBC BlueBay Asset Management and a high-yield analyst with Invesco Asset Management.

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CHAPTER
05

Global DB markets



“
Cricket has become more popular,
not me... When the game grows,
those who've played it also grow.
”

KAPIL DEV

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Trends in the US Pension Risk Transfer market

One of the most notable recent developments in the US pension risk transfer (PRT) market has been the rapid rise of buy-in transactions. While buy-ins have long been a familiar feature of the UK market, they historically represented less than 10% of US PRT volumes through to 2024. In 2025, however, buy-in premium volumes more than tripled year on year, accounting for more than one-third of total market activity.¹

This shift reflects sponsors' earlier focus on endgame strategy. Buy-ins allow sponsors to hedge longevity and investment risk while retaining assets and liabilities within the pension trust, offering a degree of risk transfer without irrevocable settlement. Over the past decade, aggregate funded levels for US pension sponsors have improved by approximately 20%, according to Milliman's 2025 Corporate Pension Funding Study of the 100 largest US corporate defined benefit (DB) plans.² For plans that are well funded but not yet ready to fully settle liabilities, buy-ins provide a flexible intermediate step.

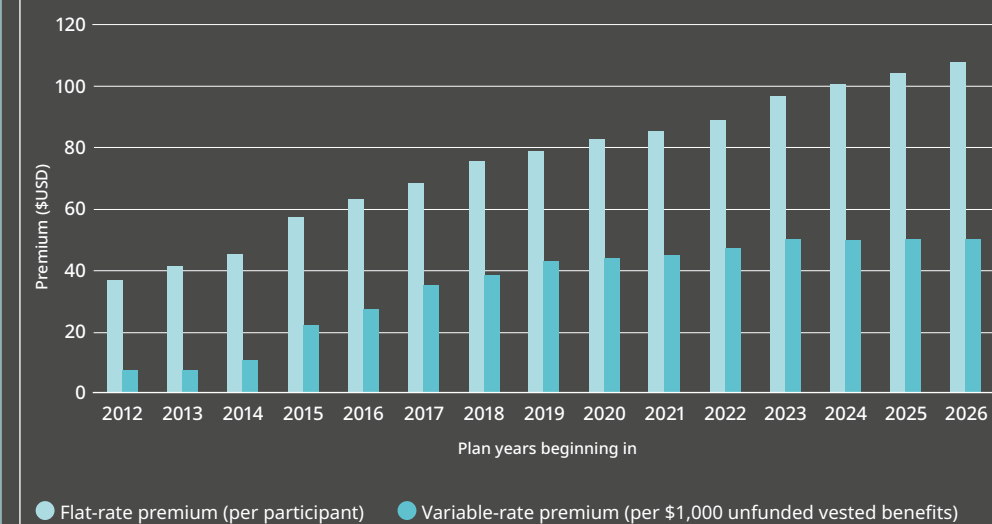
But how did the US market arrive at this point?



The shift in US retirement and the rise of Pension Risk Transfer

Over the past half-century, the US private-sector retirement landscape has undergone a profound transformation. Traditional DB pension plans have steadily given way to defined contribution arrangements following the introduction of the 401(k) in 1978. While this transition reduced long-term retirement risk for employers, legacy DB plans have proven slow to unwind. Over time, pensions came to be viewed less as tools for talent management and more as complex, capital-intensive legacy liabilities.

PBGC premium rate history for single-employer plans



Sources: October 27, 2025, Pension Benefit Guaranty Corporation, Premium Rates; <https://www.pbgc.gov/employers-practitioners/premium-filings/rates>

These pressures intensified following regulatory and accounting changes in the mid-2000s. The Pension Protection Act of 2006 imposed stricter funding requirements and introduced clear consequences for underfunded plans. At around the same time, changes to US accounting standards required sponsors to recognise pension surpluses and deficits directly on their balance sheets. Funded status volatility was no longer an abstract actuarial measure; it became visible to boards, investors and analysts alike.

Rising plan maintenance costs further compounded these dynamics. Pension Benefit Guaranty Corporation (PBGC) premiums – broadly comparable to the UK's Pension Protection Fund (PPF) levy – increased sharply under successive pieces of legislation. Between 2012 and 2026, flat-rate premiums rose by more than 300%, while variable-rate premiums increased by nearly 600%, significantly raising the ongoing cost of maintaining defined benefit plans.³

The 2008 global financial crisis reinforced these trends. Severe market losses forced many sponsors to make substantial, unplanned contributions at a time when liquidity was constrained and corporate balance sheets were under pressure. For many organisations, this experience crystallised a strategic objective: reduce pension risk wherever possible.⁴

2012: The modern PRT market takes shape

Prior to 2012, the US PRT market was relatively narrow in both scope and participation. Transactions were largely confined to full plan terminations, and only a small number of insurers were active in the space. This changed decisively in 2012, when General Motors and Verizon completed large-scale pensioner-only transactions. These landmark deals demonstrated that sponsors could transfer meaningful portions of pension risk without terminating their plans in full.

The transactions also reshaped pension governance in the US. Independent fiduciaries became increasingly common – particularly for larger transactions – as sponsors sought to mitigate conflicts of interest and demonstrate procedural prudence, as required by federal law. This governance feature remains a defining characteristic of the US market and stands in contrast to the UK system, where trustees are embedded within pension scheme governance by statute.

Around this same time, lump-sum windows became a common de-risking tool for deferred members, offering a one-time opportunity to receive pension benefits as a single cash payment. Combined with partial annuity settlements, these transactions gave

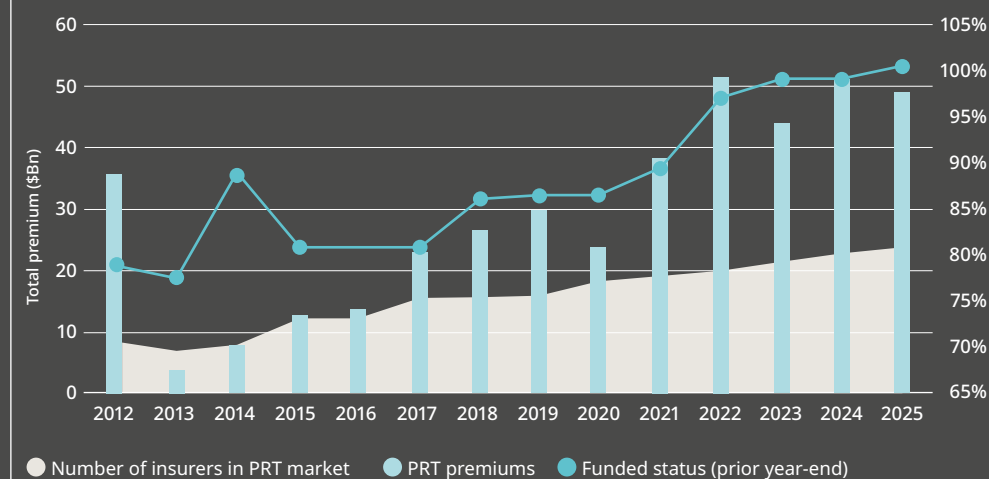
US sponsors that were not yet ready for full plan termination a practical way to reduce liabilities incrementally. By settling risk in stages – typically starting with the most economically attractive populations – sponsors could align de-risking activity with funded status and capital considerations. This incremental approach marked a turning point, paving the way for the rapid expansion of the modern PRT market.

A maturing market with significant growth ahead

From 2013 onwards, the US PRT market expanded rapidly. Rising interest rates and strong asset performance improved funded positions, creating favourable conditions for settlement activity. Annual PRT volumes have exceeded \$40 billion in recent years, peaking at approximately \$52 billion in 2022.^{5,6}

The number of active insurers has also grown substantially – from eight in 2012 to more than twenty by 2025 – bringing increased competition and capacity to the market¹. At the same time, investment banks project that annual US PRT volumes could approach \$100bn in the coming years, reflecting the scale of remaining defined benefit liabilities, continued cost pressures, and expanding insurer participation.^{5,6}

US PRT market history



Sources: April 30, 2025, Milliman's 2025 Corporate Pension Funding Study; <https://www.milliman.com/en/insight/2025-corporate-pension-funding-study>; March 12, 2026, Aon's US Pension Risk Transfer 2025 Annual Report; <https://www.aon.com/en/insights/reports/pension-risk-transfer-annual-report>

Much as the UK market evolved over time, the US PRT market now appears to be entering a more mature phase – one defined by choice, sequencing and strategic intent. Buy-ins are no longer a niche solution, but a central component of how sponsors manage risk while preparing for eventual settlement.

As this market continues to deepen and diversify, the role of experienced insurers becomes increasingly important. Massachusetts Mutual Life Insurance Company is proud to support US sponsors in building resilient, well-sequenced pathways to buy-out – mirroring an evolution long familiar to UK pension professionals, and to satisfy the pension obligations for annuitants for years to come.

Group annuity policies and certificates are issued by Massachusetts Mutual Life Insurance Company (MassMutual) Springfield, MA 01111-0001.

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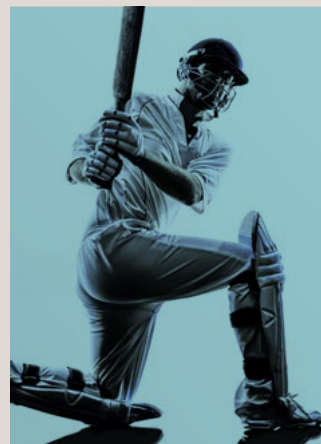
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Beneath the cherry blossoms: Japan's defined benefit evolution

The foundation of retirement: Japan's defined benefit framework

Japan's retirement system is firmly rooted in a defined benefit (DB) framework, a structure that reflects both its historical development and the demographic realities of one of the world's most rapidly ageing populations. Public pensions form the cornerstone of retirement provision, complemented by employer-sponsored DB plans, while defined contribution arrangements play a growing but still supplementary role.

At the public level, Japan's National Pension System serves as the first-tier basic pension, offering universal coverage to all working-age individuals through a category-based structure that encompasses the self-employed, employees, and dependant spouses. Alongside this, the Employees' Pension Insurance provides earnings-related benefits to both private and public sector employees, layered upon the basic pension. These mandatory programs collectively guarantee comprehensive coverage, aspiring to a combined replacement rate of approximately 50% or more, a figure historically considered a critical policy benchmark. To underpin the long-term sustainability of these pay-as-you-go systems, Japan strategically utilises partial prefunding via reserve assets. These assets are managed by the Government Pension Investment Fund (GPIF), an entity that invests substantial pension reserves across a diversified portfolio of domestic and foreign equities and bonds. Such sophisticated, long-term asset allocation strategies are pivotal in alleviating fiscal and demographic pressures, thereby strongly reinforcing the defined benefit nature of the system.

The size of Japan's pension market

The financial scope of Japan's pension system is substantial. Private corporate pension assets are valued at approximately ¥88 trillion (circa £410bn), with defined benefit (DB) assets specifically accounting for around ¥69 trillion (circa £325bn).

These corporate DB plans collectively serve an estimated 9.4 million members. Pension Reserves total ¥257.4 trillion (circa £1.2tn) as of FY2024, with the vast majority being managed by GPIF, alongside the Pension Special Account.

Evolving investment strategies: From preservation to diversification

Historically, Japanese DB plans adopted a conservative investment approach, prioritising capital preservation. Portfolios were strongly oriented toward fixed income. This strategy was effective during the high-interest rate environment pre-1990s but became less viable with the advent of long-term low interest rates.

Since the early 2000s, asset allocation has strategically shifted in response to this low-yield environment. Many pension investors have broadened their exposure to equities, foreign assets, and alternative assets. Furthermore, Liability-Driven Investment (LDI) strategies have emerged, employing long-duration bonds and derivatives to hedge interest rate and longevity risks, although their adoption remains less widespread compared to markets like the UK.

This evolution in asset allocation has significant implications for pension risk transfer (PRT). While conservative, liquid-heavy portfolios facilitate risk transfer (albeit in lower volumes), greater exposure to equities and alternatives introduces volatility, potentially driving increased interest in PRT as a de-risking mechanism. Alignment with LDI and liability hedging enhances the feasibility of transferring pension liabilities to insurers via buy-outs or buy-ins, however the market is still far behind the comparable UK and US markets.

The nascent PRT market: Challenges and opportunities in Japan

Whilst PRT activity has seen substantial growth globally, particularly in the UK and US, the market in Japan remains in its early stages. The Japanese life insurance sector, a critical component for PRT, consists of 42 private companies. It is also concentrated, with nearly half of this market controlled by five major players: Nippon Life, Japan Post Insurance, Meiji Yasuda Life, Dai-ichi Life, and Sumitomo Life. Annuities represent about 15% of total life insurance premiums, amounting to ¥5.2 trillion (circa £25bn).

Several structural characteristics of Japanese DB plans currently limit the demand for formal risk transfer. Many plans offer retirees a choice between lump-sum payments and lifetime annuities. A lump-sum election transfers longevity risk to individuals rather than plan sponsors, thereby reducing insurers' incentives to underwrite these liabilities. The combination of annuity and lump-sum options also creates unpredictable liability profiles, complicating pricing and hedging for insurers.

Moreover, Japanese PRT transactions tend to be smaller and more fragmented, contrasting with the large-scale, scalable buy-outs observed in the UK, which further constrains market growth. An Aon survey indicated that over 80% of Japanese companies were unfamiliar with these risk transfer solutions. Although regulatory frameworks are evolving, they have not yet

fully facilitated widespread PRT adoption. Nevertheless, persistent demographic pressures, increasing life expectancy, and gradual regulatory developments suggest that the PRT market in Japan is poised for incremental expansion over the coming decade.

Regulatory evolution: The impact of the J-ICS framework

The regulatory environment plays a pivotal role in shaping both DB and PRT markets. Traditional insurance solvency measures, such as the Solvency Margin Ratio, relied on statutory accounting assumptions that did not comprehensively capture interest rate, longevity, and duration risks. Japan has been introducing the J-ICS framework as an economic value-based solvency framework for insurers, with calculation and reporting of the new Economic Solvency Ratio (ESR) beginning from the fiscal year ending March 2026. J-ICS calculates the ESR using market-consistent valuations for insurance liabilities, including annuity liabilities.

The implementation of J-ICS enhances incentives for insurers to strengthen risk management, optimise asset allocation, and rigorously assess the sustainability of long-term guarantees. This improved governance, transparency, and disclosure collectively bolster the resilience of Japan's insurance system, particularly in an ageing society contending with persistent low interest rates.

Defined benefit schemes comparison

Defined Benefit Schemes	UK	Japan
Size (bn)	£1,068 (2025)	¥69,000 (£324.6) (2024)
Number of Members (#, m)	8.6 (2025)	9.4 (2024)
Indexation	Inflation-linked	Flat
Funded/Unfunded	Funded	Funded
Solvency ratio	125% (2025)	105% (2025)

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Japan's defined benefit system: The road forward

In conclusion, Japan's pension system, encompassing both public and corporate plans, retains a strong defined-benefit character. Its distinctive attributes, including pay-as-you-go public pensions, employer-funded corporate DB plans, and retiree optionality, collectively influence investment behaviour, asset allocation, and the trajectory of pension risk transfer. While Japan's PRT market is currently modest, demographic imperatives, ongoing regulatory reforms, and evolving asset management strategies are creating conditions for its growth. Future developments in plan design, risk transfer frameworks, and institutional investment practices will be vital for enhancing pension sustainability, safeguarding beneficiaries, and enabling corporate sponsors to effectively manage balance sheet risks.

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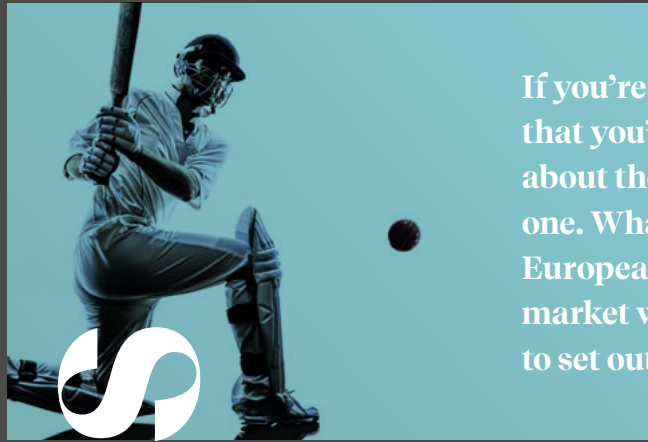
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Japan

Netherlands



If you're reading this publication, then the chances are that you've already had a conversation with someone about the Dutch de-risking market. Probably more than one. What was until recently the "next big thing" of the European life insurance sector is now very much an active market with global attention. In this article we've sought to set out what's happening and why.

Why now?

The Dutch pensions system is in the middle of a period of transition. In response to concerns around an ageing population and more employee mobility (meaning that individuals don't hold jobs for life), the Dutch pensions laws have been overhauled to transition away from defined benefit ("DB") schemes to a defined contribution ("DC") system.

Similarly to the UK pension system, the Dutch pension system is founded on three "pillars": the state General Old Age Pension (AOW), employment-related pensions and individual supplementary pensions. Up to now, much of the second pillar (the employment-related pension funds) have been DB schemes.

The legal framework for the change is the Future of Pensions Act (*Wet toekomst pensioenen* or *Wtp*). The Wtp has applied since 1 July 2023, and all pension schemes are required to have transitioned by 1 January 2028. As part of the transition, pension schemes need to decide whether to convert accrued benefits to the new DC system, or to crystallise the existing benefits – including through buy-out transactions.

The Dutch DB market and the role of buy-outs

Buy-outs offer an attractive alternative to conversion, because they provide members with fixed pension benefits, as in the existing DB system. Where a pension scheme buys out, it transfers all of the obligations to members to the life insurer and is wound up. Owing to market conditions, funding ratios remain high – in the final quarter of 2025 average funding ratios were at 129% across the market. That gives pension schemes more opportunities to insure full scheme benefits (for example, including future indexation).

The Dutch pensions landscape is dominated by large industry-wide pension schemes, which are more likely to have the resources needed to navigate the complexities of transitioning to a DC arrangement. However, there are also a large number of smaller schemes (for example single-employer schemes) for whom a simpler alternative is favourable.

In December 2025 the Dutch regulator, De Nederlandsche Bank ("DNB") reported that Dutch life insurers have taken on over EUR 7bn in the preceding two years. Life insurers now represent c.15% of the total Dutch pension provision (c. EUR 230bn of a total provision of c. EUR 1,573bn).

Market conditions have been particularly attractive for buy-outs – the DNB cites high interest rates as a key factor. Expectation is for EUR 30bn to transfer to bulk annuities before the implementation of the new laws in January 2028.

Consolidation

As an alternative to either conversion or buy-out, the Dutch landscape is also experiencing significant pension consolidation – although this trend is a longer running theme and not directly linked to the Wtp. That said, consolidation into larger industry-wide schemes is an attractive alternative for smaller schemes when faced with the requirement to put in place a conversion plan.

Global (Re)insurers

To support the significant uptick in buy-out transactions, life insurers have been increasingly turning to reinsurance to help manage their exposure to longevity risk and to free-up capital. Longevity reinsurance is helping life insurers both to write more transactions and also price more competitively. As a result, the Dutch longevity reinsurance market has seen significant investment from global reinsurers.

Much like in the UK, a competitive life insurance market is also considering the use of asset-intensive (or "funded") reinsurance as a means of further improving buy-out pricing and managing capital. The DNB has been increasingly focused on asset-intensive reinsurance and, from the beginning of 2025, has implemented a requirement for insurers to obtain regulatory approval to enter into such reinsurance – which also impacts longevity reinsurance.

At a European level, there is impending guidance from the European Insurance and Occupational Pensions Authority ("EIOPA") which is expected to apply a harmonised approach to asset-intensive reinsurance across Europe.

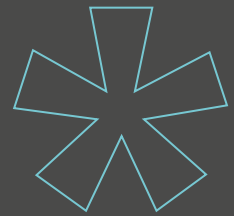
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Investment markets

A secondary impact anticipated in the wider Dutch financial market as a consequence of the Wtp is a potential move away from traditional DB assets, such as fixed income government bonds and interest rate swaps, towards more DC assets – such as equities, and higher-risk assets. As pension schemes convert from a DB approach to a DC approach, there are reports of changes being made to investment policies to allow for more of a blended approach, with holdings in government bonds and interest rate swaps being maintained for older workers, and a yield-enhancing strategy being applied for younger members who have more time to ride out market fluctuations.

Conclusions

As the Dutch pensions market undergoes a generational shift in approach, life insurance is coming to the fore as an alternative "endgame" solution for pension funds which don't have the appetite or the resources (or neither) to make the transition to the new system. The trend is being pushed forward by the combination of strong funding positions, limited time and insurer (and reinsurer) appetite, and a de-risking market which is geared up to support them. We're expecting to still be having those conversations for a while yet.



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Ros Wood
Debevoise & Plimpton



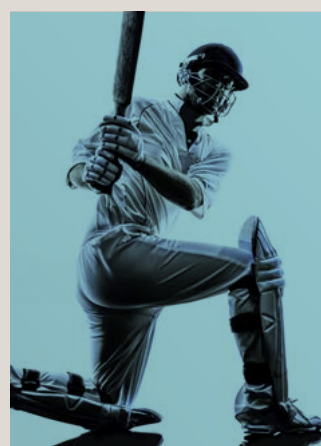
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Increasing momentum: a growing opportunity in the German bulk annuities market

Growing German buy-out market

The German market for the buy-out of unfunded pension liabilities has recently gained significant momentum, with specialised providers offering bespoke and comprehensive solutions.

Various aspects are motivating German employers to transfer their unfunded pension liabilities. Primarily, employers are seeking to reduce economic and legal exposure from risks pertaining to pension liabilities like liquidity needs, longevity of beneficiaries, administering complex existing pension schemes and potentially increasing contributions to the German Pension Protection Association (PSVaG). Additionally, the obligation to increase pensions periodically to meet the cost-of-living is perceived as both a financial and administrative burden. Furthermore, unfunded pension liabilities are often seen as an obstacle in M&A transactions, as investors are typically interested in acquiring the core business, not a sometimes significant pension business. Corporate groups also planning to exit the German market are looking for options to transfer their pension liabilities to potential acquirers in order to have a final solution for this part of their business.



German unfunded pension schemes

Unfunded pension schemes or pension promises, known in German law as *Direktzusagen* (direct pension commitments), have long been a cornerstone of the German occupational pension system. When an employer provides such a pension scheme, it is directly liable for the pension benefits and must recognise these provisions on its balance sheet. The classification as “unfunded” refers to the absence of any legal obligation under German law to create a ring-fenced pool of assets dedicated to the fulfilment of the pension liabilities. Nonetheless, an employer must hold sufficient assets on its balance sheet to cover these “unfunded” pension liabilities in substance, so as to preserve its equity capital. During the past 25 years, many corporate groups have voluntarily transferred assets under so-called “contractual trust arrangements” to a trustee. These assets are earmarked to meet the pension liabilities and ensure a certain level of funding. Accordingly, while the general legal framework for the pension liabilities remained widely unchanged, a significant part of these *legally* unfunded pension liabilities can now be perceived as *economically* funded.

Buy-out of German unfunded pension liabilities

Unlike in the UK, where members can typically transfer their DB benefits for a cash equivalent value, the German Occupational Pension Act (BetrAVG) generally prohibits both the transfer of pension liabilities or vested entitlements on the basis of individual agreements and the settlement of pension liabilities through lump-sum compensation. The rationale for this is to protect pension beneficiaries from being pressured into accepting a transfer to a less creditworthy party or that pension beneficiaries opt for a short-term payment in lieu of a long-term benefit.

However, in its landmark decision of 11 March 2008, the German Federal Labour Court (*Bundesarbeitsgericht* –

BAG) confirmed that the prohibition on contractually transferring pension liabilities under the BetrAVG does not extend to transfers by way of a split-off under the German Transformation Act (*Umwandlungsgesetz* – UmwG). Consequently, pension liabilities can be transferred, without the consent of the respective pension beneficiaries, to another entity – commonly referred to as a “pensioner company” (*Rentnergesellschaft*) – whose primary corporate purpose is the fulfilment of pension obligations.

In practice, there are several structural routes. Firstly, the employer may split off unfunded pension liabilities onto an existing or newly created subsidiary, which can subsequently be sold and transferred to a buy-out provider. Secondly, unfunded pension liabilities may be split off directly to the buy-out provider or any of its existing or newly created subsidiaries.

The UmwG provides creditor protection through a joint liability of the transferring and receiving entities. The liability period for the entity which is not assigned the pension liabilities extends to 10 years from the date of the split off and its liability is capped at its net assets at the same date. In addition, the BAG has established further requirements. The transferring employer has an ancillary duty to endow the receiving pensioner company adequately. To quantify this obligation, insurance-industry mortality tables are typically used, thereby incorporating an appropriate risk loading, and the discount rate should be at the lower end of a commercially reasonable range, with the projected cost-of-living adjustments accounted for. Any breach of this endowment duty does not render the split-off invalid but may give rise to claims for damages against the transferring employer.

There is no statutory obligation for pensioner companies to comply with specific investment guidelines. The only applicable standard is the general duty requiring directors to exercise the care of a prudent and diligent businessperson, including in relation to investments. Moreover, pensioner companies are not required to fund their obligations from returns on invested assets. Therefore, financing by way of an assumption of debt or a guarantee by another entity with sufficient substance may be permissible.

In practice, transferring employers typically seek to minimise their liability exposure and therefore negotiate, as part of the pension buy-outs, that the pensioner company must comply with agreed investment guidelines at least for the 10-year time period of the creditor protection regime. In addition, it is common practice to require that the assets with which the pensioner company is endowed be placed in a contractual trust arrangement, thereby ring-fencing them for the primary purpose of fulfilling the pension liabilities.

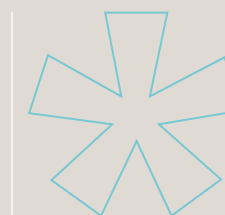
Insolvency protection

Insolvency protection of German unfunded pension liabilities, including such pension liabilities for which assets are transferred to a trustee under a contractual trust arrangement, is provided by the PSVaG, a mutual insurance association designated as the statutory carrier of insolvency protection under the BetrAVG. The PSVaG steps in when an employer with outstanding pension liabilities is affected by a relevant event such as insolvency or the complete cessation of business activity. Upon such an event, the PSVaG assumes the obligation to satisfy the pension liabilities, subject to a statutory cap on the monthly amount of pension benefits owed by the employer. The PSVaG is subrogated to the claims of the pension beneficiaries.

The PSVaG is financed through mandatory contributions levied on all employers offering unfunded or certain types of funded pension schemes. For unfunded pension schemes, the contribution is based on the tax value of the unfunded pension liability. The contributions are apportioned among all liable employers in proportion to their respective assessment bases.

Outlook

The market for German pension buy-outs is expected to continue growing, driven by corporate demand for de-risking and simplification and the increasing professionalism of buy-out providers.



The market for German pension buy-outs is expected to continue growing...

Dr Jan Schröder
A&O Shearman



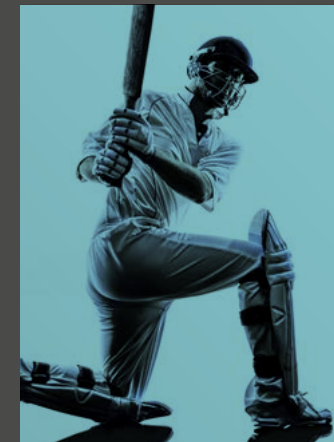
Jan Schröder is Co-Head of A&O Shearman's Global Insurance Sector Group. He is also head of the German insurance transactional and regulatory law practice and of the German pensions group. Jan focuses in particular on M&A transactions (including pension risk transactions and reinsurance transactions), corporate reorganizations and regulatory matters. In addition, his area of expertise includes the establishment of pensioner companies, contractual trust arrangements and governance issues. Jan is recognised as a market-leading adviser on transactions in the insurance and pensions sector, with great know-how of regulatory frameworks. Before joining a law firm, Jan worked in several positions for Allianz Group.

Dr Achim Schmid
A&O Shearman



Achim Schmid is part of A&O Shearman's insurance transactional and regulatory law practice in Germany as well as the German pensions group. He has extensive and long-standing experience advising the insurance and pensions sector. He assists domestic and international clients with national and cross-border transactions and restructurings, including pension buy-outs. Achim Schmid draws on his expertise to advise on a broad spectrum of regulatory and corporate law matters as well as pension risk transactions including the securing of occupational pension obligations through contractual trust arrangements (CTAs). He also has extensive experience in insurance contract law and insurance distribution law.

Canada



Over the last 10 years, the Canadian bulk annuity market has seen increased demand, with activity more than doubling in volume from 2017 to 2024.

DB landscape

Defined Benefit (DB) plans in Canada were popular at the end of the 20th century; however, their popularity has declined since the early 2000s due to several factors, including an ageing population, increased burdens on plan sponsors, and broader economic trends. Specifically, the proportion of active members covered by DB plans within private pension plans in Canada decreased from 83% in 1993 to 40% in 2023¹, and this downward trend is expected to continue.

The remaining DB plans still open to new participants are mostly sponsored by public sector entities, while the private sector has largely shifted to new Defined Contribution (DC) plans or converted existing DB plans to DC plans or other types of plans, such as those with DB and DC components, target benefit plans, or shared-risk plans.

Bulk annuity activity

Over the last 10 years, the Canadian bulk annuity market has seen increased demand, with activity more than doubling in volume from 2017 to 2024. The latter was a record year for the market, with a total of CAD 11bn placed with bulk annuity providers. This record volume was driven by several sizeable transactions (CAD 1bn+). A milestone was also set in 2024 for inflation-linked annuity transactions, with volumes reaching about CAD 3bn, including Canada's largest single insurer inflation-linked annuity transaction

amounting to approximately CAD 1.2bn². In recent years, bulk annuity buy-outs have become the preferred form of annuity transaction over buy-ins.

Demand for these products has increased in part because of the improved financial health of Canadian DB plans, the ability to remove liabilities from the balance sheet, and new legislation offering or considering offering statutory discharge. The Mercer Pension Health Pulse, a measure that tracks the median solvency ratio of DB Canadian pension plans in Mercer's pension database, showed a median solvency ratio of 132% as of 31 December 2025³.

With this improved financial health and ongoing economic uncertainties, pension risk management has become a top priority for Canadian plan sponsors, who continue to turn to the bulk annuity market to transfer the risks associated with their pension plans as part of their overall risk management strategy. Market activity in 2025 was lower due to fewer sizeable transactions, although the total number of transactions remained comparable to previous years.

Regarding longevity swaps (or longevity insurance), Canada remains an emerging market with relatively low adoption compared to other markets such as the United Kingdom. The most notable Canadian deal was the CAD 5bn Bell Canada pension plan transaction with Sun Life Financial in 2015, advised by Mercer, which was the first of its kind in Canada.

Participating bulk annuity providers

The Canadian annuity market has fewer participating insurers compared to other bulk annuity markets worldwide, such as those in the United States and the United Kingdom. Eight insurers are active in the market as of the beginning of 2026, with some insurers leaving or joining over recent years. These insurers vary in their preferences, capabilities, and capacities. For example, some consistently quote on inflation-linked annuities, while others have smaller annual capacity targets compared to their competitors. However, supply of bulk annuities has continued to increase.

Market sophistication

To improve supply, Canadian insurers are becoming more proactive with plan sponsors, consultants, and advisers in promoting tailored solutions. Some insurers can accommodate larger and more complex transactions with special features, which require extensive modelling and administrative work. Others specialise in promoting small and simple solutions (e.g. no indexation and no, or very few, deferred members).

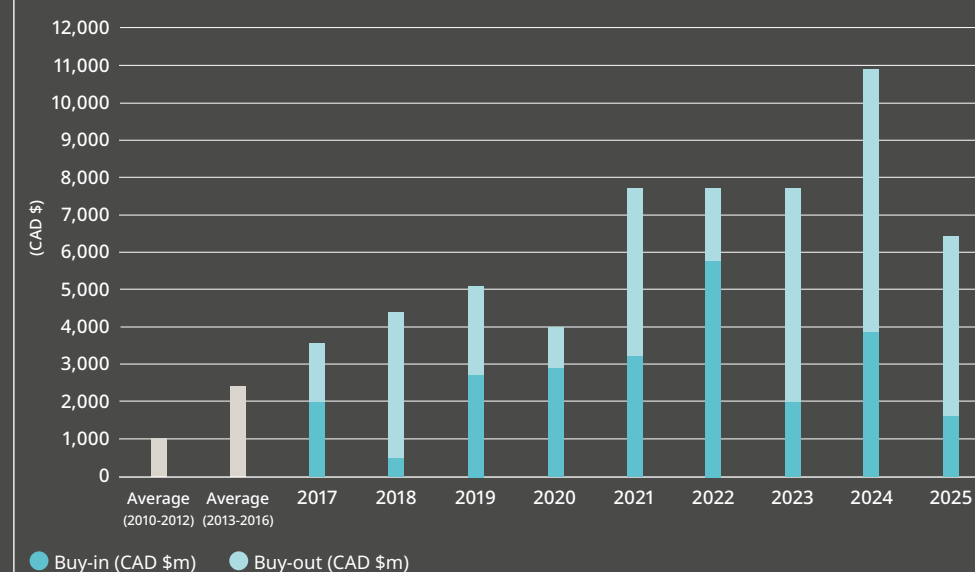
Insurers are also exploring opportunities beyond private sector pension plans to create appetite for bulk annuities in other sectors in Canada, such as public sector pension plans.

Over the past five years, the inflation-linked bulk annuity market in Canada has grown, with recent developments including formulas based on fixed percentages, with floor features or offsets, or fully indexed pensions based on the Consumer Price Index (CPI). Such pensions have historically been harder for certain insurers to accommodate due to challenges in effectively hedging inflation risk. Insurers have shown increased willingness to provide solutions for larger plans, and new insurers have entered the market to price indexed annuities, especially when other factors make the business attractive. Competitive pressure has improved pricing for indexed annuities, making them an appealing product for plan sponsors managing pension risks.

This pricing improvement is reflected in the Canadian Institute of Actuaries' Educational Note on hypothetical wind-up and solvency valuations since 30 June 2025, which shows an increase in the pricing spread used to estimate the implied discount rate achievable through an annuity premium.

The cessation of issuance by the Canadian government of Real Return Bonds (RRBs) in November 2022 has created potential liquidity constraints for this asset class, which insurers use to hedge inflation risk. This development has prompted some plan sponsors to question whether pricing and solutions developed in recent years in the inflation-linked annuity market can be maintained. While insurers may be impacted in the future, they are currently assessing the implications for their strategies involving RRBs and exploring alternative inflation hedging solutions. These include sourcing RRBs from other global markets where they operate, synthetic hedges through higher-yielding fixed income assets (e.g. corporate bonds) and expanding appetite for alternative asset classes. Additionally, reviewing the possibility of in-kind transfers of RRBs, if available within pension plan assets, may assist insurers from a sourcing perspective.

Canadian bulk annuity market



1 OSFI – Registered Pension Plans (RPP) and Other Types of Savings Plans – Coverage in Canada (2023) – Office of the Superintendent of Financial Institutions.
2 Sources – LIMRA, Mercer
3 Mercer – <https://www.mercer.com/en-ca/insights/retirement/merc-pension-health-pulse/merc-pension-health-pulse-q4-2025/>.

Émile Alarie Mercer



Émile Alarie, FSA, FCIA, is a Principal with Mercer. He joined Mercer in 2022 and has since been acting as the Canadian lead in pension risk transfer activities. Émile helps clients understand and manage the risks associated with their pension obligations, as well as leading pension risk transfer projects from strategy through execution to successful implementation. Émile has worked on the successful completion of pension risk transfer projects with Mercer amounting to over \$3.5 billion, with experience in innovative transactions of various sizes and complexities.

CHAPTER
06

Wrapping up



“
To me, it doesn't matter how good you are. Sport is all about playing and competing. Whatever you do in cricket and in sport, enjoy it, be positive and try to win.
”
IAN BOTHAM

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Jargon buster

Specialists in any topic tend to develop their own terms to describe the various aspects and operation of their market. To aid the reader of this and other reports in the market, the pensions team at Linklaters has put together a summary of some key terms used in buy-in, buy-out and longevity transactions.

Terms in **bold and italics** are defined terms.

Term	Explanation
Account Control Agreement (ACA)	A legal agreement between an insurer and the scheme's custodian, typically used in <i>longevity swap</i> transactions, which governs control over assets held as <i>collateral</i> .
All-risks	All-risks refers to a <i>bulk annuity</i> insurance policy which covers residual risks that a <i>buy-in</i> or buy-out would not normally cover i.e. potential liabilities outside of the core benefits. They vary in the scope of their cover and are often called <i>residual risk</i> policies (because they don't cover all risks in a literal sense).
Balancing Premium	This is the balancing amount which is payable under a <i>buy-in</i> to the trustee or to the insurer once the <i>data cleanse</i> has been completed. Also called a <i>premium adjustment</i> .
Benefits mismatch	This is where the benefits insured by the insurer do not exactly match those provided under the scheme.
Benefit specification	This document summarises all the benefits which are going to be insured by the insurer under the <i>buy-in</i> or <i>longevity swap</i> . It will also capture discretions and practices (e.g. in relation to pensions payable where there is financial dependency) and may look to codify these.
Best estimate of liabilities/BEL	The "best estimate of liabilities" is an insurer's best estimate of the net liabilities that it will have to pay out over the life of an insurance contract or group of insurance contracts. The <i>termination payment</i> (if any) in a <i>buy-in</i> or <i>buy-out</i> contract is often linked to the best estimate of the liabilities at the time of termination.
BoE	The Bank of England.
Bridging Pension Option (BPO)	A retirement option that allows a member to receive their benefits so that they receive a higher income before State Pension Age and a lower income thereafter, "bridging" the gap until the State Pension becomes payable.
Bulk annuity/bulk purchase annuity/BPA	A bulk annuity or a bulk purchase annuity is an insurance policy taken out by the trustee. The insurance policy is in the trustee's name and is an asset of the scheme. The insurer will make scheduled payments under the policy to match the trustee's insured liabilities. The trustee and its administrator continue to operate the scheme as usual but are funded by payments under the insurance policy. Members do not have direct rights against the insurer.
Business as usual	Standard operations or procedures relevant to a particular entity and commonly used to describe the status of a <i>buy-in</i> once the <i>data cleanse</i> and <i>premium adjustment</i> have been completed.
Buy-in	A buy-in is a <i>bulk annuity</i> policy that is held by the trustee. This can either be held for the long term or simply just for the period of time before moving to <i>buy-out</i> . A buy-in will always precede a <i>buy-out</i> . This is because the first step in buying-out will always be a <i>bulk annuity</i> policy with the trustee (the buy-in policy) before the insurer issues <i>individual policies</i> for beneficiaries which achieves the <i>buy-out</i> .
Buy-in price or initial premium	The initial amount which the trustee will pay to the insurer on signing the <i>buy-in</i> policy to go <i>on-risk</i> . Subject to adjustment as part of the <i>data cleanse</i> .
Buy-out	A buy-out refers to the process where the insurer steps into the shoes of the trustee, and issues <i>individual policies</i> directly to scheme members. The members' benefits are then provided directly by the insurer and members have direct rights against the insurer. The trustee is discharged from liability in respect of those benefits it has bought out. If all benefits are bought out, the scheme usually winds up. A <i>buy-in</i> will precede a buy-out. A <i>buy-in</i> that is intended to move to buy-out is often called a buy-out.
Buyer's Report	A <i>due diligence</i> report on the scheme's legal documentation, prepared by a law firm acting for one or more insurers involved in the quotation process, on which the insurer(s) can rely.
Captive cells	These are cells that all sit within one cell company but with each cell having a separate legal identity which will be sufficient for it not to be impacted by the insolvency of another cell in the same cell company. Assets and liabilities are held separately between the cells. Often used to facilitate a longevity swap with a separate cell being used for each transaction.

Jargon buster

Term	Explanation
Collateral	Collateral refers to a pool of assets held as security in return for an insurer's obligations under the insurance policy. If the insurer goes insolvent, or if certain triggers occur, the trustee can have recourse to those assets. If a transaction is "collateralised" this means that there is collateral being held. The collateral is usually held by a separate custodian. There is no obligation to have collateral and most <i>buy-ins</i> do not.
Consolidator/superfunds	The consolidators or "superfunds" are occupational pension schemes that are set up "for profit". A consolidator will take on the assets and liabilities of other defined benefit pension schemes by way of a bulk transfer. It is a single employer scheme with no link to the transferring pension scheme (or its sponsoring employers). No benefits are built up whilst in the consolidator's scheme. The consolidator will hold a capital buffer which sits outside the scheme.
Cost of Capital Rate	A fixed figure used in the calculation of the <i>risk margin</i> . In the UK version of <i>Solvency II</i> it is currently set at 4%, having been reduced from 6% on 31 December 2023 as part of the UK's <i>Solvency II</i> reform process.
Coverage/cover	The insurer will only insure the benefits and risks the trustee asks them to, and what they insure is the "coverage". Therefore, any liabilities outside the scope of the coverage described in the contract or the <i>benefit specification</i> will not be insured and the trustee will have to meet these from scheme assets. Whether or not a certain risk (e.g. GMP equalisation) is covered will be a matter of negotiation and may be subject to the payment of an additional premium.
Data cleanse (often also referred to as verification)	This is a process where the administrator will cross-check and verify certain data they hold for the members of the scheme (usually referred to as the <i>Initial Data</i>) for the purposes of the <i>buy-in</i> . For example, this may involve checking members are still alive; whether their date of birth is correct; and whether their sex is correct. This is often referred to as verification. The data cleanse will likely be followed by a <i>Balancing Premium</i> also known as a <i>Premium Adjustment</i> . This can be a complex and lengthy process and can be carried out in advance of a de-risking project, or after the transaction has been entered into and before <i>buy-out</i> . The aim is to make sure the data is as accurate and complete as possible.
Deed poll	A declaration and undertaking by the insurer that, in accordance with the terms of the <i>buy-in</i> , the insurer assumes the obligation to pay benefits directly to scheme members. This is used to allow the insurer to assume the obligation to pay the benefits directly to scheme members before issuing <i>individual policies</i> and <i>buy-out</i> occurs at that point rather than when <i>individual policies</i> are later issued.
Deferred Premium	This is where part of the premium paid by the trustee to enter into the <i>buy-in</i> is deferred and is paid at a date later than when the <i>buy-in</i> is signed and the policy incept/becomes live, usually by a set deadline.
Dis-intermediated structure	Some <i>longevity swaps</i> are structured this way. The insurer accepts limited liability and acts as a "pass through" or go-between and the trustee contracts with the <i>reinsurer</i> as much as possible. Also referred to as a pass-through structure.
Due diligence/DD	This normally includes a review of scheme data, governing documents and/or administration systems and processes to determine readiness for a transaction and inform the scope of any <i>residual risk</i> cover.
ESG	ESG covers environmental, social and governance issues (but consensus on details of the meaning can vary).
Exclusive broking process	This is where a trustee pre-selects one insurer and requests pricing only from that insurer.
Exclusivity	Where the trustee agrees to only negotiate with a certain insurer for a possible transaction. It will usually last for a limited time. There is no obligation to transact at the end of it. Exclusivity may be documented in an exclusivity letter and is often provided as part of the insurer agreeing to a <i>price lock</i> .
Experience data	The data the trustee holds about the exits (including deaths and transfers) from the scheme.
FCA	The Financial Conduct Authority.

Jargon buster

Term	Explanation
Finalised Data File/Verified Data	This is the member data after <i>data cleanse/verification</i> (i.e. it has been checked, errors corrected), and the insurer and the trustee have agreed that this is the final form data. There is often a <i>Balancing Premium</i> to pay once the final data has been agreed.
FSCS/Financial Services Compensation Scheme	This is the Financial Services Compensation Scheme, which is a scheme that compensates holders of insurance policies if the insurer goes insolvent, subject to certain conditions.
Fully-intermediated Longevity swap	Some <i>longevity swaps</i> are structured this way. The trustee enters into an insurance policy under which the insurer takes on full liability to the trustee. The trustee has no visibility over the insurer's own hedging arrangements.
Fundamental Spread	This is the allowance for risks of default and credit downgrade retained by an insurer on its portfolio of investments and is used as part of the insurer's <i>matching adjustment</i> calculations.
Funded Reinsurance	A reinsurance agreement between an insurer and <i>reinsurer</i> to cover all, or part, of member benefits provided for under the insurer's <i>bulk annuity</i> contract. The insurer pays a single premium to the <i>reinsurer</i> and collateral is typically provided to the insurer by the <i>reinsurer</i> . The <i>reinsurer</i> takes on both longevity and assets risk.
Gap policy	This relates to the insurer's <i>matching adjustment</i> requirements. If an insurer wants to place the assets held under the trustee's <i>bulk annuity</i> policy into its <i>matching adjustment portfolio</i> , the policy has to comply with certain terms. If a term or payment (e.g. payment on termination of the policy) does not comply with the <i>matching adjustment</i> requirements, the insurer may request this is covered by a separate policy (known as a gap policy) so as to avoid invalidating the whole <i>buy-in</i> contract from qualifying for <i>matching adjustment</i> . This gap policy is just a separate insurance policy, which is not eligible for <i>matching adjustment</i> .
Highly Predictable (in the context of Solvency UK)	<i>Solvency II</i> currently requires that insurers only include assets in their <i>matching adjustment portfolios</i> if those assets have 'fixed' cash flows. However, as part of the <i>Solvency UK</i> reforms, the range of assets that are eligible for <i>matching adjustment</i> treatment will be expanded also to include assets with 'highly predictable' cash flows. Although this will allow some assets to be included where their cash flows can be changed, those assets will need to fall within the <i>PRA's</i> requirements for 'highly predictable' assets: the contractual terms of the asset must set out a bounded range of variability, in terms of the timing and amount of the cash flows, and any failure to meet those terms must be a default. In addition, the <i>PRA</i> has said that assets with highly predictable cash flows will only be allowed to generate up to 10% of the total <i>matching adjustment</i> benefit of the <i>matching adjustment portfolio</i> .
Illiquid Assets	Pension scheme assets that cannot be easily sold or realised (without a substantial loss in value).
Implementation	After the <i>buy-in</i> is executed, the operational aspects of the <i>buy-in</i> are put in place.
Inception	The date the policy is effective and the insurer goes <i>on-risk</i> for the benefits.
Individual annuity/policy	These are the insurance policies issued by the insurer on a <i>buy-out</i> in the name of each scheme member entitling them to benefits equivalent to their rights under the scheme. The trustee and scheme cease to be liable to the member.
Individual policies	Insurance policies issued by the insurer in the name of scheme members, these are issued at the point of <i>buy-out</i> .
Individual surrenders (e.g. CETVs)	Where a member or beneficiary surrenders or commutes their benefits instead of receiving benefits from the scheme or insurance policy. Common examples are a cash equivalent transfer value (CETV) or a trivial commutation lump sum.
Initial Data File/Initial Data	This is the spreadsheet, or other file, containing the key data for payment of members' benefits (e.g. names, National Insurance numbers, dates of birth, pension in payment). This is normally provided right at the start of the transaction, and then once the documents are signed the <i>data cleanse/verification</i> period begins. The <i>initial premium</i> (i.e. the price the trustee pays at the start of the transaction) is based on the Initial Data.
Initial period	The period under the contract before the <i>Finalised Data File</i> is confirmed.

Jargon buster

Term	Explanation
Insurer factors	These are the factors the insurer uses to calculate benefits such as reduction to pension for early payment or the factors used when pension is being commuted for tax-free cash. These are usually different to the scheme-specific factors.
ITQ/RFP	Invitation to quote or request for proposal: This is essentially a tender which goes out at the start of the process to insurers, who will return their price on the basis of that document. It is usually accompanied by the benefit specification .
Joint working group	This can be a working group set up by the trustee with or without the scheme sponsor and is used as part of managing entering into a buy-in, buy-out or longevity swap .
Key Performance Indicators	How performance by an administrator providing pension administration services to a trustee and/or an insurer is measured.
Lasting Power of Attorney (LPA)	A legal document allowing an individual (the “donor”) to appoint one or more people (known as “attorneys”) to make decisions on their behalf, for example if they lose mental capacity.
Life Insurance Stress Test (LIST)	A regulatory stress testing exercise carried out by the PRA applied to UK life insurers, designed to assess the resilience of insurers’ balance sheets under severe but plausible market shock scenarios.
Longevity	How long members live for.
Longevity swap	An insurance policy similar to a buy-in but the only risk the insurance policy covers is longevity . It covers the risk of members living longer than expected. The survival of dependants is usually covered as well.
Longevity swap novation/conversion	This is where a longevity swap is turned into a buy-in with the reinsurer counterparty in the longevity swap providing the reinsurance to the buy-in insurer.
Marital status data	This is data that confirms the member’s marital status that can be useful for insurers and reinsurers when pricing a transaction.
Marital status survey	A survey a trustee may undertake of its scheme’s members to get details of members’ marital status. This can be useful for insurers and reinsurers when pricing a transaction.
Monoline insurer	An insurer that only provides a certain type of insurance, such as bulk annuity insurance.
Matching adjustment/MA/matching adjustment portfolio	<p>How much capital an insurer has to hold is determined in part by the value of its liabilities. Insurers value the present value of their liabilities using a discount rate.</p> <p>A matching adjustment is an upward adjustment to the discount rate, which has the effect of reducing the amount of liabilities and therefore also the insurer’s Solvency II capital requirements.</p> <p>An insurer can only use a matching adjustment where it meets certain conditions and has a matching adjustment portfolio. When an insurer has a matching adjustment portfolio, this means that it sets aside a portfolio of assets to support a known/predictable portion of their liabilities. The return on the assets in the matching adjustment portfolio matches the liabilities attributable to that portfolio – i.e. the assets match that proportion of liabilities, and so the overall risk is reduced, and the insurer is able to use matching adjustment to reduce its Solvency II capital requirements.</p> <p>An insurer may put a bulk annuity contract into a matching adjustment portfolio, which means that the contract needs to comply with the matching adjustment requirements. If a term is non-compliant, it may be put into a gap policy.</p>
Material change	This is where as a result of the data cleanse there is a large change in the data and can lead to the insurer being able to re-price the transaction or in some circumstances even terminate if the change is large enough.
Minimum capital requirement	This is the absolute minimum level of capital that insurers can hold without losing their licence. As described below, Solvency II requires a level of capital high above that minimum.
Missing beneficiaries	Members of the scheme that the trustee does not know about.
Mortality risk	The risk that a person dies. Where insurers have provided life cover that pays out on death they often reinsure this mortality risk in the life reinsurance market. When the same reinsurers also insure longevity risk for pension schemes or bulk annuity insurers, the two risks can offset and reduce the capital requirements for the reinsurer .

Jargon buster

Term	Explanation
Non-disclosure Agreement	This is put in place when the trustee wants to pass scheme (including member) data to the insurer so the insurer can quote a price. This governs the insurer’s use of that data and includes protections for the trustee.
On risk	The point in time at which the insurer becomes liable under the buy-in or longevity swap in respect of the insured benefits (and goes “on risk”).
Own Funds	The financial resources available to an insurer to absorb losses and meet its SCR subject to applicable eligibility criteria and rules under the regulatory framework.
Part VII Transfer	This is a court-approved regulatory process for an insurer to transfer some or all of its business to another insurer. The process is overseen by the court, the PRA and the FCA , and an independent expert is appointed to consider the impact of the transfer on policyholders, including any trustee who holds an insurance policy.
Pension Increase Exchange (PIE)	An option allowing a member to exchange part of their inflation-linked pension increases in return for a higher flat pension.
PPF+ buy-out	This is a buy-out where benefits are secured at a level below full scheme benefits but greater than PPF compensation. This is usually done either following the sponsor’s insolvency (where the scheme is funded above PPF levels) or as part of a restructuring to allow the survival of the sponsor (such as a regulated apportionment arrangement).
PRA	The Prudential Regulation Authority.
Premium adjustment	This is where the premium paid by the trustee to enter into the buy-in may change. This is often because of a true-up due. This is also called a Balancing Premium .
Price lock/gilt lock/Price-Lock Portfolio/asset lock	<p>At the outset of the transaction, the insurer’s pricing terms may be agreed relative to market conditions. Therefore, over time, the exact amount of the premium moves in line with market conditions or the insurer’s investment strategy. This leads to a risk that the premium moves so much that the trustee can no longer afford it.</p> <p>In order to pay the premium, the trustee will usually set aside cash and assets (e.g. shares, bonds, gilts) to fund the premium.</p> <p>Under a “Price-Lock Portfolio” the insurer agrees that their premium will be tracked in line with a portfolio of identifiable assets; usually gilts but often also including corporate bonds and swaps. If it is entirely made up of gilts then it is called a gilt lock.</p> <p>This means that the trustee can make sure the movement in their assets matches the movement in the premium.</p> <p>Where the Price-Lock Portfolio matches assets held by the trustee then it is often called an asset lock.</p> <p>The “price lock” is usually agreed at the outset of exclusivity.</p>
Protected pension age	A tax protection allowing certain members to draw their pension before the standard normal minimum pension age (currently age 55, rising to 57 in 2028), without incurring an unauthorised payment tax charge.
Pull admin payroll	This is the payroll mechanism provided for in the buy-in where the trustee calculates the amount due for each payroll and informs the insurer of the amount payable to the trustee.
Push admin payroll	This is the payroll mechanism provided for in the buy-in where the insurer calculates and pays the amount due for each payroll.
Query log	As part of the insurer or reinsurer’s due diligence , they may ask certain questions about the scheme’s data and benefits. The queries and answers will be recorded in the query log.
Reinsurer/reinsurance	<p>The insurer with whom the trustee transacts may itself insure some of its liabilities with another insurer, called a reinsurer. The reinsurer will not be involved with the trustee in the buy-in or buy-out transaction as they do not have the right regulatory permissions to deal with the trustee directly. The insurer may have restrictions on its ability to insure certain benefits if it cannot obtain reinsurance in the market.</p> <p>The trustee may have more interaction with the reinsurer under a longevity swap depending on the structure.</p>

Jargon buster

Term	Explanation
Residual risks	These are types of risk outside of the core benefits that a buy-in or buy-out would not normally cover, for example, the risk of missing beneficiaries within the scheme or that the benefits provided are incorrect. A policy that covers residual risks is sometimes called an all-risks policy even though this is a misnomer as it doesn't cover all possible risks.
Risk margin	Risk margin is an amount in addition to the best estimate of liabilities that is designed to represent the additional cost of getting a willing insurer to take over the liabilities. It acts to increase the capital that the insurer is required to hold and is calculated in accordance with Solvency II .
Run-off cover	This is insurance cover the trustee can take out on winding up the scheme which covers risks not covered by the buy-out, all-risks or residual risks cover . Examples of the cover provided include cover for costs in defending any claims that may be brought against the trustee. It is usually provided by the general insurance market and is separate from the bulk annuity policy.
SEFT site	A site which allows for secure transfer of data electronically. This is often used to provide the insurer or reinsurer access to the scheme's data in a transaction and ensure the data is protected.
Selection risks, anti-selection	The risk where one party uses information the other does not have to its advantage. For example, if the trustee had done a medical questionnaire of its membership and knew that the health of the members it was choosing to insure was above average and the insurer is not aware of this.
Seller's Report	This is a report of the results of the vendor due diligence a trustee has carried out on the scheme ahead of approaching the market. This usually is shared with insurers on a non-reliance basis.
Service Level Agreement	An agreement between trustees and/or insurers with their administrator to set contractual timescales for services to be carried out.
Single premium	This is where the Initial Premium is the only premium due and no Balancing Premium will be payable.
Solvency II	Solvency II is the UK's main legal framework governing how insurers carry out their business. It is based on an EU directive of the same name, although the UK and EU regimes nowadays exist separately. The UK government and the PRA have made and are continuing to make changes to UK Solvency II: the UK's amended version tends to be known as "Solvency UK" and as UK Solvency II is diverging from EU Solvency II, that is the more accurate term to use in the UK. Solvency II imposes capital requirements on insurers, so that they can withstand economic and other shocks. The requirements of Solvency II are linked to the amount of an insurer's liabilities.
Solvency II capital requirements/SCR/Regulatory Capital	Under Solvency II , insurers have to hold sufficient capital to withstand a "1 in 200" shock event – i.e. enough capital so that there is at least a 99.5% chance that they will be able to meet their liabilities over the next 12 months.
Solvency UK	Solvency II is undergoing a series of reforms, in part to optimise it for the UK market. Once that process is complete, Solvency II will eventually be known as 'Solvency UK'.
Statutory discharge	Pensions legislation provides a statutory discharge to trustees who buy-out benefits in accordance with the legislation. The discharge will provide protection to the trustee in respect of the benefits bought out.
Surplus	Where a scheme's assets (on a given actuarial valuation basis) exceed its liabilities. (The existence or amount of surplus will vary depending on the relevant actuarial basis being used.) Following a full buy-in or buy-out , surplus is the amount of scheme assets remaining, once funds for remaining scheme expenses have been set aside.
Technical Provisions	These represent the amount that an insurer has determined is required to fulfil its insurance obligations over the lifetime of its insurance contracts. An insurer must calculate its technical provisions as required by the PRA's Rules: the value of technical provisions must be equal to the sum of a best estimate and a risk margin which in turn must be calculated in accordance with the PRA's Rules.
Termination	This is where the buy-in or longevity swap is terminated if certain events occur. Different parties may have different rights on when to terminate. On termination an amount will become due from one party to the other. The amount and who it is owed to depends on the circumstances of the termination and the terms agreed.

Jargon buster

Term	Explanation
Termination payment	Also referred to as the cancellation payment, this is the amount which will be paid if the policy terminates (if there are termination rights). The amount often depends on whether the termination was the fault of the trustee or the insurer, and often has a relationship to BEL .
Top up DD	This is DD an insurer may carry out on a scheme in addition to the legal DD schemes may have carried out before approaching the market (whether that resulted in a buyer's or seller's report being produced).
Tracing	This is a process to check whether pensioners and beneficiaries receiving pensions from the scheme are still alive or to identify correct contact details.
Transaction schedule	A schedule to an umbrella contract/umbrella bulk annuity policy which sets out the terms specific to that buy-in transaction.
Transition team	The team at the insurer who will help the scheme establish the buy-in , complete the data cleanse and then move from buy-in to buy-out .
Trapped surplus	This is a surplus in the scheme (i.e. scheme assets exceed its liabilities) which the employer cannot access. It can be caused by the sponsor making additional funding to facilitate a bulk annuity transaction in circumstances where the additional funding turns out to have been unnecessary.
True-Up	This forms part of the Balancing Premium/premium adjustment and represents the difference in the benefits which have been paid during the data cleanse from what should have been paid in light of the Finalised Data File .
UK Productive Assets	Investments that support economic growth and development in the UK, including assets that fund infrastructure projects and energy transition initiatives.
Umbrella contract/Umbrella bulk annuity policy	A pre-agreed set of terms for a bulk annuity policy that can be used for a number of bulk annuity policies between the same trustee and insurer. Transaction specific terms will be included in a transaction schedule .
Vendor due diligence	This is any review a trustee may commission (itself or from a third party) of a scheme, its data and processes in preparation for a transaction. The trustee may choose to share the results with an insurer or reinsurer via a seller's report (either on a reliance or non-reliance basis). An insurer or reinsurer may choose to carry out top-up DD .
Warranties	These are various statements each party will make in the contract giving the other party assurances that a particular statement of fact is true. This can include warranties from the trustee about the scheme's data that has been provided to the insurer or reinsurer for pricing purposes.
Wrap-around cover	This is a type of residual risk cover, which applies where one insurer provides residual risk cover in respect of scheme liabilities that are already covered by a buy-in with another insurer (i.e. the residual risk cover "wraps around" the existing buy-in). It often applies from buy-out , with the final buy-out insurer providing residual risk cover in respect of all scheme members, including those whose core benefits are already covered by a previous buy-in with another insurer.

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Sarah is a Partner in Linklaters' pensions team and has specialised in pensions law for over 19 years. Sarah advises trustees and corporates on all main areas of pensions law with a focus on buy-ins, buy-outs and longevity swaps. Sarah recently spoke on surplus at the Professional Pensions Endgame Summit in March 2026.

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Phil is Head of Linklaters Global Pensions Practice, advising trustees, corporates and insurers on all areas of pensions law, including on a range of complex, large-scale risk transfer transactions, including residual risk and PPF+ trades. Phil is currently advising various clients on endgame strategy, planning and negotiations.

Between them, Phil and Sarah have worked on the following recent de-risking transactions: NatWest buy-in transactions (circa £12bn buy-ins with Rothesay), Allied Domecq Pension Fund (£3.8bn buy-in with Rothesay); Marks and Spencer Pension Scheme (six transactions with three insurers totalling circa £3.5bn of liabilities); 3i Group Pension Plan (£650m buy-in with L&G); Co-operative Pension Scheme (five transactions with two insurers totalling c.£6.76bn of liabilities); and MMC UK Pension Fund (£2.2bn longevity swap transaction with Munich Re and £1.9bn buy-in with Standard Life including the conversion of three longevity transactions).

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THE EVOLVING ENDGAME

The journey to buy-out

2026

Another great innings

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CARBON**

In recognition of the carbon impact of this publication, we are sponsoring trees at some of Forest Carbon's Nature+ woodlands. Nature+ is a funding model Forest Carbon developed to help the UK make the most of its available land for nature restoration. Across the country many small patches of land are ready to be revitalised with trees, flowers, insects, and more, but are too small to make carbon project certification viable. Nature+ supports landowners with the costs involved, ensuring that no worthy project is held back due to funding constraints. Forest Carbon, with 20 years' experience, are the UK's leading Woodland Carbon Code project developer, and they ensure all Nature+ projects meet stringent standards and are monitored. Projects will still deliver carbon benefits, alongside co-benefits such as flood mitigation, improved air quality, shelter for livestock, habitat creation, enhanced biodiversity, and better soil health.

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