DB pensions priorities 2025

Turning intent into action: results of our 2025 survey of DB pension schemes

June 2025

Turning intent into action

In the last 12 months, we have seen many schemes revisiting previous decisions relating to their endgame strategy, prompted by a rapidly changing landscape: improved funding positions; changes in stakeholder views; and, most recently, regulatory news.

Our survey was conducted before the recent flurry of announcements: the DWP's response to the consultation on **options for DB pension schemes**; TPR's guidance on DB endgames; and the **Pension Schemes Bill**. However, our respondents showed clear signs of intent to reconsider their strategy in anticipation of these announcements and new flexibilities. Our survey data demonstrates a growing spectrum of endgames, book-ended by settlement ASAP and run-on but with plenty in-between. For the respondents without an agreed endgame, the pieces of the puzzle should be becoming clearer, enabling decisions to be made that could materially improve outcomes for multiple stakeholders.

In other areas, such as diversity, equity and inclusion, GMP equalisation and climate change, we see progress in intent (or initial decisions) but there remains more work to be done. And over 70% of respondents see some barrier to achieving their endgame (funding position aside) – the variety of issues selected appears linked to size of scheme in our survey results.

We can see that trustee and sponsor agendas are set to remain busy for the foreseeable future: strategically prioritising actions and enlisting specialist help will be important to stay on track. The range of options now available to schemes underpins the need for a bespoke approach, with now being the opportune time to engage.

We see a huge amount of positive intent in this year's survey responses – it is now about turning that into effective action. On the back of a flurry of regulatory news, schemes should now have the various tools to enable them to make, and begin to implement, important strategic decisions – whether that's focussed on endgame planning, the member experience or tackling systemic risks.

Mary Spencer
Partner and lead author

Key insights from this year's analysis

Buy-out funding levels have continued to improve over the year, with **43% of schemes now fully funded** on a buy-out basis – up from 30% in our 2024 analysis.
Source: LCP Visualise

Schemes therefore find themselves in a strong position to reconsider their endgame strategy, with **55% of schemes reassessing their approach** in anticipation of the upcoming changes to surplus use.

Schemes are exploring the full continuum of endgames, acknowledging that an insurance transaction as soon as it becomes affordable is not the only option, and may not be the right option for their circumstances. **More than 45% of schemes are considering run-on**, at least in the short term.

Despite the increased flexibility, **70% of schemes** consider there to be **barriers to progressing** the journey to their endgame, with the most common concerns linked to data and benefit issues.

Whilst cyber risk remains the biggest worry of our survey respondents, schemes now consider themselves more prepared, with **61% of schemes** now rating preparedness 7 or higher out of 10 – a **notable rise from 38% last year**.

What's in this report

As usual, we have built our report around the LCP GEARS framework, which can help you design your Strategic Journey Plan to agree and achieve your chosen endgame. In each section we build on the issues mentioned below, cover the results from our survey and share our experiences.

G – Get the right governance structure in place

The General Code appears to have reinforced good practice, but there is room to unlock further value. DEI focus spans far beyond policy – we look at the detail of what schemes are doing. The challenge remains turning support into action.
Pages 4-5

E – Establish your endgame and timescales

Buy-out is still the most popular endgame, but there is increasing interest in running on, particularly among larger schemes. We also look at how the easing of surplus rules is influencing strategy.
Pages 6 - 7

A – Analyse what could change your journey

Covenant remains central to long-term decision making, with confidence on reliability slightly waning. Cyber risk continues to dominate respondents' concerns, with climate change a growing worry. We focus in on preparedness for cyber risks.
Pages 8 - 10

R – Refine the steps you plan to take to reach your goals

Net zero targets are now the norm among larger schemes. Most expect the new funding code to add compliance but limited financial impact; and GMP equalisation methods are becoming clearer, though implementation remains slow.
Pages 11 - 13

S – Steer your journey dynamically and in a joined-up way

Smaller schemes battle legacy data issues, while the largest struggle with illiquid assets and aligning stakeholders. We finish by highlighting where scheme priorities are shifting – data once again dominates.
Pages 14 - 15

Additonal steps where relevant

Transact successfully and at the right time

We see a divergence in risk transfer timeframes, some targeting a transaction in the next few years, but others choosing to wait a little longer.
Page 16

Complete wind-up effectively

Securing all benefits with an insurer is a key step, but not quite the end of the road. We bust some myths about the post-transaction journey.
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Additional resources

Relevant material at your fingertips

Access links to further reading on many of the topics covered in this report, and some of our recent webinars.
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Our survey

Find out more about our survey participants and the questions we asked.
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Our experts

Find out who to contact to learn more.
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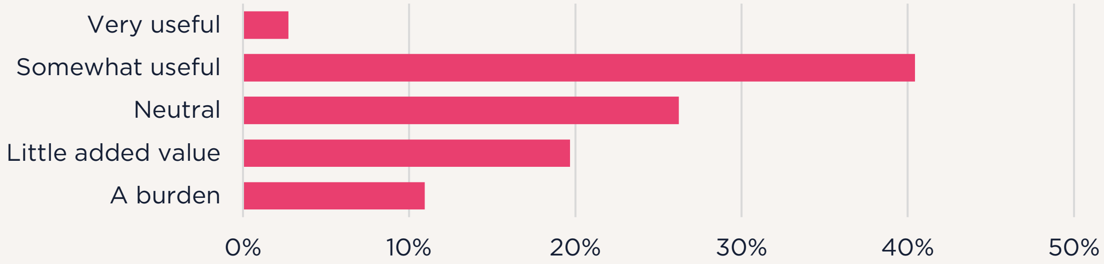
The General Code reinforces good practice, with room to unlock further value

How would you describe the overall impact of the General Code on your scheme's governance?



Strong governance doesn't happen by accident. The General Code is a timely reminder that getting the basics right is essential to running a resilient scheme. We're starting to see schemes move beyond compliance and use the Code — particularly the ORA — as a way to drive strategic governance. That's where the real value lies.

Rachika Cooray
Partner and Head of Governance

It is promising to see that The General Code of Practice, which celebrated its first anniversary at the end of March, has been a valuable opportunity for many schemes to take stock and ensure governance is not only in place but well evidenced.

The Code was never intended to introduce sweeping new requirements, but it is very encouraging to see that almost half of respondents found it to be somewhat (or even very) useful.

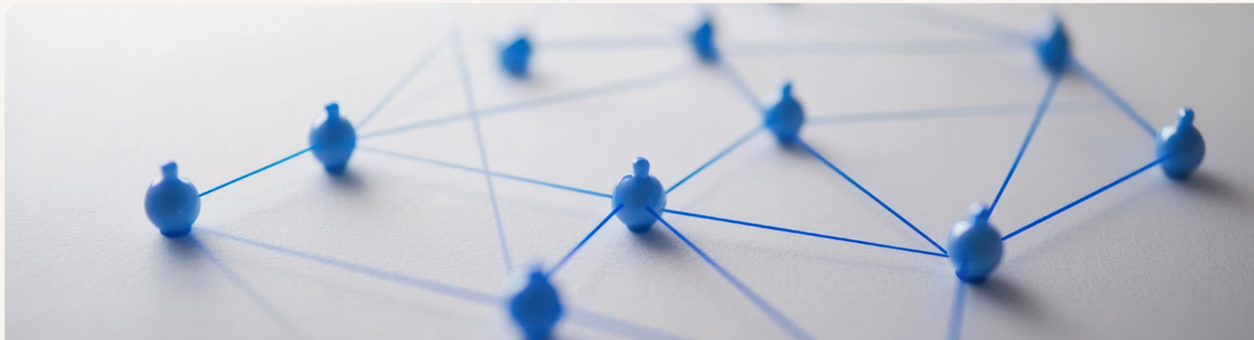
A quarter of respondents were more neutral, indicating the Code had little effect on day-to-day operations. For the remainder who are not seeing tangible benefits yet, this may be because strong governance was already in place or where schemes are balancing limited resources and competing demands.

Given the current regulatory landscape, a range of views was to be expected. For those yet to realise the Code's value, the ESOG and ORA offer clear opportunities. When approached proportionately, these elements can act as catalysts for stronger governance, clearer decision-making, and more robust risk oversight.

Overall, our survey suggests that while the General Code may not have delivered dramatic change for all schemes, it is already having a positive impact by reinforcing the foundations of strong governance. The challenge now is to shift the focus from compliance to value — using the Code as a springboard to strengthen scheme management, build trustee confidence, and ultimately improve outcomes for members.

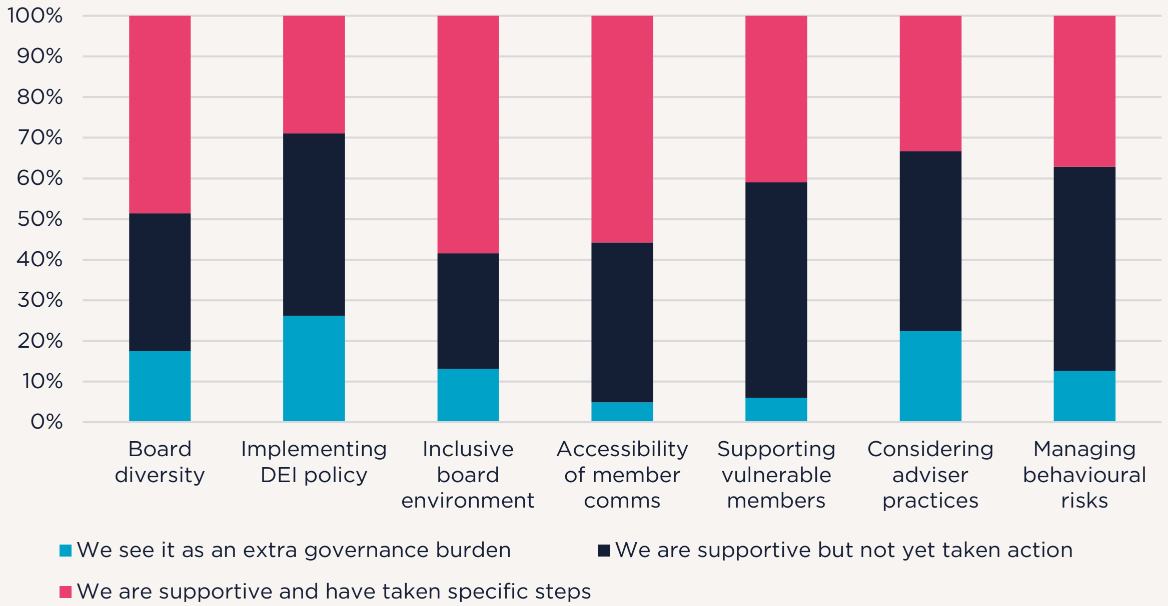
Curious?

Read our industry guides on the ESOG and Own Risk Assessment and get in touch if you'd like to discuss how you can unlock value when addressing the requirements of the Code.



DEI supported across the board, but more steps to be taken

What level of action are you taking in relation to the following DEI areas?



For many of the DEI areas covered, there is a great proportion of respondents showing willingness to take action but who have yet to take practical steps. In some cases this will be driven by time and resource pressures, but in others perhaps there is uncertainty on where to start. Sharing best practice across schemes and working with advisers who can provide support in this area may help to get things going.

Jill Ampleford
Partner and Head of Trustee Consulting

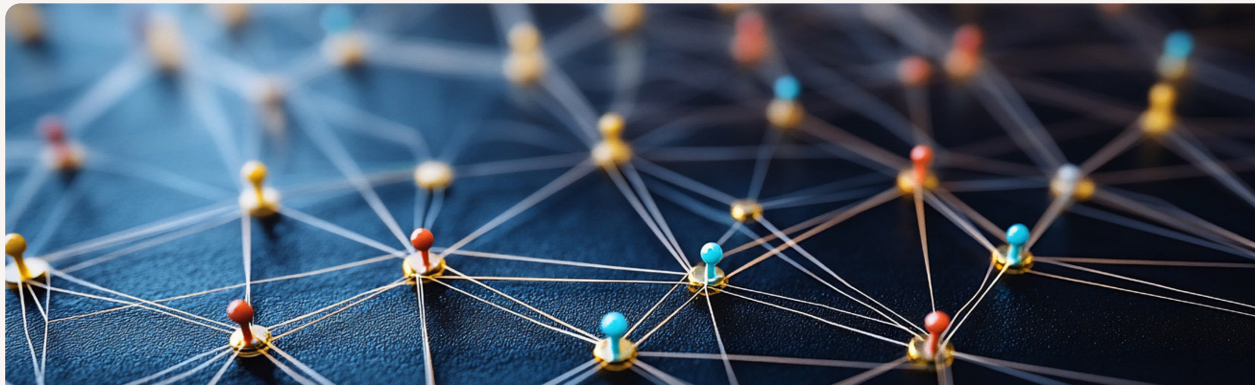
At a headline level, it is pleasing to see that those supportive or taking action on DEI issues remains high, despite the political headwinds following the US election: in aggregate 85% of respondents were supportive (compared to 84% in 2024).

This year, reflecting the broad range of DEI-related actions that could be taken and the nuanced approach taken by many, our question was more granular than before. It is encouraging to see action being taken in relation to Board diversity and creating an inclusive Board environment; implementing DEI policies however is an area where less action is being taken and where 25% of respondents view implementation as an extra governance burden (perhaps reflecting overall governance requirements across the board for trustees to tackle at present).

We are pleased to see a majority of respondents also taking action (and more planning to) in relation to member communications. Whilst good DEI practices start at trustee level, this shows a clear intention to filter this to member level and should lead to tangibly improved outcomes for members.

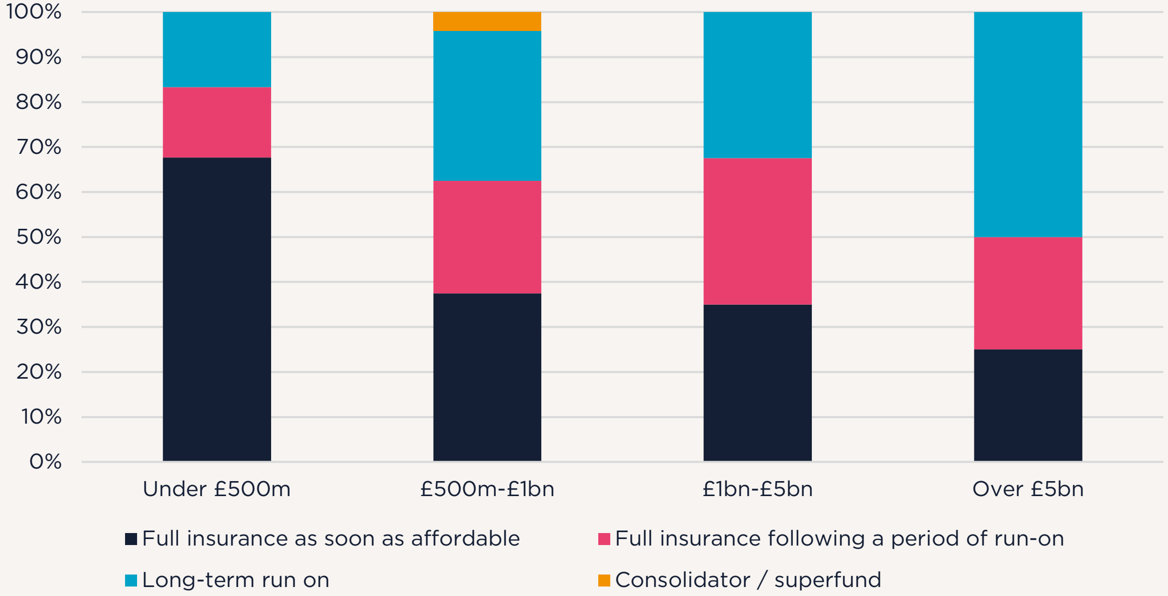
Curious?

Check out our Trustee guide to learn more about where to start on these issues, or contact LCP Partner Zoe Burdo to understand how we can support your journey in a practical and pragmatic way. You can also read about LCP's DEI journey.



Schemes are exploring the full continuum of endgames

What is your chosen endgame for your scheme? (Results where endgame known)



We are seeing a strong continued trend of schemes reassessing their endgame strategy. With recent policy changes and continued innovation in the market, there is an increasingly wide range of issues and opportunities for schemes to navigate as they adjust their endgames to deliver the best overall outcome for all stakeholders.

Jonathan Griffith
Partner and Head of Endgame Innovation

In recent years there has been an upwards trend in the proportion of schemes targeting self-sufficiency or active long-term run-on, reflecting improved funding levels and the increased range of options available. However, buy-out and run-on are not binary options: there is a continuum of endgame strategies, many of which will ultimately result in the settlement of liabilities through an insurer or consolidator at some point in the future, with the choice instead being when the point of settlement should be.

Our survey reflects this. Whilst settlement with an insurer remains the ultimate endgame of choice for the majority of schemes surveyed, over 20% of schemes (where endgame is known) are choosing to defer buy-out beyond the point at which it is first expected to be affordable. Of these schemes, the most common target date for an insurance transaction is in 5-10 years' time.

Around two-thirds of schemes over £500m are choosing to run-on, at least in the short-term. It is no surprise to see that insurance as soon as affordable remains the popular choice for the smallest of schemes.

It appears that for now schemes actively targeting a transfer to a superfund remain rare. It will be interesting to see how the superfund landscape evolves, following the formal regulatory framework for superfunds set out in the Pension Schemes Bill and the first transfer of a scheme with an active sponsor (**LCP advises on the £210m transfer of the Wates Pension Fund to Clara)** and the first connected covenant transaction, which retains a link to the existing sponsor.

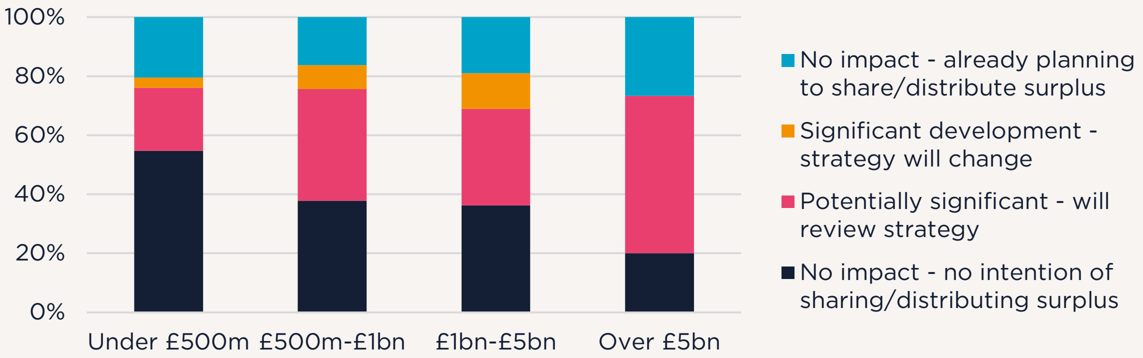
Broadly 25% of our respondents have not yet selected an endgame strategy for their scheme. This is a material decision, with a significant impact on members' benefit security and the finances of sponsors. Given the new DB Funding Code requires trustees and sponsors to agree a long-term strategy as part of the triennial valuation, as well as the Government's planned surplus rules and TPR's recent endgame guidance, we expect this will become a priority for many schemes in the near future.

Curious?

Find out more about endgame strategy and journey planning here.

Over half of schemes considering surplus strategy review

In the context of the government changing the rules to make DB surplus distribution easier, to what extent do you expect this to affect your endgame strategy?



It's encouraging to see schemes actively considering what the new rules on surplus use might mean, recognising the potential upsides for both members and sponsors. We expect the number of schemes thinking about this will only have grown following the Government's recent announcements.

Steve Hodder
Investment Partner

Curious?

Watch an overview of the Government's changes and what it means for pension schemes in our webinar here.

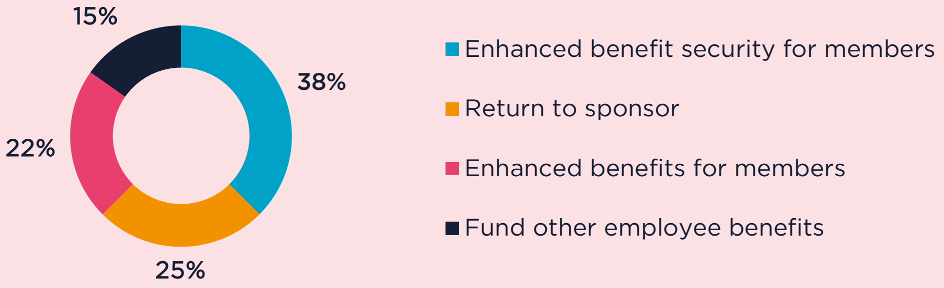
The last few years have been a turning point for DB schemes, with many seeing funding levels improve to the point where surplus management needs active consideration, rather than just being a distant possibility.

The Government's planned changes to the rules around surplus use have brought more schemes into scope of this discussion, with more clarity on how to measure and track the amount of surplus potentially available for distribution. We expect this to naturally prompt a review of endgame plans.

Our survey was conducted the before DWP's announcement on 29 May 2025. However, the results still reveal that more than 50% of schemes were actively thinking about reviewing their strategy in anticipation of the changes, or already planning to share surplus. As might be expected, this increases with the size of the scheme: two-thirds of schemes over £1bn are considering this, and 80% of schemes over £5bn.

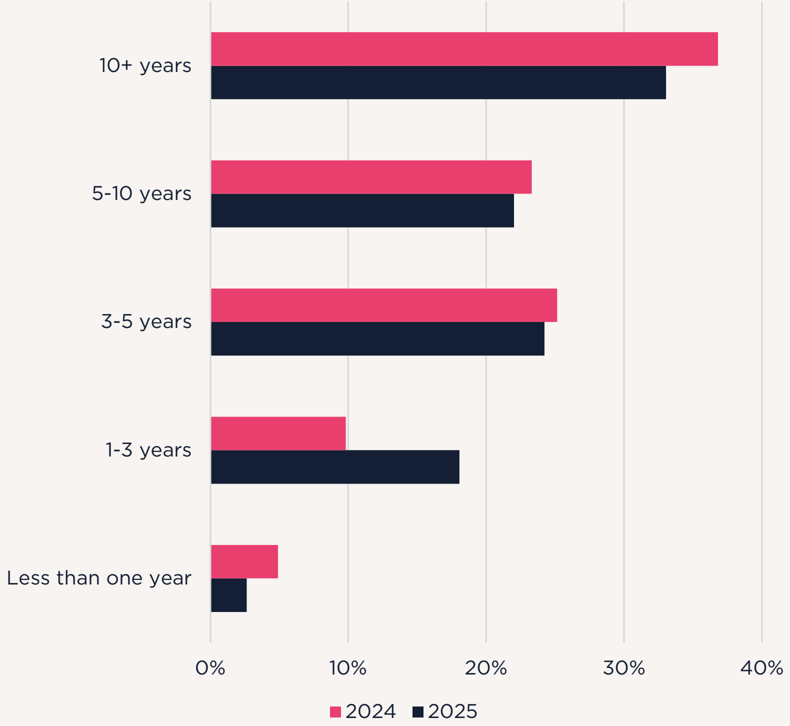
When asked what use surplus should be put to, respondents were divided. Our sense is that the range of views indicates there is no single priority use for surplus. Indeed, whilst we asked for a single "top priority" response, 15% of our respondents (not shown in the chart below) commented that it should be a combination! We recognise that these decisions will be highly situational and reflect the different stakeholders involved. Trustees and sponsors will need expert support to work through these discussions.

What should be the priority use for surplus generated?



Confidence wanes, but covenant expectations still surpass TPR timeframes

How long do you think your employer covenant is reliable for?



Curious?

See our summary of covenant requirements under the new regime.

With more schemes considering running on beyond the point that full insurance first becomes affordable, and considering the implications of potential surplus sharing, the sponsor covenant underpin remains crucial. This is particularly true in circumstances where other risks such as longevity risk remain unhedged.

Confidence in long-term covenant reliability appears to have fallen slightly. Whilst a third of schemes still believe their covenant is reliable for over 10 years, this is down from last year's figure, with a marginal fall for those believing covenant is reliable for 5-10 years too.

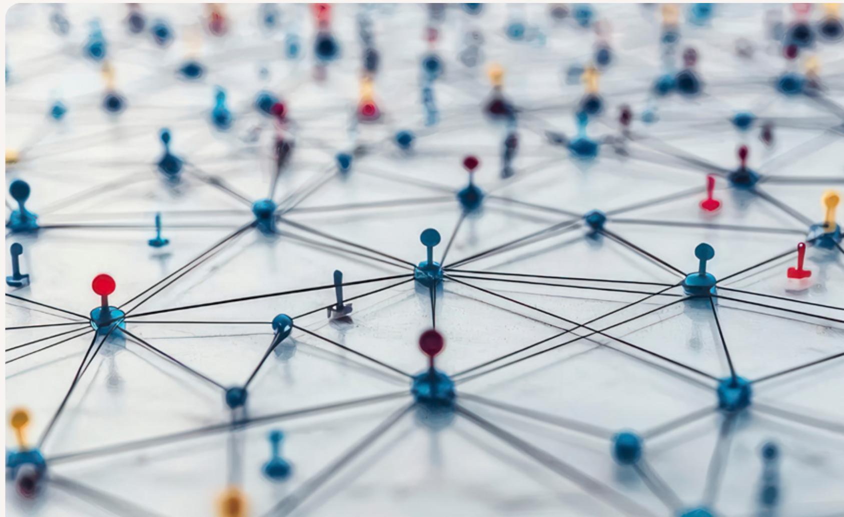
This may be a reflection of TPR's updated covenant guidance confirming the expectation that reliability periods will typically be no longer than six years. However, with more than half of schemes still believing their covenant reliability is greater than five years, it will be intriguing to see whether schemes incorporate this in their journey plans that they submit to TPR.

Against the backdrop of inflation challenges, tariffs and trade wars, it is unsurprising that more thought their reliability period was now less than three years. Given the increased focus on covenant under the new funding code (with many schemes approaching or undertaking their first valuations under the new regime), this uncertainty perhaps highlights why over 40% of respondents expect to increase the scope of their covenant advice (p12).

As covenant continues to shape funding and investment decisions, these shifts highlight the need for regular ongoing assessment of covenant.

We're not surprised to see trustee views on reliability periods shorten in light of general economic uncertainty and further guidance from TPR making its expectations clearer. It's important to remember that reliability is linked to the level of certainty over future employer cash flows and doesn't necessarily imply the employer won't be around to support the scheme in a few years' time.

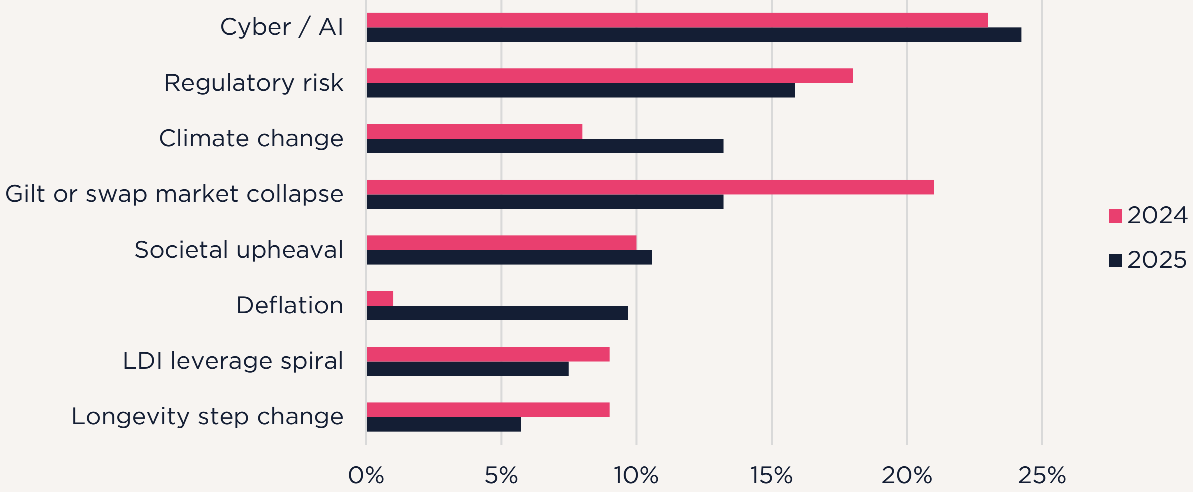
Helen Abbott
Covenant Partner



Views on systemic risks are evolving, but cyber risk remains the top worry

Systemic risks are those that cannot be diversified away as they do not just affect one company or holding but instead can have a broader impact on the wider economy.

Of the following systemic risks which are you most worried about for your DB scheme? (% of respondents ranking each risk as top worry)



Whilst systemic risks cannot be diversified away, there are actions individual schemes can take to mitigate these, based on their specific circumstances. These risks are also interlinked: understanding the implications for your scheme will frame important strategic decisions.

Michelle Wright
Partner and Head of Pensions Strategy

Cyber risk, including those posed by Artificial Intelligence, remain the top worry for respondents. This reflects a growing awareness of how evolving technologies and the potential for disruption could impact pension scheme operations and member security. We have a whole page on cyber risk (see next)! Regulatory risk also continues to dominate, which is unsurprising in the context of the flurry of recent announcements on both the DB and DC sides.

Climate change features more prominently compared to last year. This may reflect a broader recognition of the long-term risks associated with climate change, possibly heightened by concern following changes in US policy. That said, we have seen slow progress on net zero targets (see page 11) – noting this isn't the only way to tackle climate change for your scheme.

Concern about a gilt or swap market collapse has eased from being a top worry, but continues to feature in the detail, ranked 3rd or 4th for a majority of respondents. Whilst the headline result may indicate increased confidence in the UK government, deflation is seen as a bigger source of worry than previously.

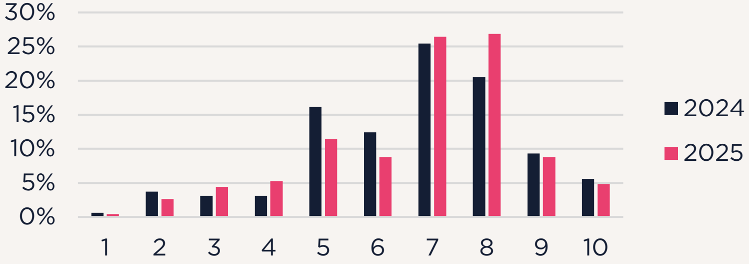
Whilst not always obvious, those involved with pension schemes should be aware of these risks and any actions that can be taken to protect their members' benefits. Scenario planning can provide an interactive and thought-provoking way to explore what some, or a combination, of these systemic risks could mean for your scheme.

Curious?

Training and scenario testing are our suggested first steps. Speak to your usual LCP adviser to tackle this for your scheme.

Cyber risk remains a concern, but preparedness improves

How much do you worry about cyber risk for your scheme? (1 = not worried, 10 = very worried)

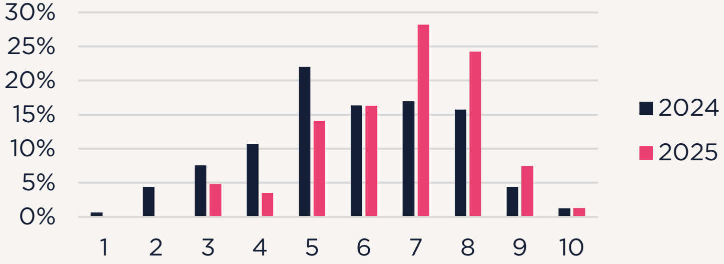


This year, we see an increase in the proportion of respondents rating their concern as 7 or more out of 10. We expect press coverage of various high-profile cyber attacks in the last year will likely have contributed to this increase, but also to have increased awareness.

It's reassuring that schemes are generally feeling more prepared to deal with a cyber incident, despite a backdrop of increased concern. Whilst loss of member data or issues with payment of pensions are rightly front of mind, it's important that the wider potential impact of a cyber incident (reputational damage, or disruption to projects or transactions) is also considered in scenario planning.

Peter Shaw
Principal,
Pensions Management

How prepared do you feel? (1 = not prepared, 10 = very prepared)



Concern remains high, but respondents are also feeling significantly more prepared in respect of cyber risk compared to last year. It's reassuring to see that the number of respondents rating their preparedness as 7 or more out of 10 has significantly increased. We have also seen more respondents with the confidence to rate their preparedness as 9 or more out of ten.

There was no clear trend between those most concerned and feeling most prepared. This tells us there's more to be done for pension schemes to get comfortable (so far as possible!) so they are prepared for when, not if, a cyber incident occurs.

What are your specific concerns regarding cyber risk?

Reviewing the written responses, member data protection is the key concern for most of our respondents, with the consequences of breaches and the fear of pensions not being paid being the major themes. The impact of third-party system failure and uncertainty of the unknown also feature highly. To help address these risks, schemes are increasingly turning to scenario testing or crisis simulation as a practical way to explore how a cyber incident might unfold and to strengthen their response plans in advance.

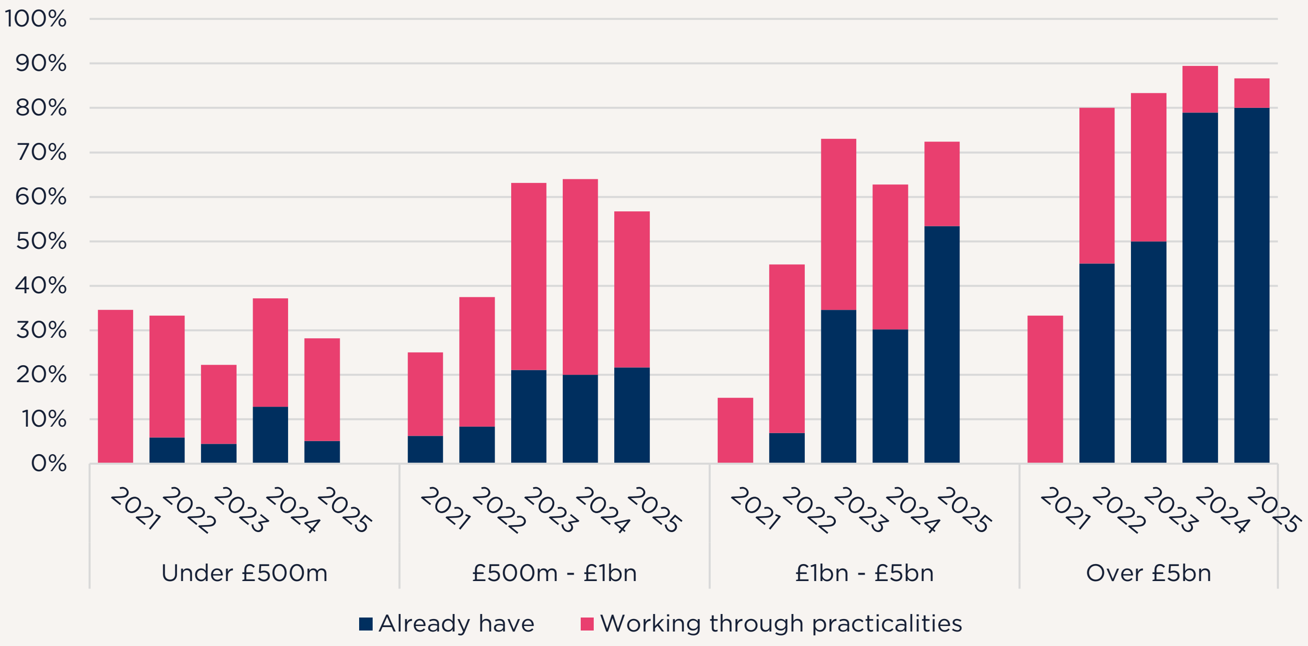
Whilst less prominent in the results, the reputational risks associated with cyber incidents and the challenges of communicating with members at difficult times also require careful consideration.

Curious?

To learn more about actions you should consider, including testing your incident response, get in touch with Peter Shaw and use our cyber security checklist.

Schemes make progress on net zero, but pace slowing

Will you be setting a net zero emissions target for your scheme?



Here we found it interesting to consider a longer-term trend. Over five years we've seen an overall increase in the proportion of schemes who have made a net zero commitment, for all scheme sizes. As can be expected, the proportion with net zero targets increases with scheme size – we have previously noted this may well have been a natural follow on from the work large schemes have done to meet their climate reporting requirements.

There has been limited progress in the last year with an apparent reduction for the smallest schemes. Whilst this is likely to be driven by the sample group changing – rather than schemes rolling back on such commitments – we note the general "anti-ESG backlash" impacting the investment industry at present. With changes to climate policy (particularly in the US), we believe there is a greater emphasis on managing climate risks proactively on a scheme-by-scheme basis, as well as using a collective voice to lobby central parties such as governments, noting the role they must play.

Taking a step back, it is positive that a significant majority of the largest schemes have net zero commitments in place, and a rapidly growing number of those between £1bn and £5bn. This suggests that for many larger schemes, responsible investment strategies are maturing. Of course, net zero commitments are not the only way to manage climate risk for a pension scheme either.

As climate risk was cited as a growing worry for many (p9) we would hope to see continued movement in this area.

We now need to dig deeper to truly understand climate policies. The ESG-backlash may have impacted public statements, but under the bonnet, companies are still progressing their de-carbonisation plans at a pace, as these make financial sense.

Simon Coomber
Partner

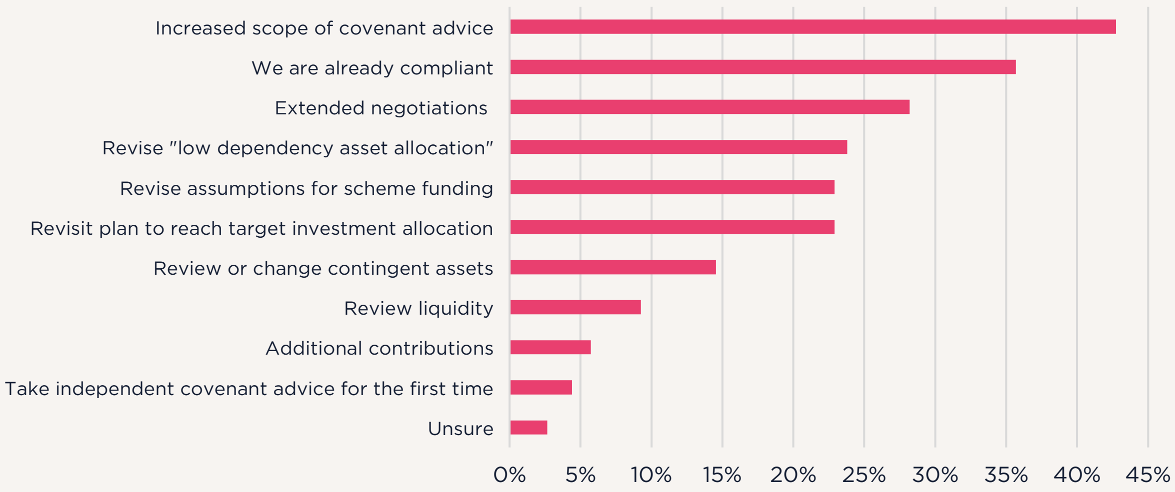
Curious?

Check out LCP's climate policy asks here.

Listen to our take on the anti-ESG backlash here.

Additional compliance expected under new funding regime

What implications do you expect the new funding regime to have on your current / next triennial valuation and strategy? (Multiple answers allowed)



For the majority of schemes, the new funding regime is arguably mostly about getting to grips with the new valuation process and making it as efficient as possible, including the new covenant requirements. But there are some for whom the new regime will necessitate a change in approach and could cause real challenges. And for all schemes, the low dependency funding basis may now have taken on greater importance in the wake of the Government's announcements about its likely role in surplus distribution.

Jon Forsyth
Partner

The implications of the new funding regime have split the crowd.

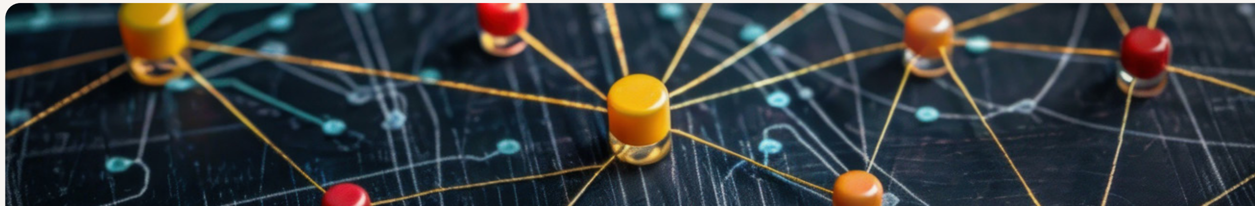
A third of our respondents believe there will be no impact on their first valuation under the new regime. Perhaps this reflects the significant funding level improvements seen (on average) in recent years, meaning the implications of the new funding code on the outcome of the valuation are minimal.

The remainder anticipate a variety of impacts on their triennial valuation and strategy. It's clear that our respondents recognise the increased part covenant has to play in upcoming valuations, with almost half of schemes expecting to increase the scope of the covenant advice they receive (and some taking this advice for the first time).

Interestingly, whilst over 25% of schemes are expecting the new funding regime to result in more extended negotiations between trustees and sponsors than would otherwise be the case, only 6% of schemes are anticipating that additional contributions will be required. This may reflect the increased volume of documentation to agree between parties, such as the Statement of Strategy, and the need to agree the low-dependency investment allocation and funding target. Perhaps suggesting that many respondents consider the main implication to be extended compliance requirements, with limited impact on the financial outcome.

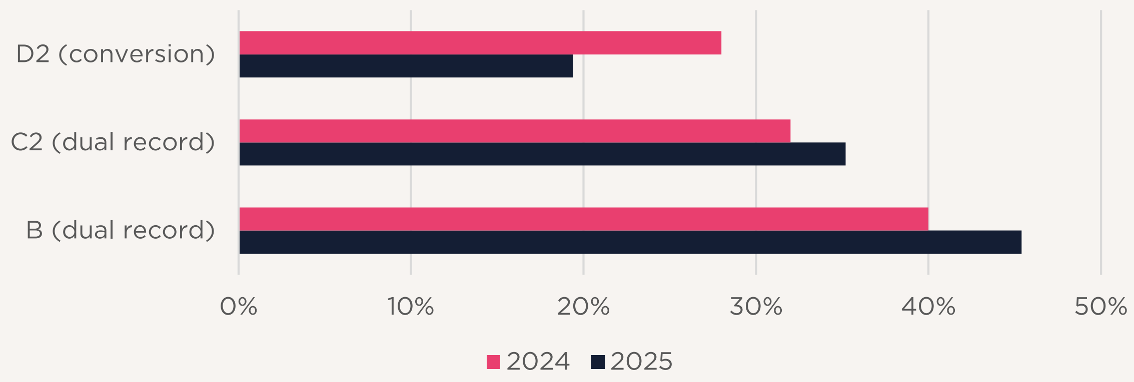
Curious?

To help you prepare for the new requirements, we have gathered key resources and an overview of the Code itself, in our DB Funding Code Hub. Here you can request a DB funding code health check to see how you stack up.



Progress continues on GMP equalisation

Which method have you decided to use (or have you used) to equalise for GMPs for future payments?



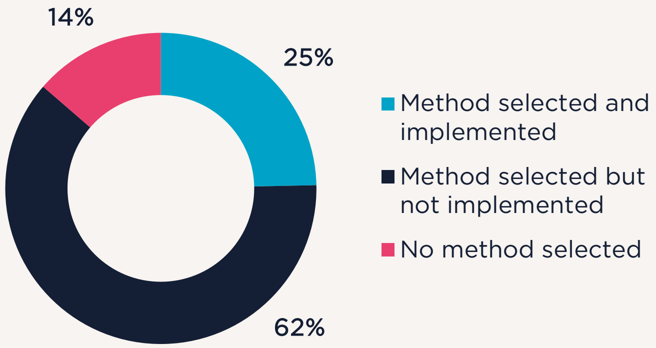
Our survey shows a continuing shift towards dual-record Methods B and C2, away from Method D2 (conversion). This isn't surprising, particularly given our respondents' concerns with data projects being their most common hurdle to overcome (p15): whilst GMP conversion can bring the advantage of wider simplification of benefits, it can also involve a significant additional project.

Method B continues to be a more popular choice than the default Method C2. Whilst Method B is in theory more generous to members, and therefore can be more expensive, in many cases the differences are marginal, and schemes are opting for the relative simplicity of communication and administration that comes with Method B.

Curious?

Read our latest insights on GMP equalisation here.

GMP equalisation requires careful planning



Whilst a majority of respondents have now selected a method for GMP equalisation, completion remains rare.

It is therefore good to see the proportion in the survey saying GMP equalisation is a priority for the next year has doubled (from 5% to 10%, see p15).

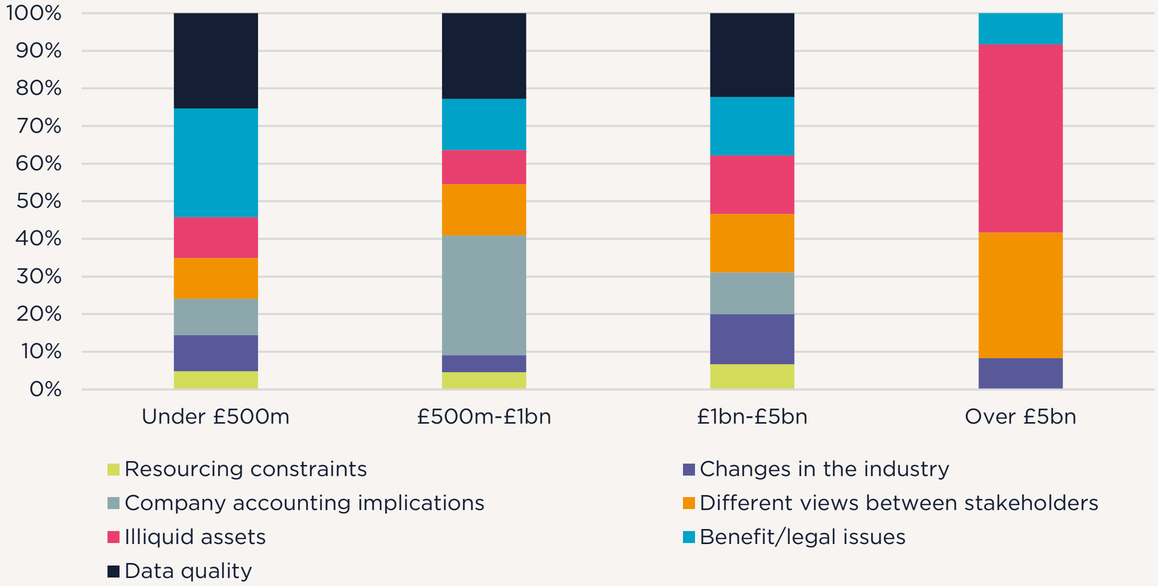
Good planning is really important here. It's much more efficient to undertake GMP equalisation once any wider data cleansing has been completed and other required benefit rectification identified. Insurers confirm there is no need to complete GMP equalisation before executing a buy-in.

We use a single tool to complete both benefit rectifications and GMP equalisations, meaning one can build on the other, saving time and cost to deliver members what they are due. Our focus is also on being practical and pragmatic whilst robust, minimising the data requirements and working with the data that is available.

Alasdair Mayes
Partner and Head of GMP equalisation

Barriers to reaching endgame: size matters

Funding position aside, what do you view as your biggest barrier to progressing to the next stage of your journey? (where there is a barrier)



This data shows there is still a lot for schemes to work through in the pursuit of their chosen endgame. It will be important that they are able to prioritise actions to move further along their journey, with a clear understanding of interdependencies. We commonly work with our colleagues across different departments to ensure we can provide seamless support.

Stefan Kemp
Senior Consultant and co-lead author

Astonishingly, more than 70% of respondents believe there is a barrier preventing their schemes from moving to the next stage of their journey, not including where funding position is not yet there.

Overall, the most common barrier (around a third of respondents overall) appears to be data related: general data issues, along with benefit or legal issues that have the potential to result in further extensive data exercises. Perhaps understandable, given the spotlight placed on historical scheme documentation by the Virgin Media judgment. However, the DWP's recent announcement that the Government will introduce legislation to give schemes the ability to retrospectively obtain actuarial confirmation may ease some of these fears.

Responses varied noticeably by scheme size. Smaller schemes were those most likely to highlight data, benefit and legal issues. Given these schemes are those most likely to be targeting full insurance as soon as possible, there may be a concern that lengthy data cleanse exercises delay eventual wind-up.

By contrast, for schemes over £5bn, illiquid assets emerged as the most frequently cited barrier. This likely reflects the more advanced investment strategies typically in place at this scale, and the practical challenges of managing liquidity as schemes approach endgame. As we reported last year, discounts on sales of various illiquid assets on the secondary market may also be interfering with strategic progress. That said, for those schemes planning to run-on in the long-term, there remain attractive opportunities in illiquid assets.

Managing different views between stakeholders was also frequently cited, perhaps pointing to the increased range of options available.

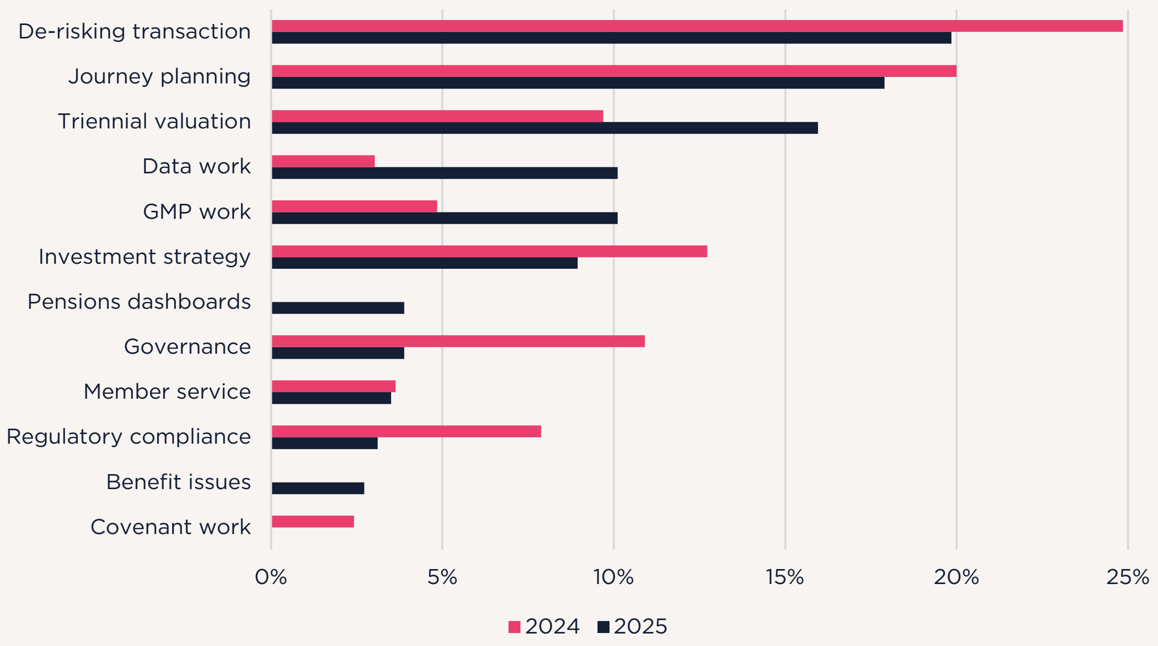
Curious?

Read more about how the various strategic steps interact on our Strategic journey planning hub.

See our latest illiquid asset insights here.

Data a growing priority for schemes

What is your top priority of your scheme in the coming year?



Data projects are often underestimated. Without a clear plan and the right support, what starts as a small fix can quickly escalate. Things change: having experienced experts on hand who understand the bumps in the road can cut through the noise and keep schemes on course.

Chris Martin
Partner and Head of Pensions Data Services

Here we've grouped free-text responses to help identify themes.

Whilst completing a de-risking transaction remains the most common focus overall over the coming year, many commented that they were between buy-in and buy-out, with others still preparing for their first or final transaction. In relation to journey planning, we have started to see various references to surplus strategy and management.

More schemes identified triennial valuation as a priority over the next year. This perhaps reflects that the first valuation under the new DB Funding Code is a step into the unknown, and understanding its implications and nuances is a priority for many.

Data and GMP-related work have also seen a marked increase, which aligns with our respondents confirming data quality and benefit/legal issues as their biggest barrier to progressing their scheme's journey (p14). The pressing need for data cleansing is largely expected, given the record-breaking number of buy-ins completed in 2024.

We also see pensions dashboards appearing this year for the first time. It is perhaps surprising that only 4% of respondents consider this a priority, given the connection dates in 2025 for hybrid schemes and the largest DB schemes. It will be interesting to see how this changes next year, when the majority of DB schemes will be required to connect.

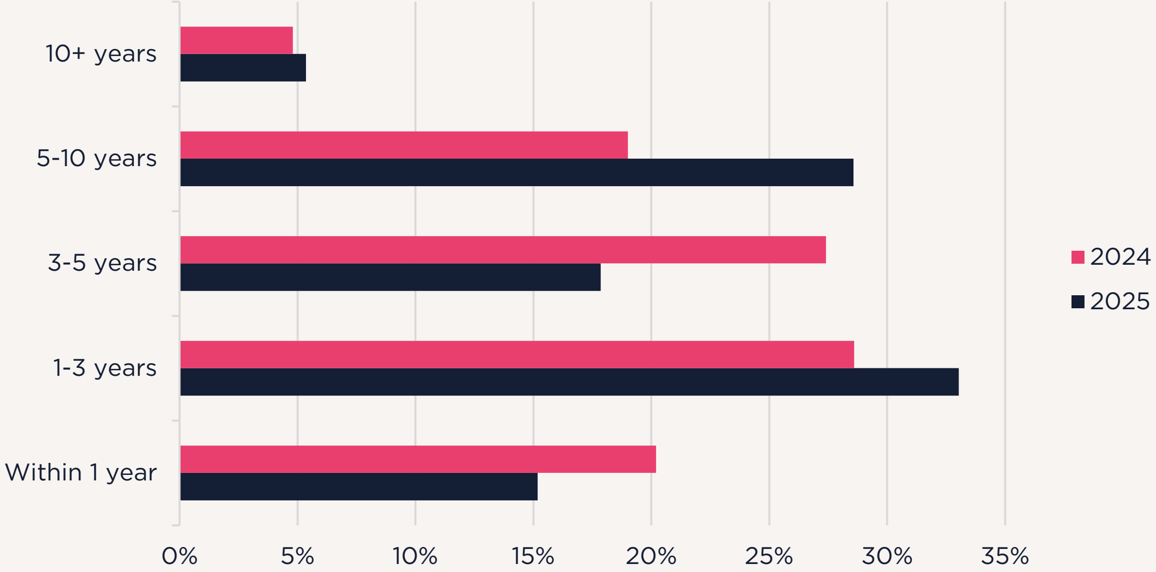
We also see a notable minority prioritising fixing benefit issues. Whilst this is a small proportion of the overall group, when these issues arise it can feel very urgent (not to mention potentially costly and time consuming) to fix. In this context it was great to see the government announce they will legislate to "fix" the Virgin Media issue, albeit as always the details will be key.

Curious?

Contact our Pensions Data Services team to understand our strategic approach to data management.

A divergence in risk transfer timescales

What is the expected timeline to your final transaction? (For respondents who selected full insurance as their endgame)



Among the 75% of respondents ultimately targeting full insurance as their endgame, we have seen a shift in timelines with a divergence emerging. Whilst we see similar proportions expecting to transact within three years, fewer of those expect this to happen within the year. This may reflect the large number of transactions completed last year or the reality of the steps required to prepare for a transaction (and the various references to data issues scattered through other question responses in our survey).

Medium-term transactions (3-5 years away) have potentially been pushed out, as we see a more marked increase in the proportion targeting 5-10 years' time. This suggests that some schemes might be taking a more measured approach to a final transaction, whether due to practical readiness or strategic intent to run-on first.

We continue to see only a small minority of schemes targeting a 10+ year timeline. We suspect the low number reflects that most are targeting a shorter timescale as a result of stronger funding levels, alongside a measured view of sponsor covenant. It will be interesting to see whether this changes in light of the new rules around surplus sharing.

With the pensions risk transfer market as busy as ever and continually evolving (we now have the most insurers the UK buy-in/buy-out market has ever seen!), it will remain important to approach the market in a strategic way.

Strong competition and greater choice are driving highly attractive pricing. At the same time, a stronger focus on member experience — spurred by more scheme buy-outs — is fuelling innovation. The result is a win-win for members and wider stakeholders.

David Fink
Partner
Pensions Risk Transfer

Curious?

Read our latest update on the pension risk transfer market here.

Myth busting the post-transaction journey

Despite increasing focus on run-on, settlement with an insurer remains the ultimate endgame of choice for the majority of schemes surveyed. But securing all scheme benefits with a buy-in transaction is only the start of the journey; good project management delivered by experienced advisers underpins a successful move to buy-out and wind-up of the scheme.

We have highlighted some common misconceptions below. Having the right support in place can make the final stages of the pension scheme's journey more predictable (and less costly) for trustees, sponsors and – crucially – members.

Perception	Reality
Buy-out and wind-up will be complete in 12 months.	A well-prepared scheme might move quickly, but timescales of up to three years are typical (or significantly more without a well-managed process).
Insurers cause all the delays with moving to buy-out.	Lots of parties are involved in a successful buy-out and wind-up: administrators, advisers, trustees and sponsors. They all need to be coordinated and work well together to achieve desired timescales.
There are no significant financial implications post-transaction.	While the amounts at stake might be small relative to the scheme, securing the right benefits – both in nature and level - is important for members. With minimal residual scheme assets, even small unexpected costs can be challenging.
There won't be any changes to day-to-day admin processes until handover to the insurer on buy-out.	There are often challenges in maintaining service levels whilst adopting new processes for member option calculations and providing additional reporting to the insurer during buy-in. Existing administrators will also have several months' preparatory work to ensure a seamless admin handover on buy-out so that members have confidence in the insurer from day one.
This is routine work that our current advisers can deal with.	Many advisers have limited practical experience of navigating the issues that can arise post transaction and might lack experience working through such issues with all the different insurers. As with pre-transaction work, support from a specialist can achieve a much better outcome.
Post-transaction support is just about project management.	Good project management is important, but combining this with specialist technical knowledge is far more powerful, to quickly find practical solutions that can cut across actuarial, administration, investment and other disciplines.

With an increasing number of schemes completing transactions, we are seeing new and varied challenges emerging during the post-transaction phase. Careful planning and specialist advice is key for navigating these and achieving a smooth journey to buy-out and wind-up.

Rachel Banham
Partner and Head of Post Transaction Team

Curious?

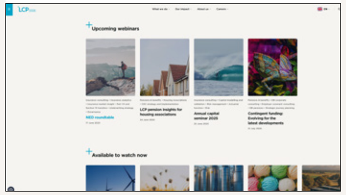
Our Post transaction team includes over 35 specialists in this area, making it the largest in the market. Visit our website to find out how we have helped pension schemes to buy-out and wind-up successfully.

Curious?

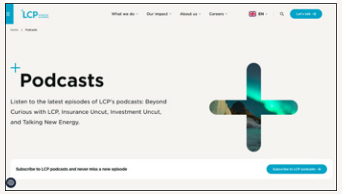
Additional resources to find out more

[LCP Strategic Journey Planning website hub]

[Our latest webinars, accessed on demand]



[LCP podcast collection]



[Pensions powerbrokers]

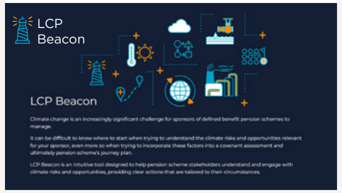
[Longevity report]

[Professional Corporate Sole Trustee report]

[Contingent funding handbook]

[Climate and sustainability hub]

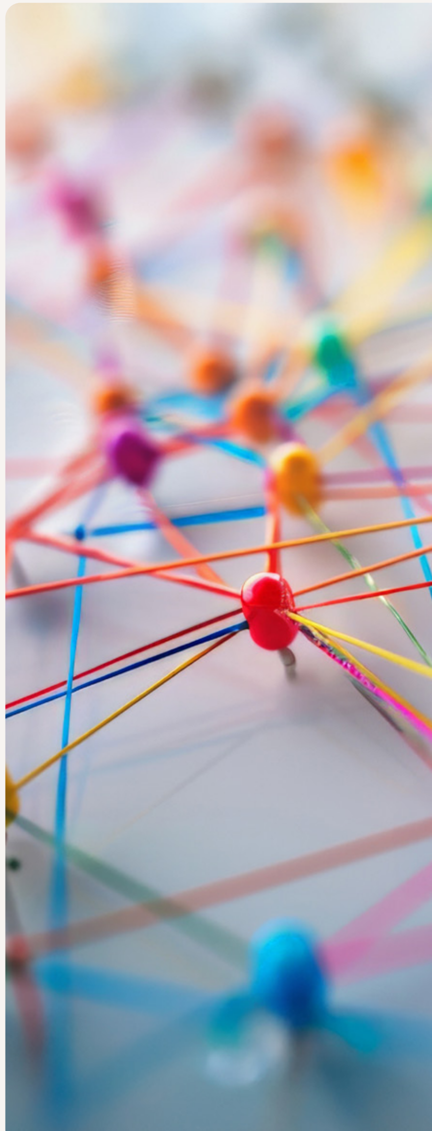
[LCP Beacon]



Visualise+

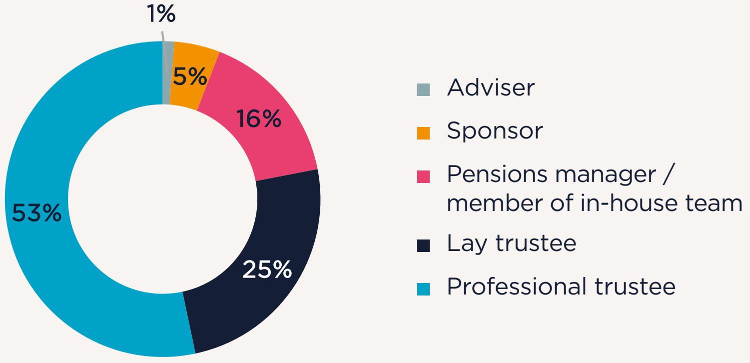
Launching soon: Visualise+

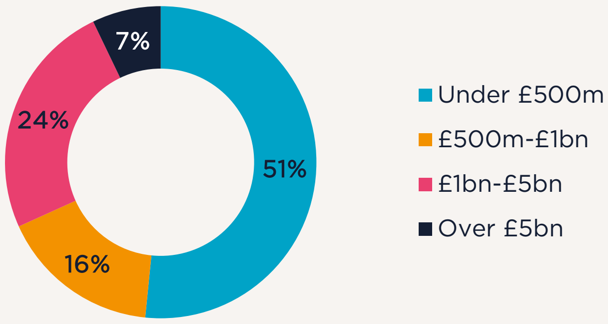
Our integrated tech platform that brings together covenant, admin, investment and funding for a clearer, joined-up view of your scheme.



Our survey

In our latest survey, respondents representing trustees, sponsors, pensions managers and advisers told us about their schemes and gave us their insights on the UK pensions landscape.





What about our client data?

Our survey is supplemented by data from LCP Visualise, covering over 220 UK DB pension schemes advised by LCP, ranging in size from less than £10m to c£10bn and collectively representing around £130bn of assets. This includes schemes where LCP provides actuarial, investment, covenant or corporate advice (or a combination) so does not necessarily represent LCP's advice in all areas.

What did we ask?

1. Are you a professional trustee, lay trustee, sponsor, pensions manager/member of in-house team or adviser?
2. What size is your scheme (DB asset size)?
3. What implications do you expect the new funding regime to have on your current / next triennial valuation and strategy?
4. What is your chosen endgame for your scheme?

   4a. If full insurance, what is the expected timeframe for your final transaction?
5. In the context of the government changing the rules to make DB surplus distribution easier, to what extent do you expect this to affect your endgame strategy?

   5a. Where schemes choose to run-on to generate surplus, what should be the priority use for the surplus generated?
6. Will you set a net zero emissions target for your scheme?
7. How long do you think your employer covenant is reliable for?
8. Which method have you decided to use (or have you used) to equalise for GMPs for future payments?
9. Cyber risk

   9a. How much do you worry about cyber risk for your scheme?

   9b. If a cyber incident emerged today, how prepared would you feel?

   9c. What is your biggest concern surrounding cyber risk?
10. How would you describe the overall impact of the General Code on your scheme's governance?
11. What level of action are you taking in relation to the following areas: Ensuring representation from diverse backgrounds and experiences on the board. Implementing a DEI / ED&I policy; Creating an inclusive board environment; Considering accessibility of member communications; Supporting vulnerable and sensitive members; Considering inclusive practices of advisors, providers and/or investment managers; Managing behavioural risks (eg groupthink).
12. Funding position aside, what do you view as your biggest barrier to progressing to the next stage of your journey?
13. Rank these systemic risks in order you are most worried about for your DB scheme: Climate change; Cyber / Artificial Intelligence; Deflation; Gilt or swap market collapse; LDI leverage spiral; Longevity step change; Regulatory risk; Societal upheaval (eg war, natural disaster, political upheaval).
14. What is your top priority for your scheme in the coming year?

With thanks to the authors

Please get in touch to find out more

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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.