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Endgame, re-defined

isio.

Endgame options available to pension schemes are more diverse than ever – so which one is right for you?

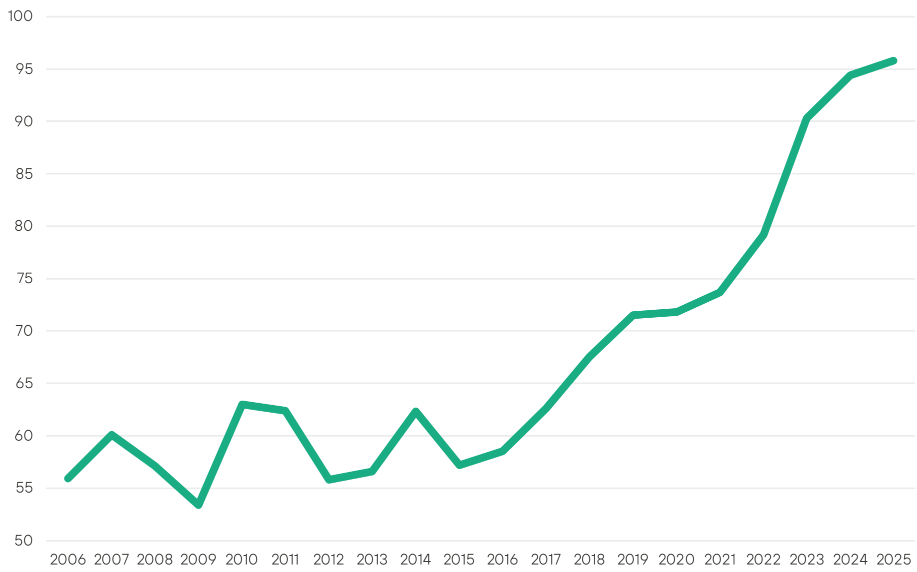
Overview of endgame options

Insurance	Buyout
	Buy-in
	Captive insurance
	Longevity swap
Alternative endgames	Sponsor transfer
	Superfund
	Capital backed solutions
Run on	Self-sufficiency
	Purposeful run-on (PRO)

Where are we now?

Following the 2022 LDI pensions crisis most schemes have seen strong tailwinds in their funding positions, bringing the endgame earlier than many schemes expected through continued (but steadier) rises in gilt yields, an AI-driven equity market rally and a benign credit default environment.

Aggregate funding ratio (estimated full buy-out) (%)



Source: PPF Purple Book 2025.

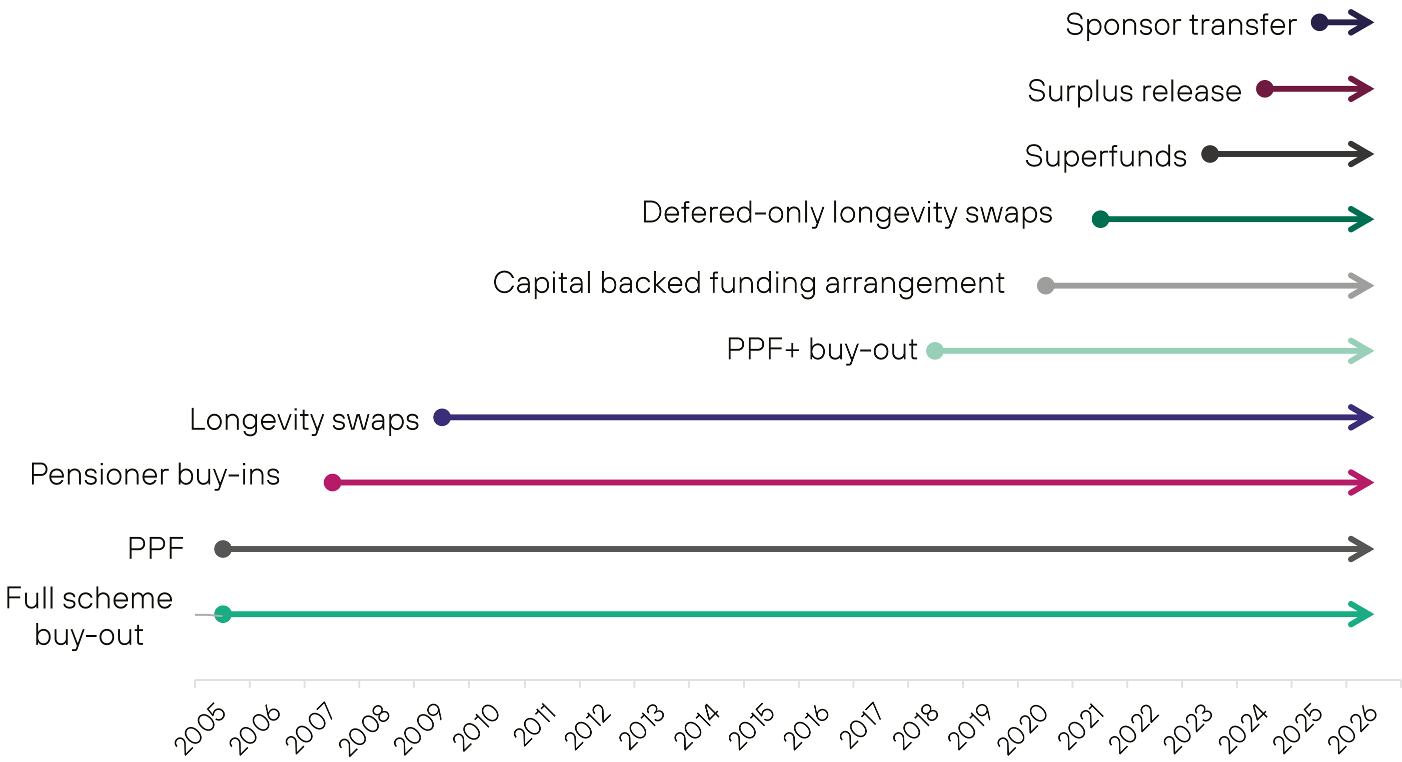
The endgame environment has also changed. Jeremy Hunt's 2023 Mansion House speech paved the way for the 2025 Pensions Bill to set a clear legislative framework for implementing surplus sharing, with the final regulation set to be published in 2027.

At the time of writing, Clara had completed 4 unique superfund deals and TPT has set out its intentions for a run-on focused consolidator model. Meanwhile new entrants to the insurance market and relatively favourable gilt yields (vs. swaps) have also driven competitive and attractive pricing for those looking for a more traditional risk transfer approach.

These developing options prompted **TPR to publish its guidance on the options available**, whilst the recent Aberdeen-Stagecoach sponsor transfer transaction showcased another option for trustees and employers to consider.

We have shown overleaf how the options available to trustees has developed over the last 20 years.

The evolution of endgame options



What should trustees and employers be thinking about?

With a range of developed and emerging endgame options available for trustees and employers to consider, and a requirement for trustees to document their long-term plan under the new DB Funding Code, now is the time for all key stakeholders to review objectives and agree a way forward.

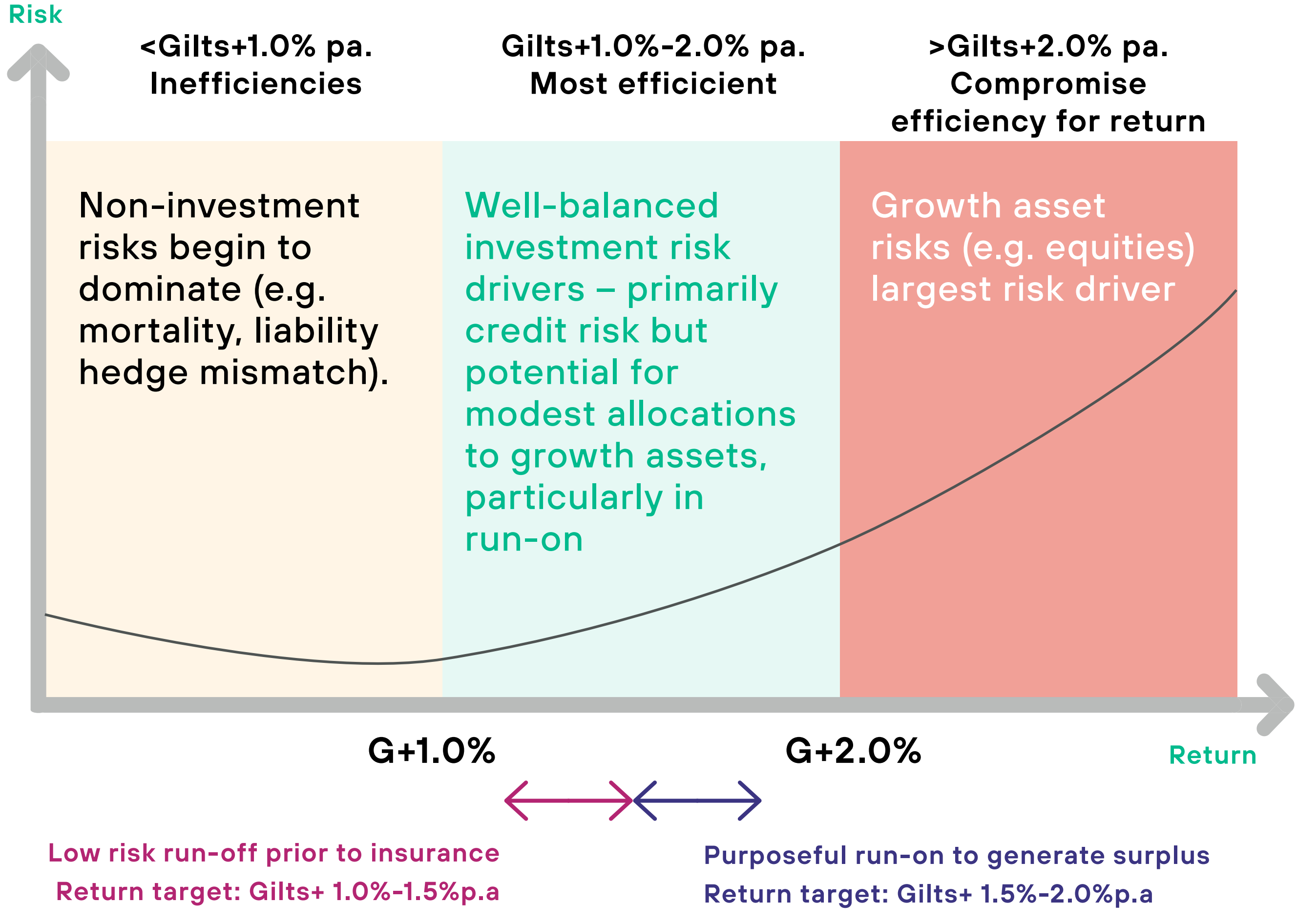
As ever, integrating funding, investment and covenant is fundamental when agreeing an objective. We have shown below one element of a framework on how schemes might triage the opportunities available to them:

Options	Typical funding needed (% of buyout)	Potential for surplus generation	Covenant link retained?	External capital	Operational risk mitigation	Financial risk mitigation
Buy-in	100%					
Buy-out	100%					
Self-sufficiency run-off	95-100%					
Sponsor transfer	95%+					
Purposeful run-on	90-95%					
Superfunds	90-95%					
Capital backed solutions	85-90%					

Aligning your investment strategy to your objective

With more than half of UK DB schemes in a buyout surplus[1], demand for insurance is expected to outstrip supply in the coming years. Therefore it's expected a large portion of schemes will need to "run-on" for the foreseeable future. For some schemes, this will be until insurance is affordable, potentially benefiting from pricing improvements as their scheme matures, and / or running on to avoid value-leakage from being a forced seller of illiquid assets. Others may choose "purposeful run-on", which is an alternaitve option that may benefit members and/or sponsors through surplus sharing. So where on the risk/return spectrum should trustees and employers position themselves?

Risk / return: A sponsor's covenant strength sets the risk budget and ability to target higher returns. Schemes aiming to run-on need returns sufficient to generate a meaningful surplus. Schemes on a path to insurance typically target lower risk and return, but this can reduce the ability to build a buffer, via excess returns, to protect funding levels against non-investment risks.



1 As at 31 December 2024. Source: The Pension Regulator's 2025 Annual Funding Statement.

Other considerations for investment strategies

Liability hedging: each endgame comes with a different liability profile. To ensure stability in funding level against whatever endgame objective is chosen, trustees need to align their LDI arrangements with that objective. In particular, if the endgame destination is insurance, careful consideration is required as insurance pricing bases reflect the asset strategies at that time, something that changes with market dynamics (as discussed **here**).

Credit spread exposure: With credit spreads at all-time tights and insurer pricing becoming less linked to their movements, we believe there exists an asymmetric risk from holding traditional credit assets such as long dated corporate bonds. We wrote **here** about alternative credit assets for investors to consider in the hunt for yield as endgame strategies are adopted.

Liquidity: Whether "running off" until insurance, or purposefully running on, ensuring sufficient liquidity to provide optionality to insure should circumstances change is key. For current illiquids, solutions such as **iFLO** exist to maximise value if needing to sell prior to risk transfer (or to review asset values vs. risk transfer pricing).

Governance: As strategies get less complex, so should the governance arrangement, with some of the previous benefits of fiduciary management (e.g. de-risking triggers, portfolio rebalancing) likely to fall away as portfolios simplify.

Key takeaways for trustees

- Consider all options – With current and new solutions developing, consider your endgame goal and review whether your investment strategy is consistent with this.
- Review investment and funding readiness, and identify solutions for any barriers.
- Document your objective, investment strategy and journey plan as required by the DB Funding Code, noting the code's low risk strategy requirements do not apply to surplus assets.
- Review governance arrangements – are these suitable given your end goal?

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