Strategic run-on

EY insights

July 2026

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Recap

We launched our Strategic Run-on series at the beginning of 2025, as the industry was starting to focus on what longer-term run-on could mean for defined benefit (DB) pension schemes and sponsors. The focus was specifically on cases where an active choice has been made to run-on past the point of being fully funded on a buy-out basis, for a strategic purpose. The aim of the initial paper was to elevate the conversation beyond the hypothetical, with a focus on how to make Strategic Run-on a practical success.

As part of this we spoke to a large number of providers in the Run-on space and provided feedback on the leading practices that were starting to emerge. We summarised these practices in EY's five pillars of run-on:

EY's five pillars of strategic run-on

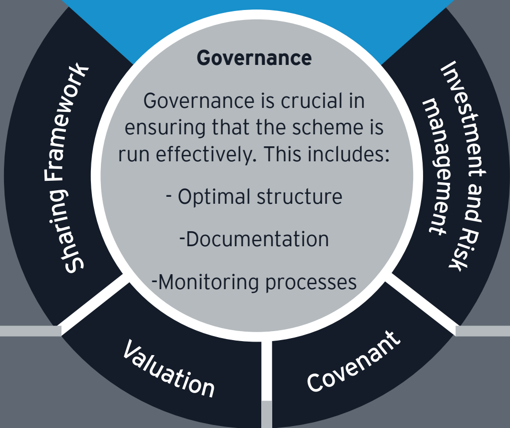
- Designed to help agree on an approach to achieve maximum benefit to members and sponsor with minimum risk
- Up front to avoid future conflicts

Consider distribution of surplus

- Agree stakeholders
- Required buffer
- Agree the order and shares of distribution

Investment framework to generate excess returns

- Set investment strategy to generate excess return
- Cashflow matched
- Agree optimal investment framework



Ensure better alignment between investment and funding strategies

- Refine valuation basis
- Use of Credit Driven Investment (CDI) dynamic basis vs. traditional gilts basis
- Outcome is stability of funding level and recognition of 'true' risks.

Understanding covenant

Understanding strength of covenant is key to ensuring investment strategy is supportable and appropriate buffer is held

- Is there any covenant enhancement required to underpin the desired strategy?
- Retained surplus could provide stability

Rule of thumb

Whilst every scheme is different, for an illustrative scheme we expect a reasonably low-risk strategy to generate around £2m* per annum distributable surplus for every £100m of scheme assets.

A year on, a lot has changed in the world of pensions. This follow-on paper captures the market developments over 2025, and emerging themes associated with Strategic Run-on we expect to see in 2026 and beyond.

*not guaranteed, subject to variation

What has changed over 2025

Pension Schemes Act 2026

Legislation has now been passed to remove some of the practical barriers to unlocking pension surplus as well as to put pension superfunds on a firmer legislative footing.

The Pension Regulator's (TPR) guidance for trustees on endgame options

TPR went to great lengths to make it clear it has no inherent bias towards any particular approach to meeting benefits over the long-term. TPR stressed trustee duty is to give adequate consideration to all the available options.

New options

2025 continued the trend of pension superfunds becoming seen as a "mainstream" option. Clara Pensions completed its fourth transaction, and TPT announced its intention to enter the market. We've also seen various solutions developed to support run-on, both in terms of investment solutions, but also ways to use third-party capital or covenant to protect members and sponsors (for example the Aberdeen-Stagecoach deal).

Autumn budget

Legislation is to be introduced to allow direct payment of surplus to members. And it was also announced that the PPF will begin to offer pension increases of up to 2.5% p.a. on pre-97 pension – reducing the gap between full benefits and PPF benefits acting as a further protection for run-on.

Solution developments

There is a whole spectrum of options available to sponsors/trustees as they look to honour the scheme's liabilities over the long-term, covering options for implementing both Strategic Run-on as well as for transferring liabilities to a third-party.

Responsibility of corporate ← **Spectrum of outsourcing options** → **Responsibility of outsourcer**

DIY run off	Operational outsourcing	Captive	Capital-backed solutions	Sponsor replacement	Superfund	Insurance buy-out
Corporate/ trustee retains all liabilities, risks and governance responsibilities until the pension scheme winds down completely.	External managers take responsibility for some decisions and/or scheme transferred to a Mastertrust. Providers use their scale to reduce costs. Risks retained by the corporate.	Liabilities are passed (as in a buy-out) to a regulated fronting insurer. Risks are reinsured back to a captive established by the Company. Typically only for £1bn+ schemes.	Structures that bring external capital to either support the scheme on its journey to some endgame, or support continued run-on. Risks beyond the capital buffer retained by the corporate.	Scheme runs on, but an unrelated company comes in to replace the original company as sponsor. The original company no longer has a requirement to fund the scheme.	Liabilities and risks passed to superfund, which brings economies of scale and replaces company covenant with external capital. Regulated as a pension scheme.	Liabilities and risks passed to insurer, backed by capital and covered by insurance regulation. Typically at highest cost.

Packaged investment solutions

A number of asset managers are starting to develop packaged investment solutions to support Strategic Run-on, in some cases leveraging off the work they already do for their insurance arm or insurance clients. These solutions may also include features such as an ability to pledge a broader range of assets as collateral for LDI hedges, and enhanced buy-in price monitoring.

Capital-backed solutions

Where the sponsor is unable to fully support the pension risk alone, partnering with a capital provider could be a way to unlock the benefits of run-on. These solutions supplement the existing covenant, providing a capital buffer to absorb the first losses suffered by the scheme. In return, the capital provider benefits from the upside beyond an agreed level. There are a variety of solutions in this space, all offering something slightly different.

Sponsor replacement (e.g. Aberdeen-Stagecoach):

Some providers are going even further and replacing the company as the legal sponsor of the scheme, along with taking on the tail risks this entails. While the recently announced "Aberdeen deal" looks more like liability transfer for the original sponsor (Stagecoach), other variants of this approach could include more "run-on like" features for the original sponsor.

Click on the below link for an interview with John Hamilton, the Chair of Trustees of the Stagecoach Pension Scheme:

https://youtu.be/rXhrglJNZuw?si=3SJ2u1NTPolITpuq

Surplus sharing solutions:

- **New approaches to fund defined contribution (DC):** For schemes that have DB and DC pensions together, this has long been a common approach for allowing sponsors to benefit from surplus. However, schemes are now exploring the ability to use DB surplus to fund accrual in a separate DC MasterTrust arrangement.
- **Use of SPVs:** Special Purpose Vehicles (SPVs) have been used for a range of different purposes in UK pensions over the years, from asset-backed funding to captives insuring pension risks. Now, a number of schemes are exploring how SPVs could be used to return surplus to the sponsor, even under existing regulations.

Investment considerations

With credit spreads now close to historical lows, the "traditional" run-on strategy of a material allocation to investment grade credit, is no longer as attractive as it once was. Traditionally, credit was also held to mimic insurance pricing, but where strategic run-on is adopted, there is an opportunity to target higher risk adjusted returns in today's market:

- Allocating more to alternative credit assets e.g. asset-backed securities
- Shortening the average duration of credit holdings, to limit losses were credit spreads to widen
- Maintaining an allocation to "growth" assets instead
- For larger schemes, exploring opportunities to generate outperformance on their LDI portfolios

Risk transfer innovations

While we are noting an increased desire by Trustees and Corporate Sponsors to investigate and understand Run-on, it is not right for every situation, and buy-in and out will remain a significant endgame solution.

On the buy-in/out side, insurers continue to enhance their offerings on member experience; dealing with illiquid assets; and the streamlining of not only the process to receive a buy-in quotation, but also the process for moving to buy-out.

Further, at the time of writing and by reference of the recent past, we are seeing some very competitive buy-in/out pricing coming from insurers for those that have concluded buy-out is the right answer for them.

Clara Pensions completed their first "Connected Covenant" transaction, whereby the original sponsor agrees to provide support to the scheme in the event that Clara gets into difficulties. This potentially opens up the option of a superfund transfer to schemes even with strong covenants.

Finally, TPT announced its intention to launch a "run-off" superfund option, whereby TPT will pay members' pensions over the long-term, rather than targeting an insurance buy-out in the medium term.

Developments in the Corporate view

2025 saw further momentum in the view that Strategic Run-on is something companies should seriously consider. As companies see more and more of their peers openly discuss Strategic Run-on, or even go as far as implementing surplus sharing arrangements, the stigma of retaining pension liabilities is quickly receding.

What is replacing it is a far more balanced view. Looking to assess Strategic Run-on in the same way companies assess any business proposition; weighing up the expected benefits vs. the risks and company resources used.

1 Pensions as an opportunity

Sponsors are now recognising how a stream of future surplus refunds could be used to grow and support their core business. In this way, retaining pension liabilities simply becomes another way of financing the company's operations – putting the capital set aside to protect members and the company from downside events to good work in conditions that it is not needed

2 Healthy scepticism remains

While companies are open to exploring Strategic Run-on, there often remains a healthy level of scepticism as to whether it represents an attractive business opportunity. In many cases companies have been burnt by DB pensions in the past and are tempted to offload the risk, responsibility and management time, now there is an opportunity to do so.

3 Focus on the practical

For the early adopters, the conversation has already moved on to optimising the practicalities of run-on. For companies just starting out in this process, they have the added benefit of being able to incorporate these best practices into their decision making. Being able to use DB surplus to fund contributions in a separate DC MasterTrust is an example of practical innovation making surplus sharing easier for DB members, company, and current employees in DC.

Developments in the Trustee view

If a scheme has a sponsor that is open to Strategic Run-on, the trustees then need to decide whether they should be supportive of this approach, and what requirements their support is conditional on.

Trustee focus remains firmly on the security of promised benefits, and we would not expect this to change. However, we are seeing developments in how trustees consider and balance the trade-offs involved in the endgame options available:

1 Increase in security vs. Increase in benefits

Once member security has reached some acceptable level, we are seeing more openness to seeking member benefit improvements, rather than seeking further increases in security. However, there remains a wide range of views around what "acceptable security" means, with this view often varying by circumstance specifics. One emerging theme is trustees considering whether they should focus on protecting the "real value" of the promised benefits, especially given the recent experience of spikes in inflation.

2 Rethinking security

Trustees are starting to challenge the default assumption that in all cases buy-out provides a material increase in security for members. Especially for very well-funded schemes, or schemes with sponsors that are willing and able to provide security, there is increasingly an appreciation that Strategic Run-on can be structured to provide levels of security that are resilient and sufficient for the medium term for members without going to buy-out.

3 Renewed focus on covenant

For well-funded schemes, trustees' focus on covenant has somewhat lessened in recent years. However, as these schemes start to consider Strategic Run-on, covenant is once again becoming a central part of the strategy.

What these changes mean for Strategic Run-on

1 More openness towards run-on

In short, in our view Strategic Run-on has never been more accessible.

While much of the new legislation has yet to be enacted, the conversation has already moved on. A few years ago, even discussing Strategic Run-on would often have been controversial. Whereas now considering Strategic Run-on as part of endgame planning is generally accepted as required to meet TPR's expectations.

2 Greater ease of sharing surplus

Where a company and trustee agree on a surplus sharing approach, it can be expected that there will be a reasonable option available for implementing it. Either by making use of recent market innovations or making use of the legislative changes due to come in the next few years. The ability to pay surplus directly to members is potentially a game changer; allowing members to benefit without locking the scheme into paying higher pensions indefinitely.

3 Wider applicability

Where a company may previously have been uncomfortable with the level of risk in its pension plan if it was in deficit, and so the Company was underwriting the risk of downside, there are now a range of options to partner with third parties who can take on some of the risks, or operate the pension scheme with a buffer, meaning downside events are much less likely to result in the Company needing to pay more money in.

What's next

Ability to pay surplus directly to members expected to come into force

Early 2027

PPF expected to start to offer pension increases on pre-97 pension

Early 2027

Regulatory guidance around surplus flexibility expected to be issued

End 2027

New superfund regulations expected to come into force

Early 2028

Why EY?

EY is distinctly well-placed to help both companies and trustees decide on whether Strategic Run-on, or some other solution, is right for their scheme.

- **Wider corporate perspective:** Determining your long-term pension strategy is, at its heart, the same as any business decision, and involves a delicate weighing up of risks and returns. At EY, we have leveraged our wider experience advising companies on their core business decisions, and applied the same rigorous and comprehensive approaches to advising on pensions. Even for trustees, understanding this wider corporate perspective is key to determining what can realistically be achieved.
- **Independent and unbiased view:** With EY not providing Scheme Actuarial or material trustee investment consultancy services, we can provide a fresh and objective assessment of the different options, free from bias.
- **Whole-of-market implementation:** We can work with you to select the best implementation partners across all of the required services, rather than defaulting to in-house providers.
- **Comprehensive advice:** As well as the strategic view of what to do, tax and accounting treatment is absolutely crucial in understanding which approach is optimal. EY can provide the joined-up view that spans these key areas.
- **Leaders in innovation:** Such as helping schemes and corporates move DB surplus to a separate DC MasterTrust.

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All in to shape the future with confidence.

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