The benefits of buyout.

What do defined benefit pension scheme members think about the risks to their pensions?

Pension Risk Transfer Explained

June 2025

Contents.

The Golden Rule of pensions.

The purpose of pensions is to provide people with financial security in later life.

The interests of pension scheme members must always be the highest priority for anyone making decisions about individual schemes or on the policies and rules that affect schemes.

Pension Risk Transfer - also known as "buyout" – is a way of providing complete security for millions of members of defined benefit ("DB") pension schemes.

This is why many people regard it as the gold standard option for DB schemes.

Click here to see the report "Pensions Explained" for more on DB.

Pension Risk Transfer - overview.

Pension Risk Transfer ("PRT") is an arrangement chosen by the trustees of DB pension schemes.

PRT:

Gives workers and pensioners more security about their pension income. The PRT sector now guarantees the pensions of more than two million people.

Allows UK companies to remove big financial liabilities from their balance sheets. PRT allows companies to focus their efforts on their current workforce and strategy.

Creates large pools of capital that is invested in long-term British assets including infrastructure and housing. The PRT sector will invest £200 billion over the next 10 years.

How does PRT do this? Read on to find out.

Who are defined benefit ("DB") pension scheme members?

8,770,000

people are members of DB pension schemes

4.07 million

of them are retired and receiving a DB pension

4.05 million

are yet to start receiving their DB pension

Only

700,000

DB scheme members in the private sector continue to build DB pension benefits

More than half of these are in two schemes: the Universities Superannuation Scheme ("USS"), and the Railways Pension Scheme ("Railpen").

93%

of schemes are closed to new members

74%

are also closed to new benefit accrual

Vulnerability among DB pension scheme members.

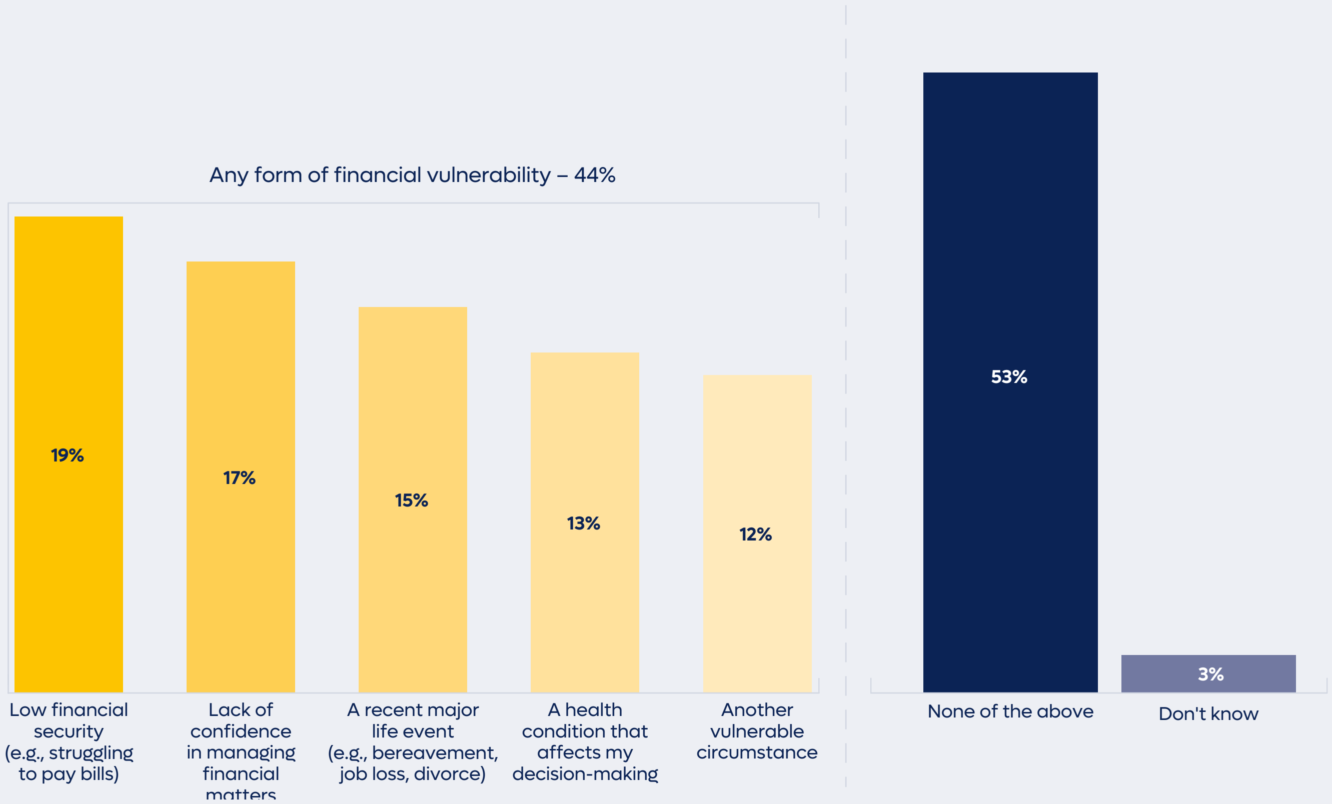
The law requires that people who are vulnerable are protected from financial harm.

The Financial Conduct Authority says:

"A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care."

Polling by PIC suggests that 44% of DB pension scheme members are potentially vulnerable.

Q. Which, if any, of the following factors currently affect your ability to manage your finances? (Select all that apply)



The survey was conducted by Censuswide among a sample of 1,000 defined benefit pension scheme members - UK targeting (18+). The data was collected between 03.03.2025 - 10.03.2025

What do DB pension scheme members want?

For DB members, the single most important consideration is security of their pension benefits.

Why is security of benefits important for members?

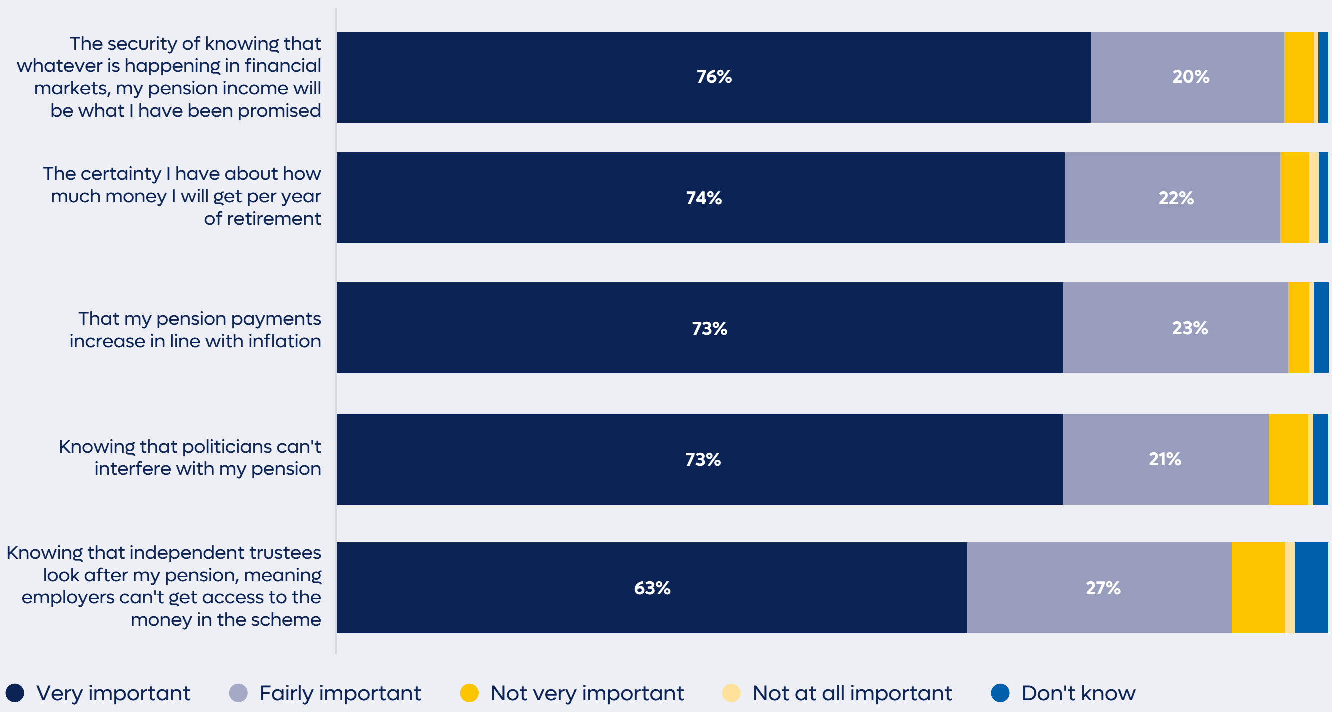
- They have worked hard and saved their own money into these schemes
- The stable and reliable pension income they get from their DB pension offers financial security in retirement
- For most members this DB income will be the largest proportion of their retirement income and will likely determine their quality of life in retirement
- They have no control over the scheme – they have to trust the trustees, and the sponsor

Members' voices - polling.

We polled DB members.

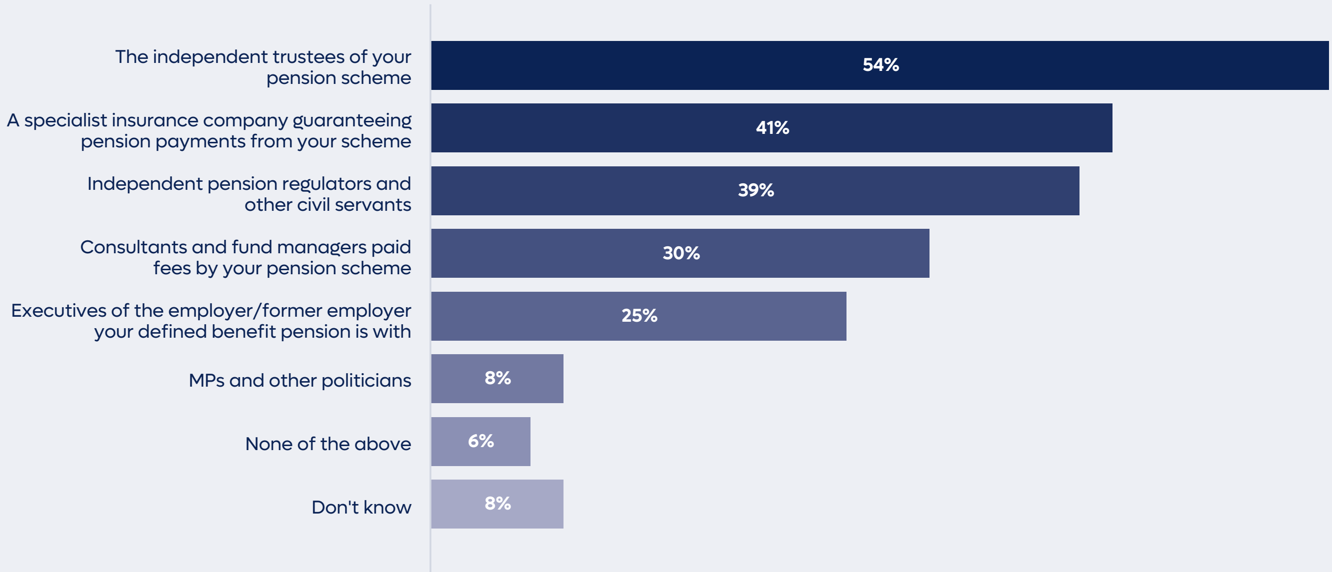
They value certainty and security over their pension incomes very highly. 96% say those things are important to them.

Q. To what extent are the following features of your defined benefit pension important or not important to you?



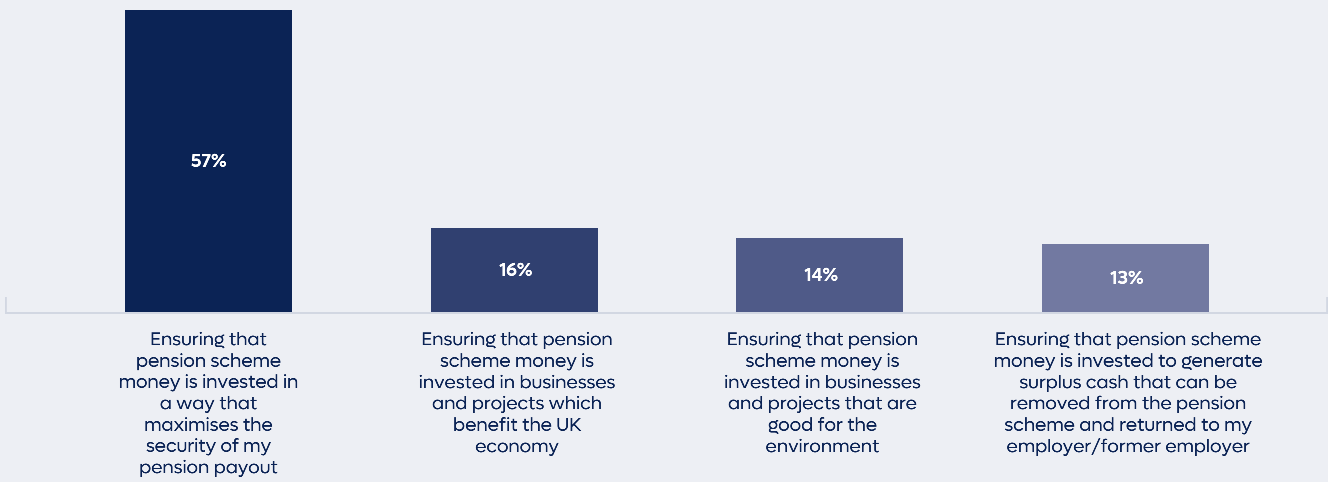
DB pension scheme members trust independent trustees with their pensions. They don't trust politicians.

Q. Which of the following groups, if any, would you trust to make decisions around your defined benefit pension? (Select all that apply)



And they want money in their pensions to be used for their retirement, not for other things.

Q. Which of the following areas would you most like the organisation that manages your defined benefit pension to focus on? Please rank the option that is most important to you as 1 and the option least important as 4.



Members understand the Golden Rule very well – that schemes should prioritise security of pension benefits to provide financial security in later life.

Sponsoring companies explained.

A DB pension scheme is sponsored by the company which originally employed the scheme member. Sponsors bear all the risk and have to put extra money in when the scheme underperforms.

The company ultimately underwrites the promise that the member will get their full pension, even when that member no longer has any relationship with the company – either they have moved to a new job, or they have retired.

This decades-long promise can be a big burden on employers. Historically DB schemes have often underperformed (known as being in deficit), forcing employers to put more money in.

Between 2012 and 2022, sponsors had to pay a total of **£200 billion** in extra contributions into pension schemes, to reduce their financial deficits.

For sponsors, DB pension schemes appear as liabilities on their balance sheets.

When a scheme goes to buyout, sponsors no longer face the risk of having to make extra contributions, and liabilities no longer figure in their accounts.

DB scheme funding fluctuates considerably over time.

United Kingdom: £ billions (s179 basis)

Between 2012 and 2022, sponsors had to pay a total of **£200 billion** in extra contributions into pension schemes to reduce their financial deficits.

Source: House of Commons Library, based on PPF 7800 index

DB scheme trustees – their role and duties.

DB schemes are overseen by **trustees**. They are independent of the sponsoring company and independent of the government. Their job is to look out for members.

HM Government tells trustees:

"Trustees are the legal owners of the pension scheme assets. **You have to act in the best interests of the pension scheme members.[1]"**

The Pension Regulator says:

"As a trustee, you are responsible for the proper running of the scheme – from the collection of contributions, to the investment of assets and payment of benefits. **The scheme members look to you to make sure that the scheme is well run and that their benefits are secure.[2]"**

[1] Source: Gov.uk, Responsibilities of a pension trustee: Published September 2014.

[2] Source: The Pension Regulator, Trustee Guidance: Issued December 2007.

Arguments for other pension scheme options.

Open schemes

- **Ongoing management**
  For as long as a scheme is still open to new members and an employer is supporting it, a DB scheme can continue to operate.

  These are now quite rare but examples include the Universities Superannuation Scheme scheme for university workers, and Railpen for railway staff.

Closed schemes where the sponsor remains involved

- **Run on**
  The schemes assets could be actively managed for a period usually with an aim to increase the surplus which then may be shared with the sponsor. The scheme is expected to buyout at a future point.

- **Run off**
  The schemes assets could be actively managed for an extended period of time until the last benefit payment is made. There is usually an aim to increase the surplus which may be shared with the sponsor. The scheme is not expected to buyout at a future point.

Closed schemes where the sponsor is not actively involved

- **Pension Risk Transfer**
  Trustees buy insurance policies from PRT firms that guarantee some or all of their pension liabilities. Many schemes, even very large ones, use pension risk transfer to help them manage the risks involved with a very large investment portfolio.

- **Pension Protection Fund**
  When a DB scheme's sponsoring employer goes bankrupt, its assets are transferred to the Pension Protection Fund, the industry "lifeboat", which then pays out some of its pension liabilities – though members generally don't get all the money they were promised by the pension scheme.

- **Superfunds**
  New commercial operators who offer to consolidate the assets and liabilities of DB schemes, ending the employer's obligation to fund liabilities but without a guarantee that pensions will be paid.

What are PRT firms, and what do they actually do?

We are life insurers. We sell annuity policies that guarantee the payment of pensions. That means total security for members.

We offer two main ways for trustees to secure some or all of their members' pensions:

1 Buy-in

A scheme purchases an annuity policy that covers some of its liabilities, guaranteeing that those liabilities will be met. The scheme trustees remain responsible for managing the remaining scheme assets and paying pensions.

2 Buyout

A scheme purchases an annuity policy that covers all of its liabilities. The insurer takes on responsibility for paying pensions and the scheme can be wound up, after which the members become policyholders of the insurance company.

This process transfers all risks in a DB scheme away from trustees and sponsoring companies and into the insurance company.

Because PRT firms are insurers, we are subject to higher levels of regulation than pension schemes, so we keep large capital buffers to make sure we can always pay out.

And because PIC's purpose is to pay the pensions of our policyholders, that is what our whole business is built around, including the delivery of excellent customer service.

Thanks to the security of the PRT regulatory regime, no guaranteed annuity has ever defaulted.

Every buyout starts with a buy-in

DB pensions and investing in the UK economy.

Lots of people say they want more pension capital invested in **productive UK assets**, such as housing and infrastructure.

Closed DB schemes generally can't invest in these things. They're too small, they lack the expertise and they don't have the right time horizons because they need the money in the short term to pay the pensions of their members.

PRT firms can and do invest pension capital in productive assets. We can do this because we have the size and expertise needed to manage the risk inherent in these projects.

The process of PRT means total investment in the UK rises.

Around 65% of assets held by PRT firms are invested in the UK. This compares to 55% of total assets held by DB schemes that haven't agreed to PRT yet.

18% total increase in UK investment following PRT

PIC for example employs more than 100 people in our investment team.

PIC has committed **£30 billion** to UK investments. That includes investing **£14 billion** in UK housing and infrastructure, in total.

PIC's investments include:

Renewable energy (£1.5 billion)

Urban regeneration (£1.5 billion)

Social housing (£3.6 billion)

Education sector (£3 billion)

PRT firms are already delivering exactly what policymakers say they want pension capital to do.

Timescales: Is PRT too slow, and can the public sector do it better?

Transferring pension risks and assets to insurance companies isn't quick. Every scheme has its own rules and arrangements for the benefits that members are entitled to. Those benefits must be assessed carefully to calculate how much capital will be required to pay their pensions.

Some estimates suggest it might take another 25 years to transfer all closed DB risks and assets to insurers.

The main reason for PRT's timetable is that the pension scheme administrators have considerable workloads and have to accommodate PRT data requests alongside other priorities, including the Government's pensions dashboard and GMP equalisation.

Some people suggest that the Pension Protection Fund ("PPF") can help to accelerate the consolidation of DB pension assets by acting as a public sector consolidator of DB schemes, taking on their assets and liabilities. This would mean the public sector doing something that the private sector is already doing well.

The PPF is also subject to the same administration constraints as the PRT industry. To assist the PPF in becoming a "public sector consolidator", the Government has suggested it should offer standardized benefits to members of DB schemes it absorbs.

But standardising benefits would inevitably mean some members get smaller pensions than they were previously entitled to. That would be unfair – they have earned those benefits – and raise the prospect of legal challenge. This means this reform itself is likely to proceed extremely slowly.

If policymakers want to accelerate the consolidation of DB assets into pools that invest in the UK, the best way for them to do so is to support the PRT sector.

The options for DB schemes – pros and cons.

	Run on	Buyout
Policyholder	• Risk of sponsor failure leading to PPF and reduced payments	• Guaranteed payment
Sponsor	• Risk of deficit reduction payments • Liabilities on balance sheet • Administrative burden	• Pension removed from balance sheet • Risk of deficit payments removed
Economy	• Scale, timescale and regulation skew DB investments away from productive assets	• Asset pooling and expertise allows scale investment in infrastructure and housing

Key topics explained: Run on – a risk to member benefits.

"Running on" a closed DB pension scheme means taking risks that could fall on members. Schemes' sponsoring employees can and do fail, leading to scheme failure and transfer to the PPF. The people who suffer from that are **members** – current and future pensioners.

Since 2005, the Pension Protection Fund has taken on more than

1,000 pension schemes

covering the pensions of more than

290,000 people

That's a vital service, but it comes at a cost to members:

- Members of schemes who haven't yet retired at the point of transfer to the PPF could potentially **lose up to 40% of their benefits.**[1]
- PPF pensions generally rise by maximum of 2.5% a year, meaning that when inflation is higher, the value of pensions is **eroded.**[2]

[1] Source: The Telegraph "I was on a comfortable £66k-a-year pension – then it plummeted to less than £18k" Rob White, September 04 2024
[2] Source: Pension Protection Fund

PENSIONSAge
The leading pensions magazine

HOME | ABOUT | SIGN UP | CONTACT | VIDEOS | BLOG | JOBS | DIGITAL EDITIONS | PENSIONS AGE
EVENTS | ROUNDTABLES | EUROPEAN PENSIONS | PODCASTS

Profit warnings from UK-listed firms with DB schemes reach four-year high

By Callum Conway 10/02/2025

UK-listed companies with defined benefit (DB) pension schemes issued 81 profit warnings in 2024, the highest annual volume since 2020, EY-Parthenon has revealed.

When a scheme runs on, members' interests are still tied to the fate of the sponsoring company.

In 2024, some 24% of listed companies that sponsor a DB pension scheme issued profit warnings.

Figure 1: Pensions Age "Profit warnings from UK-listed firms with DB schemes reach four-year high" Callum Conway, February 10 2025

Key topics explained: Surplus.

Is there a big financial surplus in DB schemes that someone could extract and use?

Any "surplus" on a DB scheme is notional. It's the difference between the scheme's predicted payments and its predicted asset returns. Those long-term predictions are very sensitive to interest rates.

As the Department of Work and Pensions says:

"The position of schemes can change significantly in relatively short periods."

DB scheme funding fluctuates considerably over time.

United Kingdom: £ billions (s179 basis)

Source: House of Commons Library, based on PPF 7800 index

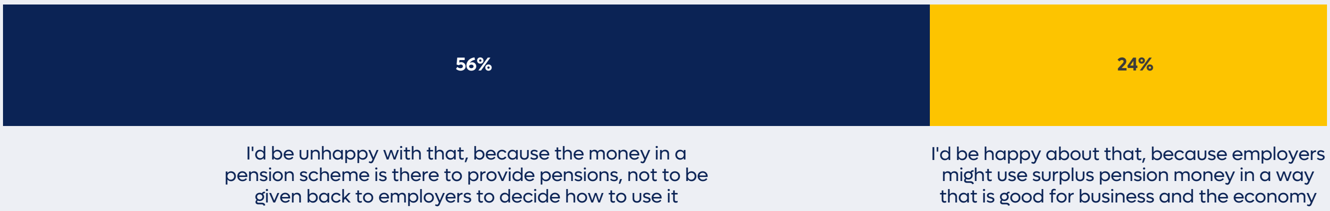
1 Look again at the chart and see how "surpluses" have only existed for just over two years, after 15+ years of financial underperformance.

What would happen if things changed again?

Our poll showed that DB members oppose surplus extraction by a wide margin: **56% are opposed.**

Following explanation on surplus extraction.

Q. If this surplus money was removed from your defined benefit pension scheme and given back to your employer/former employer to invest, which of these statements is closest to your view?

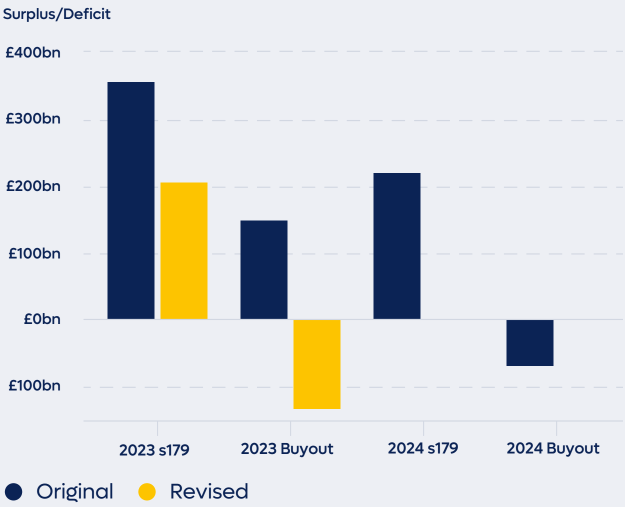


Note that just under 20% selected either 'I don't have a view on this' or 'don't know'.

What is a surplus?

Surplus is very hard to measure and there are multiple ways of calculating it. Just ask the Pension Protection Fund which tries to measure DB pension surpluses.

- In 2023, the PPF said DB schemes had a combined surplus of £150 billion.
- In 2024, the PPF said those same schemes had a combined deficit of £133 billion.



Source: Purple Book 2024, Purple Book 2023

Figure 2: Financial Times "UK pensions lifeboat wipes £283bn off defined benefit funding estimates" Mary McDougall, December 05 2024


FINANCIAL TIMES

UK COMPANIES TECH MARKETS CLIMATE OPINION LEX WORK & CAREERS LIFE & ARTS HTSI

Final salary schemes + Add to myFT

UK pensions lifeboat wipes £283bn off defined benefit funding estimates

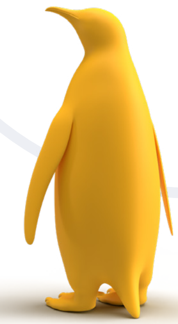
'Hugely embarrassing' recalculation puts schemes at a deficit of just over £130bn in 2023

When the "surplus" numbers can change so much, is it wise to make plans to spend that money?

Arguments for running on and extracting surplus.

Despite the challenges, some people still argue for "surplus extraction".

Here are some of their claims, and the reality.



- **CLAIM** *Extracting surplus would boost the economy because sponsors would invest the money in infrastructure.*
- **REALITY** That wouldn't happen. Sponsors largely won't invest these funds in infrastructure – they return value to shareholders. Surplus money extracted from a DB scheme would go from serving members' interests to serving shareholders.

THE TIMES

Not quite surplus to requirements

Aberdeen has clinched the right to extract £35 million a year from its legacy staff pension fund in one of the first deals since new rules eased employers access to clawback surpluses.

Jason Windsor, chief executive, said the defined benefit (DB) pension scheme's surplus was around £800 million on liabilities of £2.5 billion and there was "absolutely no risk" to members of the scheme. "The trustees are very happy," he said.

Like Schroders, which is also tapping its pension fund surplus, it framed the cash grab from the DB scheme as a way of paying for employer contributions to its defined contribution plan. But the effect is to free up cash that can be used for any purpose, including paying dividends.

Figure 3: The Times "Fund manager ditches "abrdn" name after years of ridicule" Patrick Hosking Financial Editor, March 04 2025

- **CLAIM** *The PRT sector can't support all schemes, so they need an alternative.*
- **REALITY** This isn't true. New entrants are joining the PRT market and competition is increasing – trustees who want PRT always have multiple options.

- **CLAIM** *Small schemes are ignored by the PRT sector, so they should be encouraged to run on instead.*
- **REALITY** Not true. PRT firms offer specialist products for smaller schemes. More than 700 small scheme transactions have been completed in the past five years. Some estimates show that the average size of PRT deals is falling as small schemes buy more policies.[1]

- **CLAIM** *The PPF should be able to consolidate any closed DB scheme and pool their assets.*
- **REALITY** The PPF has a vital role guaranteeing pensions when sponsors collapse. It should focus on its core role instead of trying to replicate what the market is already doing.

[1] Source: LCP's predictions for the pension risk transfer market in 2025. Life Risk News "UK Pension Risk Transfer Market Sees Six Insurers Each Write Over £5bn for the First Time" Greg Winterton, March 31 2025

The benefits of buyout.

PRT transfers liabilities and risks to insurers.
PRT then invests in UK housing and infrastructure.

This is good for everyone.

It's a WIN for members

It's a WIN for sponsors

It's a WIN for the economy

Members win

PRT means members get total security for their retirement income and first-class customer service from PRT firms.

"PIC is a company that knows its job and cares about its policyholders, past, present and future."

Christine Summers
Former member of Delta PLC and proud PIC policyholder since 2008

Sponsors win

PRT frees sponsors from the risk of deficit reduction payments and the burden of supporting schemes and their liabilities.

"We were very pleased to be able to help facilitate this transaction. Our contribution neatly aligns shareholder interests with those of scheme members who now all have their pensions insured."

Jackie Callaway
Chief Financial Officer at Coats Group PLC
£1.3 billion buy-in with PIC, September 2024

UK economy wins

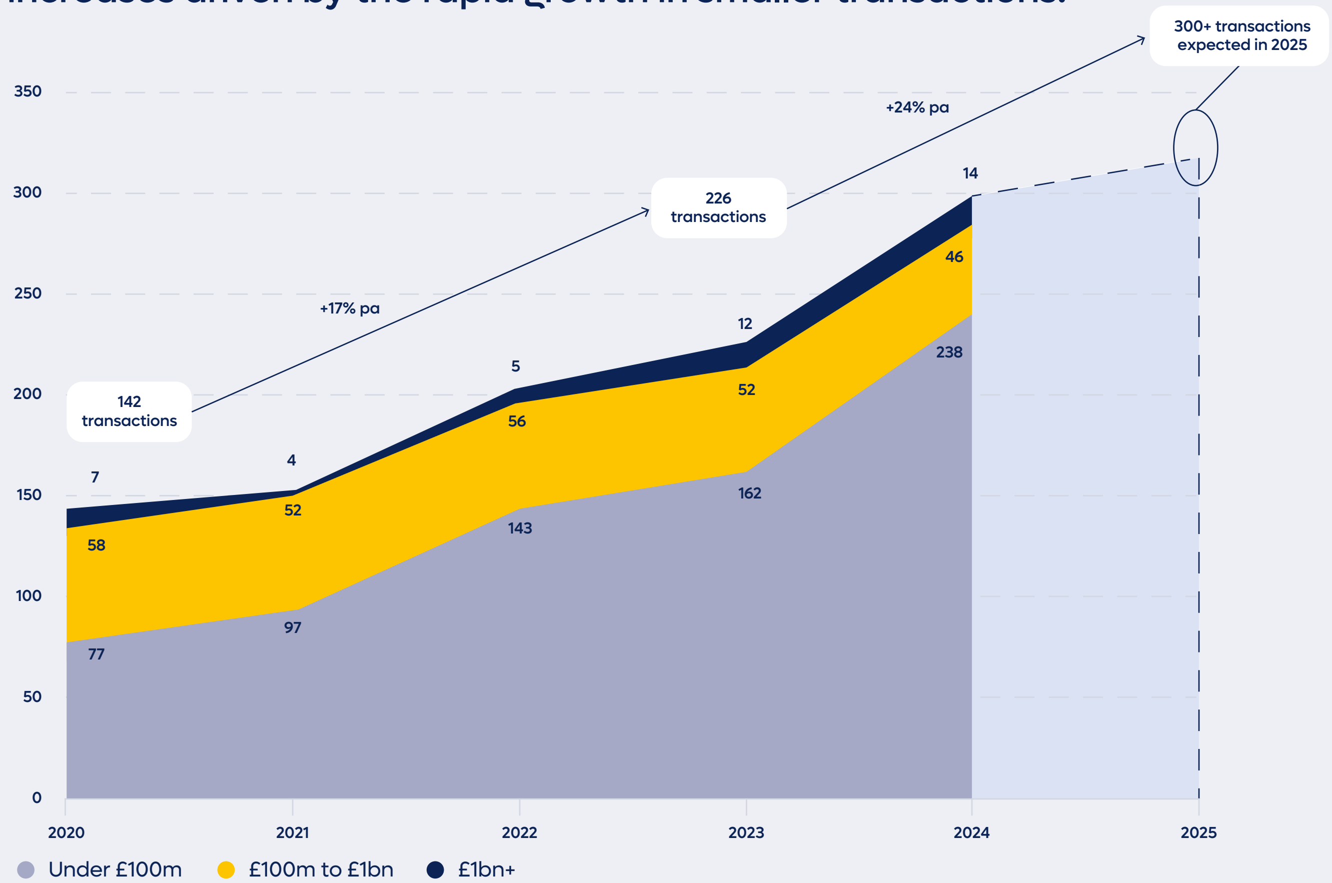
Insurers pool DB pension assets to create large, expert long-term investment programmes that back long-term productive assets.

The PRT sector would ideally invest up to £200 billion in long-term UK assets over the next decade.

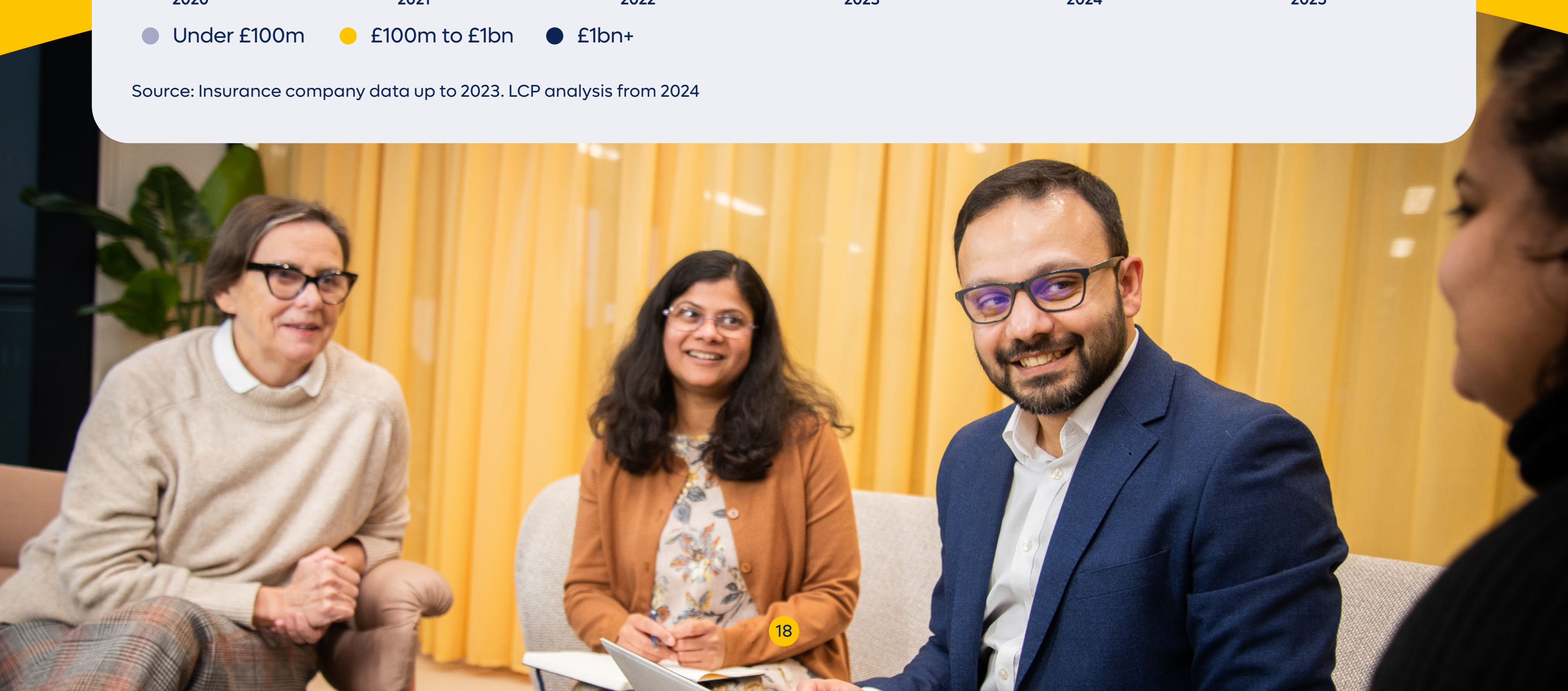
The future of PRT.

- The PRT sector is growing and will continue to grow, as more and more trustees chose buy-in and buyout policies as the best option for their members.
- More of those policies will be bought by smaller DB schemes as the market offers them more and more options.
- More companies will enter the PRT market, meaning more competition, better deals for trustees and more security for members.

Buy-in transaction numbers since 2020, with significant increases driven by the rapid growth in smaller transactions.



Source: Insurance company data up to 2023. LCP analysis from 2024



PS: Vested interests?

This report was written for MPs and other people who think about pension policy, to help you understand the role PRT plays in the pensions system and the economy.

Here's something we think you should think about:

VESTED INTERESTS

Lots of the people and organisations who comment on pensions and pension policy have a vested interest.

Not all of them are open about that.

We are open about our interest – it's literally in our name. Pension Insurance Corporation is a PRT business.

We sell annuity policies to DB pension schemes and then we pay pensions to their members. Our interest aligns with that of pension scheme members – our business depends on making sure they get the pensions they've earned.

Some of the people who propose alternatives to PRT have a commercial interest in DB schemes running on.

That's in the interests of the people who get the fees - but does it align with the interests of scheme members?

Jeremy Apfel
Managing Director, Corporate Affairs

apfel@pensioncorporation.com

+44 7500 860 268

PENSION INSURANCE CORPORATION PLC
22 Ropemaker Street, London EC2Y 9AR

pensioncorporation.com