

Market Musings 06/26

For Professional Investors only

Does buy-out still stand out?

Trustees and sponsors are no longer choosing in the dark. Improved modelling of run-on economics, clearer frameworks for comparing buy-out with running on, and more robust analysis of surplus potential and timing optionality have materially raised the standard of decision-making.

As a result, discussions are increasingly centred on value and trade-offs, rather than focusing solely on risk removal.

A turning point for the UK DB pensions market

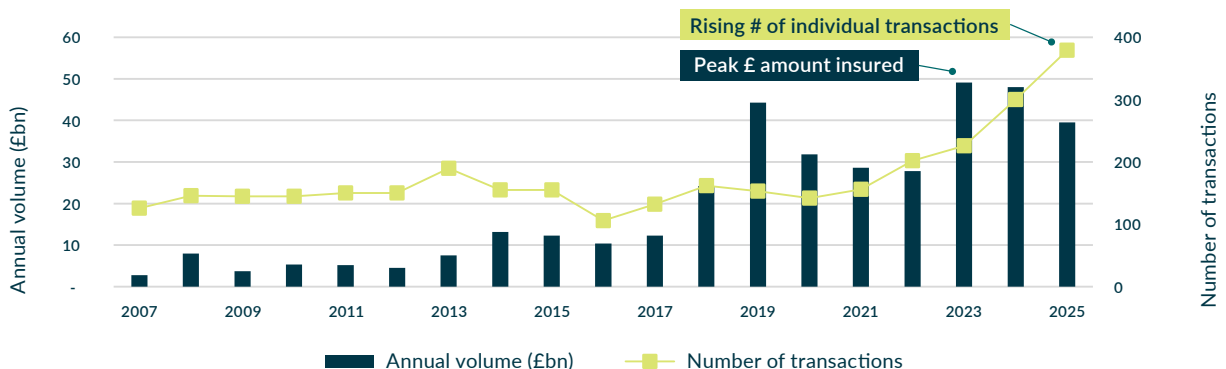
The UK DB pensions market has undergone a quiet but important shift in how buy-out activity should be interpreted. For many years, buy-out was viewed as the ‘gold standard’ endgame for UK DB pension schemes, the point at which risk was removed and the journey was considered complete.

Record bulk purchase annuity (BPA) volumes seen in 2023, reaching c.£49.1bn, appeared to reinforce this narrative. That total was driven by a relatively small number of very large, well-funded schemes moving rapidly to insurance.

At the time, this was widely interpreted as the start of an inevitable acceleration towards buy-out as the dominant DB endgame.

By 2025, the picture looked different. While total insured volumes peaked in 2023, the market was completing a higher number of individual transactions, even as the total £ amount being insured declined. Activity became more dispersed, with a wider range of schemes participating across different transaction sizes.

Chart 1: Annual bulk annuity transactions and volume



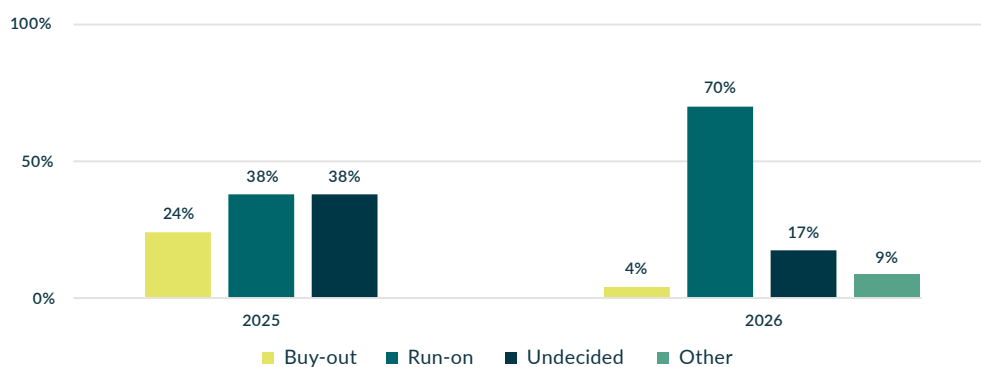
Source: XPS Group. XPS Bulk Annuity Watch, January 2026

Why the buy-out market now looks different

On the demand side, behaviour is shifting, particularly among larger schemes. Many can now afford insurance, but the key question has shifted from 'can we afford buy-out?' to 'should we do it now, or at all?'. For schemes in surplus, buy-out is no longer an automatic next step, but a strategic choice.

Recent survey evidence highlights how pronounced this shift has become. Analysis by mallowstreet, in partnership with Brightwell, shows that 70% of DB schemes with more than £1bn in assets are now targeting run-on, almost double the 38% a year earlier. Over the same period, the proportion targeting buy-out has fallen to just 4%, down from 24%, with many previously undecided.

Chart 2: Stated endgame targets among large UK DB scheme



Source: mallowstreet. Endgame & Surplus Report 2026

Buy-out has also been challenged as the sole settlement option. Consolidation models, including superfunds such as Clara, the only superfund to have completed multiple transactions, demonstrate that alternative structures can meet member and sponsor objectives in specific circumstances. Although a small proportion of the large schemes surveyed selected "Other", this still represents a significant volume of assets actively considering alternatives.

On the supply side, the BPA market has adapted quickly. New entrants and re-entrants have increased effective capacity, pricing has remained competitive, and insurers have invested heavily in streamlined offerings, particularly for smaller schemes. The market is now better equipped to handle volume at the smaller end, even as very large transactions become more selective. The result is a market that remains busy, but less inevitable. Buy-out remains central to the DB endgame, but it is no longer the default outcome for every well-funded scheme.

A broader endgame lens

The UK DB endgame landscape now offers a broader range of viable approaches than at any point in the past. Buy-out remains an important solution, but it is no longer the only route, nor always the one that best serves members or sponsors. Stronger funding, regulatory change and a greater focus on surplus have widened the opportunity set, and schemes are increasingly gravitating towards one of four broad approaches:

1. **Insurance now:** buy-out where certainty and full risk transfer are the primary objectives.
2. **Run-on:** well-funded schemes retaining assets to preserve flexibility and explore surplus over time.
3. **Alternative endgames:** newer, more flexible solutions, including consolidation models, offering greater flexibility around timing, covenant strength, scale and surplus use.
4. **Pause and see:** schemes deliberately maintaining optionality while regulation, surplus frameworks or sponsor priorities become clearer.

Alternatives also carry ongoing market, longevity and regulatory risks.

The mistake is assuming all schemes should behave the same way. What has changed since 2023 is not just the number of available options, but the legitimacy of choosing between them.



The irreversibility of buy-out: why this matters more now

In a world of broader endgame choice, buy-out is different. Buy-out is final. Once executed, there is no ability to revisit surplus, reshape strategy or change the investment structure. That has always been true, but it matters more today than it did even a few years ago. Funding levels are stronger, regulation is evolving, and surplus extraction has become a live consideration. In this environment, the cost of making the wrong irreversible decision has increased. The question is no longer just whether buy-out removes risk, but what is being given up in exchange for certainty.

Aligning investments to end game

When endgame choice is no longer uniform, investment strategy cannot be either. Buy-out, run-on and alternative endgames place different demands on portfolios, reflecting differences in execution timing, pricing sensitivity, flexibility and longer-term return objectives. As a result, the way schemes invest in the years leading up to settlement, or beyond, becomes a central part of the endgame decision itself. In practice, this creates three key investment considerations:

- **Liquidity:** ensuring sufficient flexibility to support different endgame paths, whether that is executing a buy-out at attractive pricing, insuring incrementally, running on, or retaining the ability to transact at short notice.

- **Return:** balancing the need for surplus generation against downside risk as funding improves, recognising that return objectives will differ depending on whether the aim is securing pricing certainty, maintaining funding strength, or generating additional surplus.
- **Opportunity cost:** avoiding locking into certainty too early at the expense of future flexibility, while recognising the risk of being unprepared if circumstances change.

Conclusions: navigating endgame choice in a changed market

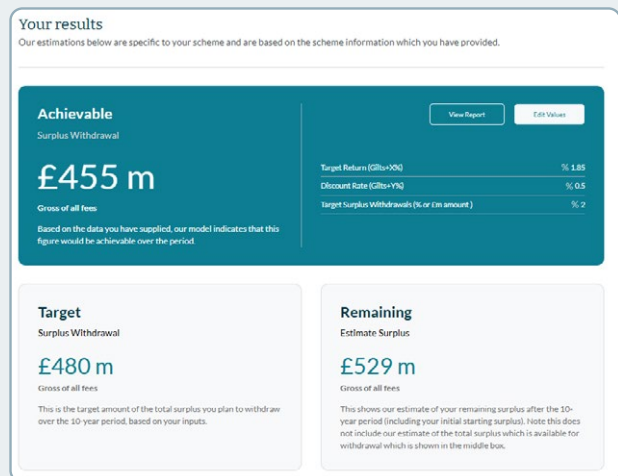
What has changed most materially in recent years is how endgame decisions are being approached. Stronger funding, better modelling and a clearer focus on surplus mean trustees and sponsors are making more deliberate choices about whether, when and how to settle.

Buy-out remains a strong solution, and the right solution for many schemes, but it is no longer the only way to deliver good outcomes for members and sponsors.

Reflecting this shift, Van Lanschot Kempen has developed a **surplus calculator tool** to support more informed endgame discussions. The focus is on improving, understanding, and supporting decision-making, not directing schemes towards a particular outcome.

In today's market, buy-out should be considered as one of several possible outcomes, not assumed as the starting point of the conversation.

DB Pension Surplus Calculator Tool



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