

Generating income from your DB pension scheme

For Professional Investors only
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Before you commit to buy-out is 'run-on' worth testing?

Improved funding has reopened the defined benefit endgame conversation for many corporates, particularly around buy-out timings. For most, the usual route is an insurer buy-out on a defined timetable. That route offers certainty and risk transfer, but it also fixes pricing and outcomes at a single point in time.

In the right circumstances, running a scheme on for longer can be a credible alternative. Not as a substitute for an endgame, but as a way of retaining control over timing, cashflow and decision-making while conditions remain supportive. This can also provide a return of capital back to employers, either as a single or regular distribution.

The risk today is not that run-on is misunderstood, but that it is dismissed before its relevance to the business has been properly tested against a buy-out decision.

What we mean by run-on?

Run-on is choosing to keep a defined benefit pension scheme in place, rather than locking into an insurer buy-out.

The upside and the key question

Run-on is typically only worth testing where funding is high and the scheme is at least c£100m in size, so outcomes are commercially meaningful. For example, a £100m scheme could generate around £2-3m p.a., scaling with scheme size. The sponsor must also have sufficient financial strength to support the scheme through less favourable periods.

If you can't clearly name the purpose, run-on can start to look like delay. If you can, it becomes a genuine option.

1 What would run-on enable that your endgame path would not?

Run-on is only worth testing if it enables something practical for the business, such as smoother pension costs, improved free cashflow, stronger defined contribution outcomes for employees, or flexibility over timing while corporate priorities evolve.

2 Does your business plan support a longer term run-on strategy?

Run-on works best where it fits with how the business plans and makes decisions, including whether upcoming events such as refinancing, corporate activity or ownership change make flexibility over timing more valuable than locking into insurer pricing now.

3 What would success look like in practice?

Run-on is more likely to stay focused when there is early alignment on what it is meant to deliver, whether that is flexibility, cost management, timing, or a clearly defined funding objective that can be judged against an agreed yardstick.

4 How will value be protected once it starts to build?

Run-on is only credible with a clear plan for downside control, including agreed buffers, triggers and review points, and clarity on when the strategy would pause or change course if conditions deteriorate. Suitably built, the expected need for sponsor support can be reduced.

If surplus does emerge over time, what could it support?

Surplus is only compelling if there is a credible and agreed use for it. For corporates, that might include reducing future pension costs and improving cashflow, strengthening defined contribution provision, addressing fairness between different generations, or supporting wider business priorities where appropriate.

Why this matters now

Run-on is not about delaying endgame decisions. It is about recognising when improved funding creates more choice over timing and outcomes, and whether locking into a traditional timetable risks leaving value unrealised. That assessment alone can change the shape of the endgame conversation. Before committing to buy-out, it is worth being clear on whether run-on is worth testing as a better commercial fit.

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