VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

Run on and the endgame: making deliberate choices

For Professional Investors only
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Why clarity matters for well funded DB schemes

For many well funded defined benefit schemes, the most significant risk today is not market volatility or funding shortfalls, but inertia. With funding positions improved and buy out pricing volatile, trustees can find themselves delaying decisions.

Endgame planning is no longer a simple choice between buy out or running on. The real challenge for trustees is deciding how and when to use an expanding range of options.

Why making an active decision matters

Endgame discussions are often framed as something to return to once conditions improve or uncertainty fades. For well funded schemes, that delay is rarely neutral. Two schemes can look similar on paper, yet deliver materially different outcomes over time simply because one has made a clear strategic choice and the other has not.

If the objective is to run on, clarity matters because the investment and governance approach needs to be purpose built. Without explicit intent, strategies can default to a cautious middle ground that neither protects the downside nor supports surplus generation. Over time, that lack of alignment can erode optionality rather than preserve it.

If the objective is to buy out, clarity matters just as much. Without a defined timeframe and target, schemes can remain over exposed to risks that are no longer rewarded, or under prepared when insurer pricing becomes attractive. Delay can translate into missed windows rather than improved certainty.

For many well funded schemes, the question is no longer whether an endgame is achievable, but whether the cost of postponing a decision is being fully understood.

Quantifying the impact without drowning in data

Modelling shows how two £1bn schemes, both funded above 110%, can experience materially different outcomes over a five year period as a result of clearer strategic alignment.

In this illustrative example, a scheme targeting a modestly higher return within a purposeful run on strategy, was projected to generate an additional £35m of surplus over five years compared with a more cautious, undecided approach. This modelling is based on assumptions informed by practitioner input, and outcomes will depend on scheme-specific circumstances and may differ. Capital is at risk. This was not about return chasing. The additional value reflected clearer objectives, better alignment between risk and outcome.

Clear decisions can support better outcomes, while prolonged uncertainty can work against schemes over time.

Endgame options are broader than they once were

Endgame planning has often been framed as a choice between running on or transacting with an insurer. For many schemes, that framing once made sense. Today, it understates the range of credible options now available.

Alongside insurance transactions and purposeful run on strategies, trustees can consider a wider set of alternative solutions. These approaches can provide different routes to risk reduction or benefit security, particularly where timing or scheme circumstances make a conventional insurance transaction less straightforward.

What matters is not the label attached to an approach, but whether trustees have actively considered the options available to them. Making an active decision, even if it is not a final one, allows strategy to better reflect the scheme's reality rather than defaulting over time.

Practitioner case study

Aligning run on strategy with sponsor outcomes

This case study illustrates how trustees have aligned a run on strategy with sponsor objectives, with no material increase in risk indicated by modelling. Outcomes may differ in practice.

The scheme had an agreed timetable to be buyout ready, with all surplus returned to the sponsor on wind-up. It was running at an expected return of Gilts +0.5%, which trustees felt was too low, and meant the scheme capital was not being used efficiently.

Trustees approached the sponsor with a proposal to re-return the portfolio to target Gilts +1%. The scheme could then fund the sponsor's DC contributions in exchange for the sponsor agreeing to providing discretionary increases for members. CThe modelling indicated little difference in projected surplus and no material increase in uncertainty.

When the CFO asked, *'What's the catch?'* the answer was simple. There was no obvious trade off. The sponsor received more value, some of it earlier than expected, and members benefited as well.

Matching scheme characteristics to different run on approaches

Run on is not a single strategy. Once trustees decide to run on, the focus shifts to defining what it means in practice including return objectives, risk budget, liquidity and governance.

The appropriate approach depends less on funding level alone and more on a combination of scheme maturity, cashflow profile, benefit structure, risk appetite and the nature of the sponsor covenant, including how any surplus might ultimately be used.

How scheme characteristics tend to align to different run-on approaches

Scheme characteristic	Lower risk run on	Medium risk run on	Higher risk run on
Primary objective	Stability and control	Balance of stability and value	Long term value creation
Risk appetite	Low	Moderate	Higher
Funding position	Well funded, margin prioritised	Well funded with headroom	Well funded with surplus ambition
Scheme maturity	Mature, cashflow negative	Mixed	Less mature
Cashflow profile	Predictable outflows	Balanced	Longer duration
Investment focus	Capital preservation and income	Controlled growth	Broader growth assets
Typical use case	Maintaining optionality	Structured run on	Purposeful surplus generation

Most schemes will not sit neatly in one column. The value is in understanding where your scheme leans, not forcing a label.

Real world trustee and sponsor conversations

The way endgame discussions are framed can determine whether they progress or stall. Trustees who lead with 'staying invested' or technical investment arguments can encounter resistance. By contrast, conversations focused on business impact, particularly free cashflow, balance sheet implications and strategic optionality, tend to be more constructive.

Positioning the pension scheme as part of a broader corporate finance discussion, including early clarity on how surplus might be used, helps align interests and can help keep conversations constructive.

It also helps to be explicit early on about what surplus could be used for, and what a fair sharing mechanism might look like. That turns a theoretical debate into a practical corporate finance conversation, and it keeps incentives aligned as the strategy evolves.

Practitioner insight

Framing the sponsor conversation

This insight reflects practitioner experience of how the way conversations are framed can influence sponsor engagement.

An experienced trustee puts it simply: the way the conversation is framed often determines whether it progresses or stalls. Opening with 'I'd like to talk to you about pensions' is unlikely to capture a CFO's attention. Framing the discussion around improving free cashflow is far more effective.

Trustees are also more likely to make progress when they approach sponsors with ideas, rather than problems. Conversations around the use of surplus tend to be constructive, a marked contrast to the familiar but challenging message of 'I know you don't have any money, but I need some to close the deficit'.

Practitioner insight

The importance of covenant visibility

This insight draws on practitioner experience of how greater transparency over the sponsor covenant supports better decision making.

Experience suggests that run on discussions can be most successful where there is good visibility over the sponsor covenant. Where a sufficiently rich information set is shared by the sponsor, covenant advisers are better able to provide clear advice and highlight potential risks at an early stage.

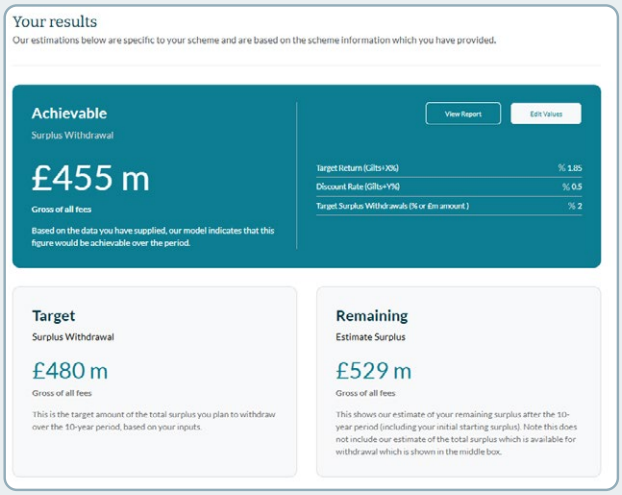
In the strongest examples, trustees receive the same information pack that is shared with the sponsor's lenders. This level of transparency supports more confident decision making and allows discussions about risk, surplus and endgame strategy to take place on a well informed basis.

Decision support is better now

Trustees also have stronger decision support than in the past, including integrated funding and investment projections, downside stress testing, and clearer liquidity analysis. Used well, these tools can reduce the risk of drifting, and they help translate endgame choices into sponsor language, such as free cashflow, balance sheet volatility and optionality.

Decision support in practice

Our **DB Pensions Surplus Calculator Tool** allows trustees and sponsors to assess how surplus and risk may evolve under different endgame paths, providing a clearer basis for discussion as decisions are taken.



Conclusion: deciding beats drifting

Whether trustees ultimately choose to run on, transact with an insurer or pursue an alternative solution, outcomes can be shaped less by the option itself than by the quality of the decision behind it.

Run on will not be right for every scheme, nor will buy out. What matters is that trustees engage actively with the choices available, rather than allowing delay to substitute for decision making. For many well funded schemes, the risk today may lie less in making the wrong endgame decision, and more in failing to make one at all.

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