

Unlocking DB surpluses: Balancing risks and rewards



On Wednesday 27 May 2026, the Pensions Policy Institute (PPI) hosted the launch of its latest report, [Unlocking DB Surpluses: Balancing Risks and Rewards](#). Sponsored by Standard Life, Aptia, the ABI and Pensions UK, the research examines the opportunities and challenges associated with unlocking Defined Benefit (DB) pension scheme surpluses and their potential implications for members, sponsors and the wider pensions landscape.

Hosted by Standard Life and chaired by John Chilman, PPI Trustee, the event brought together around 70 senior representatives from across the pensions industry under the Chatham House Rule.

As with all PPI events, the session provided a forum for evidence-based discussion, enabling policymakers, industry leaders and stakeholders to engage with the research findings, share perspectives and explore the policy considerations arising from this important and timely issue.

The event formally launched the report, presented its key findings and facilitated a constructive discussion on how the risks and rewards of DB surplus extraction can be balanced in practice.

Claire Altman, Managing Director of Pension Risk Transfer & Individual Retirement, Standard Life, welcomed attendees to the event.

Research Findings

Shantel Okello, Policy Researcher, PPI, presented the key findings from the report.

The approach to DB surplus extraction must be balanced, recognising that alongside opportunities there are also potential risks. While DB schemes have entered a structurally stronger funding era, current surplus levels do not guarantee long-term resilience. Surplus is not equally distributed across the market and extraction is not without risks. Headline surplus figures do not necessarily represent capital that can be safely or practically extracted.

Surplus resilience is highly sensitive to funding headroom and future market volatility. Modelling suggests that schemes funded at 105% still face a substantial risk of falling back into deficit, while schemes at 120% funding levels remain exposed to downside risk. Reducing surplus buffers materially increases the probability of future underfunding.

Safe surplus access depends not just on scheme funding levels, but also scheme-specific circumstances. Differences in investment design, sponsor covenant strength, funding buffers, maturity profiles, and operational governance mean schemes with similar funding levels may face very different risk outcomes. Maintaining adequate surplus buffers is essential to preserving resilience.

Decisions around surplus use create strategic trade-offs between employer flexibility, member security, long-term resilience, and value allocation. While surplus extraction may create opportunities for employers and potentially support productive finance initiatives, safe surplus extraction requires strong safeguards and should only be allowed where there is strong evidence that the scheme will remain resilient after withdrawal. Strong governance, robust covenant assessment, regulatory oversight, and funding headroom above low dependency thresholds are identified as essential safeguards.

DB surplus reform could create broader economic and investment opportunities, but these potential benefits are uncertain and depend on strategic capital allocation and implementation. Actual economic impact will depend on trustee decisions, sponsor behaviour, tax treatment, governance standards, and how released capital is ultimately deployed.

Panel discussion and Q&A

Shantel was joined on the panel by:

- **Alex Oakley, BPA Transaction Manager, Pension Risk Transfer, Standard Life**
- **Phil Wadsworth, Chief Actuary and Chair of the Research and Technical Group, Aptia**
- **Rob Yuille, Head of Long-Term Savings Policy, the ABI**
- **Tiffany Tsang, Head of DB, LGPS and Investment, Pensions UK**

The panel discussion and Q&A were held under the Chatham House Rule.

The following points were raised:

Member security as the central principle

The panel consistently reinforced that the primary purpose of DB schemes is to deliver the benefits promised to members. Any discussion around surplus extraction must therefore begin with member security as the overriding priority. Stronger funding positions do not remove the need for caution, particularly given the long-term nature of pension liabilities and uncertainty around future economic conditions.

The research provides valuable analysis and evidence to help trustees and sponsors navigate future endgame decisions and understand the implications of different surplus strategies.

Governance and endgame readiness

Strong governance and operational preparedness were identified as essential for any scheme considering surplus extraction or alternative endgame strategies. Panellists emphasised the importance of schemes becoming “endgame ready”, including having accurate, buyout-ready member data and clear governance frameworks.

While many schemes continue to target buyout as their preferred endgame, discussion focused on whether the emergence of significant surpluses could shift attitudes toward alternative approaches such as managed run-on. However, there was broad recognition that buyout and consolidation will remain the most appropriate solution for many schemes.

Scheme-specific approaches and managed run-on

Decisions on surplus use must reflect differences between scheme characteristics and circumstances, including covenant strength, funding resilience, maturity profile, governance capability, and investment strategy.

For some schemes, managed run-on could be a potentially beneficial option, particularly where sponsors have strong covenants and schemes wish to retain flexibility around timing buyout transactions or managing downside risks. However, large-scale or indefinite run-on strategies are unlikely to become widespread outside a limited number of open schemes.

Purpose and objectives of surplus reform

Questions were raised about the government’s underlying objectives for surplus reform, in particular whether its primary purpose was to support productive finance, improve member security, increase scheme flexibility, or stimulate wider economic growth.

While productive finance was acknowledged as one potential consequence of surplus reform, it is unlikely to be the primary driver of trustee or sponsor behaviour. Accessible surplus is likely to be significantly lower than the headline aggregate funding figures suggest, limiting the extent to which reform alone could materially transform approaches to productive finance. Reinvestment in sponsor businesses could still support broader economic productivity, even if direct productive finance investment is not the central objective.

Surplus ownership and competing stakeholder interests

A major theme of the discussion was the question of who should benefit from surpluses. On the one hand, sponsors may have a legitimate claim because they ultimately bear responsibility for deficits and have historically made additional contributions to schemes during periods of stress. On the other hand, members have also shared costs and risks over time, suggesting that surplus-sharing arrangements may be most successful if they balance the interests of employers and members.

Trustees are likely to face particularly difficult decisions in navigating these competing priorities, especially where there may be conflicts of interest between sponsors seeking extraction and trustees focused on long-term member protection.

Member outcomes and intergenerational fairness

The importance of member outcomes and intergenerational fairness featured prominently throughout the discussion. There is potential for surplus to be used to improve DB benefits or support DC provision, helping to address adequacy challenges. Trustees may be more comfortable supporting mechanisms that retain surplus within pensions, whether DB or DC. However, several practical barriers were highlighted, including tax implications, accounting treatment, and differences in trust structures.

There was also some discussion of whether members should be consulted on surplus decisions. While member engagement and communication are important, outcomes to such a consultation would likely depend heavily on how options were presented and may not provide a definitive answer as members are a diverse group with a wide range of views.

Safeguards, regulation and covenant strength

There was broad agreement that any framework for surplus extraction would require robust safeguards. Discussion highlighted the importance of low dependency funding thresholds, covenant assessment, stress testing, regulatory oversight, and potentially mechanisms requiring sponsors to return funds if schemes later become underfunded. The suggestion was made that sponsors may need to provide guarantees or indemnities to ensure schemes remain protected if conditions deteriorate in future.

The discussion also explored uncertainty around the future regulatory framework, including whether regulation will rely more heavily on supervisory judgement or strict prescription. Coordination between regulators was viewed as particularly important given the interaction between pensions regulation, insurance regulation, tax policy, and accounting standards.

Lessons from the insurance market

The panel considered whether lessons from the insurance market could help shape future surplus policy, with insurer technical provisions and capital buffers potentially a guide for schemes considering long-term resilience and extraction decisions. Questions were also raised about market capacity, as to whether insurers have sufficient capacity to meet continued buyout demand. There

was discussion around the possibility of more flexible insurance solutions, such as contingent buy-in arrangements.

Operational challenges and data readiness

Data quality emerged as a major operational issue throughout the discussion, with panellists emphasising that trustees must fully understand member liabilities and benefit entitlements before determining whether surplus can safely be extracted. Concerns were raised about the cost and practicality of achieving buyout-ready data standards, particularly where schemes may need to repeat expensive data-cleansing exercises later if circumstances change.

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