

DB surplus extraction likely to fall short of sector expectations, PPI report finds

The Pensions Policy Institute (PPI), the UK's leading independent authority on pensions and retirement policy, has published a [new report](#) today finding the scale of surplus extraction from private Defined Benefit (DB) schemes could be smaller than anticipated by the sector.

The report, “**Unlocking DB surpluses: Balancing Risks and Rewards**”, sponsored by [Standard Life](#), [the ABI](#), [Aptia](#), and [Pensions UK](#), identifies that whilst private UK DB schemes have moved into a period of widespread surplus, the actual scale and accessibility of surplus that could be released is likely to be smaller than headline estimates suggest, due to a range of factors.⁽¹⁾ These include the durability of surpluses varying depending on initial funding ratios, and differences in liability measures across schemes with different endgame strategies.

However, the research highlights that unlocking DB surplus – underpinned by robust safeguards – can deliver real benefits for savers, from improving member outcomes to strengthening wider workplace pension provision.

The recently passed Pension Schemes Act includes measures aiming to make DB surplus extraction easier for schemes.⁽²⁾ The report provides a new independent evidence base to better understand the implications of the proposed changes for trustees and surplus access. All the analysis for the research was conducted before the March 2026 PPF figures were published, reflecting recent geopolitical instability.⁽³⁾⁽⁴⁾

The key findings include:

- **The amount of surplus that could realistically be released may be smaller than headline estimates suggest:** Decisions about surplus extraction remain subject to scheme rules, trustee discretion and fiduciary duties, all of which impact the amount of surplus can be extracted. Different endgame strategies are also central, with many schemes targeting insurance buy-out, meaning surplus may be retained to meet insurer pricing and support transaction readiness.
- **Funding positions differ significantly depending on how liabilities are measured:** While Section 179 and technical provisions measures show widespread surpluses, the position on a full buy-out basis remains weaker, with an aggregate funding ratio of around 95.8%.⁽⁵⁾ A substantial minority of schemes also remain materially underfunded on this basis.
- **The sustainability of surpluses depends on funding resilience and investment risk:** PPI modelling demonstrates that the durability of surpluses varies depending on starting funding ratios, scheme maturity, accrual status, and investment strategy. For example, PPI modelling shows run-on schemes that closed to new entrants 10 years ago and closed to future accrual face an over 1 in 4 (26%) risk of falling into deficit – with a 120% technical provision starting funding ratio – if no remedial action was taken over a 25-year period.⁽⁶⁾
- **Surpluses have been driven by economic conditions alongside scheme-level decisions:** Higher long-term interest rates have reduced the present value of liabilities, while asset performance, moderated longevity assumptions, and historic sponsor contributions have reinforced funding gains. The sustainability of these outcomes continues to depend on scheme-level decisions.

Shantel Okello, PPI Policy Researcher and lead author of the report, commented:

“While it may be possible for some schemes, expectations around widespread surplus across the private DB market may not fully reflect the realities of extraction. Our modelling has identified significant variations of funding resilience and investment risk, with endgame strategies for individual schemes and differences in liability measurement also critical to understanding the true scale and accessibility of surplus extraction. At a

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critical juncture for this area of policy development, we are delighted this new report delivers new independent insights to the evidence base to support informed decision-making.”

Claire Altman, Managing Director, Pension Risk Transfer and Individual Retirement, Standard Life, said:

"This report is a timely reminder that a surplus on paper does not necessarily translate into guaranteed member outcomes. What matters is how resilient that surplus is under stress and how it fits with a scheme's long-term endgame.

"For schemes considering run-on, this raises important questions. Confidence in both the resilience of the funding position and the strength of the sponsor covenant over the long term is critical.

"Against that backdrop, securing liabilities with an insurer offer a clear and established route to long-term certainty for pension members. Insurers have typically not been vocal about the added benefits of buy-in and buy-outs as they were the assumed objective. But it's important to remember that they feed UK growth as capital is deployed at scale in large part supporting the UK economy. Corporates benefit from a transfer of ongoing governance and all benefit from insurers' accountability to institutions specifically designed to manage very long-term risks."

Rob Yuille, Head of Long-Term Savings Policy at the ABI commented:

"The core purpose of any defined benefit scheme is to pay members their promised pension in full. This must stay forefront to any debates about surplus extraction. As this report highlights, extracting a surplus – even from a well-funded scheme – significantly increases the probability that it will go into deficit in future, potentially to an extreme level. The same shocks that threaten a surplus can also threaten a sponsoring employer. This is why trustees need to look carefully at the scheme's risks and choices, and regulations should set clear and specific tests before surplus can be taken."

Tiffany Tsang, Head of DB, LGPS and Investment at Pensions UK, stated:

"New powers to unlock DB surplus give schemes and employers the flexibility to put well-earned surpluses to productive use, supporting business investment and economic growth. This report demonstrates that these judgements will often be finely balanced and always require close scrutiny. But we are pleased that the measures give those schemes choosing to run on greater flexibility to realise benefits on behalf of members."

ENDS

Note to editors

1. [GOV.UK, Record pension scheme funding means up to £160 billion ready to boost growth, 21/05/25](#)
2. [GOV.UK, Retirement boost of £29,000 awaits millions as landmark Pension Schemes Act becomes law, 29/04/26](#)
3. The research period for the report closed in early March 2026 and the figures presented reflect data available up to that point. Since then, the PPF-eligible universe recorded a £9.9 billion fall in aggregate surplus in March 2026, driven by equity market weakness following escalation of the US–Israel–Iran conflict and a resulting energy supply shock. The aggregate funding ratio nonetheless

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improved by 0.6 percentage points to 131.4%, as rising gilt yields reduced liability valuations. This illustrates the sensitivity of headline surplus figures to short-term macroeconomic conditions, a theme examined throughout the report.

4. [PPF, April 2026 update, 31/03/26](#)
5. [PPF, The Purple Book 2025, 04/12/25](#)
6. The PPI modelling data reflected in Chart 2.1 (p.18) of the report shows a 26% probability of a funding shortfall for a run-on scheme with a 120% starting technical provision funding ratio, that closed to new entrants 10 years ago and closed to future accrual, when no remedial action is taken over a 25 year period. Full data table for Chart 2.1 below.

Starting FR*	Below 100% FR	Below 90% FR	Below 80% FR	Below 70% FR
100%	90%	55%	32%	18%
105%	69%	39%	23%	12%
110%	50%	27%	15%	8%
115%	36%	20%	11%	6%
120%	26%	13%	7%	4%
125%	18%	9%	5%	2%
130%	12%	7%	4%	2%
135%	9%	5%	2%	1%
140%	7%	3%	1%	1%
145%	5%	2%	1%	1%
150%	3%	2%	1%	0%

*Funding Ratio (FR).

About The Pensions Policy Institute (PPI)

[The Pensions Policy Institute \(PPI\)](#) is the UK's leading independent authority on pensions and retirement policy. We conduct rigorous, impartial research to inform major policy decisions affecting millions of people's retirement security. Our evidence-based analysis is used by government and across Westminster – as well as industry and consumer groups - with extensive media coverage bolstering understanding of complex pension issues. Our work ensures that policymakers have the unbiased analysis needed to deliver better outcomes for those they serve.

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