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Viewpoint

Rethinking the DB endgame: run-on rises up the agenda

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As UK defined benefit schemes move from deficit management to surplus strategy, run-on is now a more credible alternative to buyout. We explore the changing funding, regulatory and governance backdrop.

After years in which buyout was the default destination for many UK defined benefit (DB) pensions schemes, the endgame debate is changing. Stronger funding levels have created sizeable surpluses across the market, while new surplus release regulations expected from 2027 could give well-funded schemes a more practical route to access and share that value. With the funding threshold confirmed at full funding on a low dependency basis – a level approximately 80% of UK DB schemes already exceed – trustees and sponsors face a more immediate strategic question: is the investment portfolio configured for a buyout or is it structured to support surplus release, and which approach is preferable?

This is the first in a two-part series on DB pension run-on. In this piece, we explain why run-on is moving up the agenda, outline the main structures available to schemes, and summarise the emerging legal and regulatory framework for surplus release. The second article will focus on our surplus framework for trustees – a practical way to assess a scheme's readiness for run-on.

The case for run-on – why now?

For two decades, the main challenge in DB pension management was the deficit. Trustees and sponsors focused on recovery plans, contribution schedules and the long path to buyout. But the UK DB landscape has changed quickly. Funding levels that a decade ago were a source of corporate anxiety are now creating opportunities. The question is no longer simply how to reach buyout; it is whether buyout is still the right destination.

This shift has been driven by three main factors: funding improvements, endgame options, and legislation.

Funding: The figures show the scale of the change. TPR's estimates as of 31 December 2025 show around 90% of schemes are in surplus on a technical provisions basis and around 60% are in surplus on a buyout basis.[1] The aggregate DB surplus stands at around £160 billion on a low dependency basis.[2] This reflects a structural improvement in the funding position of UK DB schemes driven by higher long-term interest rates, which have reduced the present value of liabilities; strong investment performance, including through LDI strategies; changes to longevity assumptions; and historic sponsor contributions.

Endgame options: The WTW Endgame Report 2026 points to something practitioners have long suspected but have not always stated: 97% of DB trustees and corporate pension managers see insurers as the clear beneficiaries of buyout, while only around 70% think buyout is a good deal for members and sponsors, and just 18% think it benefits the UK economy. That is not an argument against the insurance market. Bulk annuity pricing is competitive, the market is well capitalised and member security is real. But it does reflect a recognition that buyout transfers a significant economic margin – the spread between the premium paid and the cost of backing the liabilities, earned over decades – to an insurer. Aon's 2026 Endgame Survey of 350 schemes demonstrates that, among schemes above £500 million, 46% that have reached a view on their preferred endgame are now seeking to run on rather than insure at the earliest opportunity. Amongst sub £500 million schemes we see a different picture, with 14% seeking to run on rather than insure at the earliest opportunity. Across the market, excluding schemes that had chosen not to have a surplus policy as they had no surplus, 28% have already formalised some form of surplus agreement or surplus policy, with a further 31% intending to develop one this year.[3]

Legislation: The Pension Schemes Act 2026 has created a statutory mechanism for surplus extraction, removing long-standing barriers that prevented well-funded schemes from sharing value with sponsors and members (see below). The tax charge on authorised employer surplus payments has already been reduced from 35% to 25% since April 2024, which improves the economics further.

The implication is clear: schemes that commit to buyout are forgoing that surplus optionality whereas run-on preserves it. Because the regulatory framework is clear enough to begin to plan around, the period between now and April 2027 is a valuable window for trustee boards.

Run-on: a taxonomy

The term "run-on" is widely used in DB pensions and covers a range of structures, each with their own legal requirements, investment implications and governance obligations. Understanding which type of run-on is being considered is essential – the wrong structure with the wrong framework creates the same regulatory and fiduciary risks that critics of run-on point to when arguing for buyout.

There are five distinct run-on structures in the UK market, ranging from straightforward to more complex and novel.

1. Investment run-on: The scheme continues to operate with an investment strategy designed to grow the surplus above the low dependency funding level, while maintaining robust liability hedging and liquidity. The surplus is retained and used either to improve the eventual buyout terms – reducing the premium paid to an insurer – or to fund future extraction once the regulatory framework is in place. This is the most widely applicable structure and the starting point for any scheme considering run-on. It requires no immediate regulatory action, rule amendments or surplus policy to be in place before it can begin. It simply requires a deliberate investment mandate and a clear objective.

2. Employer refund run-on: This is the investment run-on model but it periodically returns surplus to the sponsoring employer under the Pensions Scheme Act framework and the forthcoming Department for Work and Pensions (DWP) Regulations. The employer benefits directly from the scheme's strong funding position, reducing the capital tied up in the scheme and improving the sponsor's financial flexibility. For sponsors where DB scheme assets represent a significant proportion of market capitalisation – more than 40% of FTSE100 companies with UK DB schemes have scheme assets equivalent to 10% or more of their market cap[4] – annual surplus release can be commercially material. This structure requires the full regulatory process: rule amendments, actuarial certification, member notification and the five-working-day payment window confirmed in the draft Regulations.

[1] The Pensions Regulator, Annual Funding Statement 2026, 6 May 2026.
[2] Department for Work and Pensions, Surplus Flexibilities for Defined Benefit Pension Schemes, consultation document, 10 June 2026; The Pensions Regulator, DB scheme universe funding data, 2026.
[3] Aon plc, 2026 Endgame Survey, 21 May 2026.
[4] Lane Clark & Peacock LLP, Accounting for Pensions 2026, May 2026. Analysis based on 2025 pension disclosures of FTSE100 companies, UK DB pension scheme assets as a proportion of market capitalisation at 31 December 2025.

3. DC funding support: Here, DB surplus subsidises employer contributions in a DC section or separate DC scheme, effectively deploying legacy DB capital to support the current workforce's retirement savings. This model is supported by the government's framework and avoids some of the tax complexity associated with direct employer cash refunds. It is particularly attractive for sponsors that face both a DB surplus and a DC adequacy challenge – an increasingly common combination as the workforce transitions from DB to DC provision.

4. Member benefit enhancement: This uses run-on surplus to improve member outcomes directly, through discretionary pension increases, improved indexation, enhanced commutation factors or, under the new framework, direct lump sum payments to members above Normal Minimum Pension Age.[5] The latter is a genuinely new mechanism: it goes beyond benefit augmentation and creates a direct cash distribution route to members, treated as an authorised payment for tax purposes under the forthcoming Finance Bill. It is also a powerful tool for trustees who need to demonstrate that surplus release benefits members as well as sponsors – a requirement that, while not a statutory condition under the Act, is strongly encouraged by TPR.

5. Sponsor transfer: This sits at the frontier of the UK endgame market. A third party replaces the original sponsoring employer, assumes funding and investment management responsibility, and runs the scheme on with a view to generating surplus economics over time. The defining case study is the Aberdeen/Stagecoach transaction from December 2025, with Aberdeen replacing Stagecoach as sponsor of the £1.2 billion Stagecoach Group Pension Scheme. However, this structure is now subject to active regulatory scrutiny as it used a mechanism not intended for such a transaction. This does not invalidate the sponsor transfer model, but it does mean the regulatory framework could change, potentially aligning with elements of the superfund authorisation framework.

Columbia Threadneedle Investments and the five types of run-on structure

The five types of run-on structures

A taxonomy of run-on models and their primary objectives

TYPE		WHAT IT IS	TARGET
1	**Investment Run-On**	Surplus growth strategy; improve buyout terms over time.	Well-funded schemes not yet at full buyout.
2	**Employer Refund**	Periodic surplus returned to sponsor under new regulatory framework.	Sponsors where surplus is material vs market cap.
3	**DC Funding Support**	DB surplus subsidises DC contributions for current workforce.	Sponsors with both DB surplus and DC adequacy challenge
4	**Member Benefit Enhancement**	Surplus used for discretionary increases, indexation, or direct lump sum payments to members (new authorised member surplus payment).	Schemes with history of surplus or trustee/reputational pressure
5	**Sponsor Transfer**	Third party replaces sponsor; runs scheme commercially (Aberdeen/Stagecoach model).	Sponsors seeking clean break without full buyout cost

Columbia Threadneedle's run-on solutions are designed for run-on types 1 to 4. In each case, the same core investment architecture seeks to do the work: protecting the funding level, generating reliable cashflows and allowing surplus to build in a controlled way. That surplus may ultimately be used to improve buyout terms, be returned to the employer, directed into DC contributions, or shared with members. The portfolio does not need to be rebuilt for each use case; what changes is the legal and governance process for releasing the surplus.

That distinction is important. Types 2, 3 and 4 involve actual distributions from the pension scheme, incorporating the full Pension Schemes Act 2026 and draft Regulations process: rule amendments, actuarial assessment, trustee and employer agreement, member notification and TPR reporting. Structure type 1 does not. It can start under the existing framework because surplus is being built up rather than paid out.

This matters for schemes that are ready to move. The portfolio can already be repositioned to hedge liabilities, generate cashflows and support controlled surplus growth. Then, once the regulations are in force, the extraction route can be used. In other words, the period before April 2027 is not a waiting period; it is the time to build the investment foundation.

[5] Pension Schemes Act 2026, s.12; HMRC Newsletter 175, November 2025; Draft Occupational Pension Schemes (Payments to Employer) Regulations 2027, Regulations 17–18. Tax legislation to be confirmed in Finance Bill 2026-27, intended to take effect from 6 April 2027.

Run-on: the legal and regulatory framework

What began with Jeremy Hunt's Mansion House speech in July 2023 is now, with the Pension Schemes Act 2026, on the statute book. There is clarity for trustees and sponsors that have been waiting for greater certainty before committing to a run-on strategy, and while the outstanding detail is still important, it is unlikely to change the basic framework.

What is confirmed

The core change is a statutory power for trustees to modify scheme rules so they can permit surplus payments to the employer. The Act removes the historic barrier that stopped most schemes from accessing value that has built up over decades, either because their legacy rules prohibited surplus extraction or required a section 251 resolution that many failed to pass before the 2016 deadline.

The DWP's consultation on draft Regulations, published 10 June 2026, and expected to come into force from April 2027, proposes the funding threshold for surplus release as full funding on a low dependency basis – a significant departure from the buyout basis under the 2006 Regulations. This materially lower bar would make surplus release accessible to approximately 80% of schemes that are in surplus on a low dependency basis. Any buffer above this floor is proposed as a matter for trustee judgement, not regulatory prescription. It is important to note that this threshold remains subject to the consultation outcome, which closes on 2 September 2026, and subsequent Parliamentary approval.

The draft Regulations set out a surplus release framework based on three safeguards:

1. The funding threshold This is there to make sure member benefits remain fully backed before any money leaves the scheme.

2. The three-year forward-looking test. Here, the scheme actuary must certify both that the scheme is above the low dependency threshold at the date of the certificate, and that it is "at least as likely as not" to remain above that threshold at any point during the three years following the payment. This is a probabilistic condition, not a point-in-time funding test, and requires stochastic or scenario-based actuarial modelling of the scheme's future funding position. The quality of the investment strategy directly influences the outcome of this test: a low-volatility, well-hedged portfolio with a diversified surplus growth allocation will produce a more favourable probability distribution of future funding levels than a poorly structured or highly volatile one. For the first time, the investment manager's solution is a direct input to the regulatory certification process.

3. Process requirements. Set out in the draft Regulations, members must receive a written statement at least three months before the target payment date, stating the amount, the date and any agreed member benefit enhancements. Once the actuarial certificate is issued, payment must be made to the employer within five working days – a tighter window that replaces the old 15-month certificate validity period and has direct implications for the liquidity architecture of the investment portfolio. TPR must be notified within one week of payment, with detailed disclosure of the amounts paid, any member enhancements and any authorised member surplus payments (see box).

Taken together, these safeguards create a regime that is more structured than the 2006 Regulations (which relied on a buyout-basis valuation certificate valid for up to 15 months) but also more usable due to the lower funding threshold. In short, the trade-off is easier access to surplus in return for tighter process discipline.

The authorised member surplus payment

Under the forthcoming Finance Bill 2026-27, this enables direct lump sum payments to members above Normal Minimum Pension Age (NMPA) to be treated as authorised payments taxed as pension income at the individual's marginal rate of tax. Members below NMPA can be awarded such payments but they are deferred and must be revalued until the member reaches NMPA. It is not yet clear whether this mechanism will also be available in a winding-up context. This goes beyond benefit augmentation and creates a new direct cash distribution route to members, and is a powerful tool for trustees who need to demonstrate that surplus release benefits members as well as sponsors.

What is pending

Although the overall framework is in place, some of the detail needed for day-to-day implementation is outstanding. Three main points remain unresolved:

With the final DWP Regulations subject to consultation until 2 September 2026, the government is aiming to publish its response within 12 weeks (by late November 2026). The Regulations will then be laid before Parliament and are expected to come into force in 2027.

TPR's surplus guidance is expected in two stages. A statement setting out early views on surplus release is expected. A fuller consultation on detailed regulatory guidance is expected later in the year, with final guidance published alongside the Regulations in 2027. This will set out the factors trustees should consider when deciding whether and how much surplus to release, how to balance member and employer interests, and what a well-governed surplus policy should contain.

The Finance Bill 2026-27 must legislate for the tax treatment of authorised member surplus payments before direct cash distributions to members can be made as authorised payments. This is expected in the Autumn 2026 Budget Finance Bill, with the change intended to take effect from 6 April 2027.

Key trustee checkpoints

The new legal framework creates the opportunity. It does not remove the obligations that trustees must discharge before they can act on it.

Scheme rules: Many schemes do not currently have rules permitting surplus extraction, and the statutory power under the Act to modify those rules, while useful, requires a formal trustee resolution and may require employer consent. Trustees can audit their scheme rules before the regulations come into force, so that any necessary amendments can be made without delay in April 2027.

Fiduciary duties remain fully intact: The Act removes the statutory requirement that trustees must be satisfied that a surplus payment is "in the interests of members", but it does not rewrite the fiduciary framework. Trustees retain full discretionary authority and must be able to demonstrate that the decision to extract surplus is consistent with their obligations to members. This requires a documented surplus policy, a covenant assessment, a funding analysis and evidence that member interests have been properly considered.

The history of surplus matters: Where members were disadvantaged in the past – through contribution holidays, benefit reductions during deficit periods or other decisions that prioritised the employer's interests – trustees face a harder moral and potentially legal case for directing surplus to the employer. This is a scheme-specific assessment that needs to be made carefully.

The moral hazard regime remains: TPR retains its Contribution Notice and Financial Support Direction powers in full. The practical concern is employer pressure, weakened covenant, extraction before adverse events, or corporate activity that leaves the scheme exposed. Surplus extraction will not become a simple corporate treasury exercise – it will require robust governance, covenant discipline and clear alignment between trustees and sponsors at every stage, with the support of an investment manager.

UK DB Run-On

Key government and regulatory developments since 2023

Progression: Consultation (2023-24) | Regulatory guidance (2025) | Statutory and operational implementation (2026)

July 2023
Mansion House speech
Run-on entered the policy mainstream with support for productive investment and surplus sharing.

July 2023
DWP call for evidence
Formal consultation opened on consolidation, public consolidator options and surplus extraction.

November 2023
Autumn Statement
Government confirmed legislative intent to ease surplus extraction and review tax treatment.

April 2024
Tax change
The tax charge on authorised employer surplus payments fell from 35% to 25%.

April 2024
DWP consultation
Detailed proposals followed on surplus extraction, consolidation and the Pension Protection Fund role.

May 2025
DWP response
Key policy direction was confirmed, with legislation to follow in the Pension Schemes Bill.

2025
TPR Annual Funding Statement
Run-on was explicitly framed as a legitimate endgame option for well-funded schemes.

June 2025
TPR endgame guidance
First detailed regulatory guidance on run-on, including surplus policy and covenant expectations.

April 2026
Pension Schemes Act 2026
The Act created the statutory framework for surplus extraction and rule modification.

May 2026
TPR Annual Funding Statement
Post-Act guidance emphasised strategic endgame planning and surplus policy development.

June 2026
DWP surplus flexibilities consultation
Draft regulations set out the operational mechanics for releasing surplus in practice.

Conclusion: The emerging model

DB run-on is emerging not simply as a mechanism for extracting cash from pension schemes, but as a governed surplus-sharing framework that could deliver better outcomes for members, sponsors and the broader economy than an immediate insurance buyout.

The main ingredients are: clear strategic alignment between trustees and sponsor; a formal surplus policy that sets out how value will be shared; a robust investment strategy that protects member security while generating surplus growth; a covenant monitoring framework with pre-agreed triggers; and a governance structure that supports timely, confident decisions when opportunities arise.

The regulatory environment is moving in a supportive direction. The Pension Schemes Act 2026 has created the statutory foundation. TPR's guidance supports run-on as a viable endgame option. The forthcoming regulations should provide more of the commercial detail. The required investment tools – including LDI (dynamic and passive), buy-and-maintain credit and securitised credit – are already available and well developed.

The question for trustees and sponsors is not whether run-on is possible. It is whether they have the governance, investment strategy and commercial alignment to do it well. All of these factors will be discussed in detail in our next article.