

Viewpoint

Rethinking the DB endgame: is your scheme ready for run-on?



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As UK defined-benefit run-on gains momentum, the SURPLUS framework helps trustees and sponsors assess readiness, protect members and unlock value.

In our first article on UK defined benefit (DB) pension schemes, we set out the case for run-on and summarised the emerging legal and regulatory framework.[1] The question for trustees and sponsors is no longer whether run-on is possible, but whether they have the governance, investment strategy and commercial alignment to do it well.

This article examines the landscape and key hurdles, introduces a structured framework for assessing a scheme's readiness for run-on and addresses how partnership with an implementation manager is central to making surplus extraction efficient, repeatable and secure.

Our full white paper, The SURPLUS Framework: A Trustee's Guide to Run-On Readiness, sets out the detailed regulatory analysis, the investment architecture, and the practical delivery model.

Contact us to request a copy.

[1] Columbia Threadneedle Investments, Rethinking the DB endgame: run-on rises up the agenda, August 2026.

The evidence base

Market sentiment has shifted quickly. WTW's 2026 Endgame Report, surveying 136 trustees and corporate pension managers representing over £300 billion of UK DB assets, found that 35% of schemes are targeting run-on, rising to half of schemes above £1 billion. Aon's 2026 Endgame Survey of over 350 schemes found that 46% of schemes above £500 million favour run-on rather than insuring at the earliest opportunity, compared with 14% of smaller schemes.[2]

The regulatory environment is also supportive. The Department for Work and Pensions' "Growth Goals" for The Pensions Regulator (TPR) include unlocking surplus/capital to benefit savers, employers and the economy, while TPR itself now presents run-on as a legitimate endgame option.

How much surplus is accessible?

The headline figure is £160 billion of aggregate surplus on a low dependency basis, but the amount that is practically extractable is smaller. Before any surplus can be paid, the scheme actuary must certify that the scheme can afford to release it and remain above its funding floor for three years afterwards. How much can be certified depends on the volatility and resilience of the investment portfolio, a question we address in more detail below. The investment architecture is not separate from the surplus release question. It directly determines how much surplus can be accessed.

35%

Percentage of schemes targeting run-on

[2] Aon plc, 2026 Endgame Survey, 21 May 2026 / WTW, Endgame Report 2026.

The practical challenge: an investment solution

While the regulations enable surplus release, the practical challenges require an investment solution.

1 The first hurdle is governance. Each payment requires actuarial assessment, member notification, certification and payment within five working days. Repeating this cycle for regular distributions favours fewer, larger payments. An implementation manager can provide standing funding data and certification-ready reporting, reducing the cost of each cycle and making regular distributions practical.

2 The second is the "3-year forward-looking test". The actuary must certify that the scheme is "at least as likely as not" to remain above low dependency for three years after payment. What matters here is not just how much surplus the scheme has, but how likely it is to keep it. A volatile or concentrated portfolio could move in any number of directions over three years, so the actuary needs to hold back a larger buffer to certify with confidence. A well-hedged portfolio with pre-agreed funding triggers (see Core concepts explained box) that limit downside before it threatens the floor gives the actuary a much narrower range of outcomes to consider, and that means a larger amount could be certified for release.

3 The third is the five-day payment window. Rather than liquidating assets after certification, the implementation manager can move growth assets into immediate liquidity over preceding weeks, so cash is ready when the actuary certifies.

The common thread is integration. Fragmented arrangements make these challenges costly and slow; **an implementation manager coordinating the hedge, growth allocation, collateral waterfall (see Core concepts explained box) and distribution timeline can make the process efficient and repeatable**. Open architecture still allows third-party funds and specialist strategies, while discretionary authority enables the manager to act quickly with full visibility.

Core concepts explained

Collateral waterfall

A collateral waterfall organises a scheme's assets by liquidity and purpose. Cash and short-dated gilts – the most liquid assets – sit at the bottom to meet immediate demands such as LDI collateral calls. Above them are high-quality liquid assets that can be sold quickly if necessary, with growth assets at the top. This structure helps meet collateral calls, benefit payments and distributions without forcing untimely sales of less liquid assets. It became standard practice after the 2022 gilt crisis exposed weaknesses in many schemes' liquidity arrangements.

Funding triggers

Funding triggers are pre-agreed rules in the investment management agreement that automatically adjust the portfolio when defined conditions are met. For example, if funding falls towards a threshold, a trigger might reduce growth assets and replenish the collateral waterfall; if funding improves, it might allow growth exposure to rise. Because trustees and advisers agree the responses in advance, the investment manager can act immediately, reducing the governance burden and responding to changing conditions in real time.

Open architecture

Open architecture allows a scheme to use third-party funds and specialist strategies alongside the implementation manager's core holdings. The implementation manager retains whole-portfolio oversight, including the authority to sell or switch third-party holdings when liquidity is needed. This gives the scheme access to specialist managers across asset classes without sacrificing the ability to act quickly and decisively.

The SURPLUS Framework: a readiness assessment

The Columbia Threadneedle SURPLUS framework sets out seven steps that take trustees and sponsors from initial alignment to a governed extraction programme.

S **SUITABILITY.** Is run-on appropriate and are trustees and sponsors aligned? The suitability assessment covers funding, covenant strength and trajectory, scheme maturity and cashflow profile, governance capacity, and scheme rules.

U **UNDERSTANDING THE SURPLUS.** How much surplus exists, where did it come from and how resilient is it? Attribution matters both for extraction capacity and for deciding how value should be shared. Historic member sacrifice or benefit reductions may strengthen the case for member sharing

R **RESILIENCE.** Can the portfolio withstand stress without breaching the funding floor? A collateral waterfall separating immediate liquidity, low duration liquid assets and growth helps meet collateral calls, benefits and distributions from the appropriate source. Funding triggers, a resilience dashboard and stress tests support timely action.

P **PORTFOLIO DESIGN.** Is the strategy structured for run-on rather than a buyout glide-path? A run-on portfolio must hedge liabilities, generate predictable cashflows, and grow the surplus through a controlled growth framework. Open architecture can retain specialist third-party funds while applying consistent triggers and liquidity discipline.

L **LIQUIDITY.** Can the scheme meet all its obligations, benefits, collateral calls, and surplus distributions, on time and without forced selling? Pre-positioning is the critical capability with an automatic pause if funding or collateral conditions weaken. Member security takes priority over distribution timing.

U **UPSIDE CAPTURE.** Does the expected annual surplus generation exceed the additional complexity of run-on? The growth allocation should reflect the scheme's cashflow profile and diversify the sources of growth. A dynamic risk budget can increase growth allocation if the buffer grows and reduce it if the buffer shrinks.

S **STRATEGY GOVERNANCE.** How are decisions made, monitored and escalated? Funding, covenant, market and regulatory triggers should be documented and assessed, with delegated authority to execute without trustee sign-off. Core assets remain insurer-compatible, so the scheme can pivot to buyout if circumstances change.

Does size matter?

Annual surplus must exceed the incremental costs of running on, many of which are fixed. Below approximately £50 million in assets, those costs may consume much of the value created, making alternatives such as a superfund transfer more suitable. Above that threshold, scale affects delivery rather than the underlying principles: larger schemes may use bespoke segregated mandates while smaller schemes can access pooled vehicles and managed services.

The window of opportunity

The period before April 2027 should be used to prepare, not wait. Trustees can use the SURPLUS framework to assess suitability and readiness, quantify the opportunity, assess resilience, redesign the portfolio, map liquidity requirements, define the extraction mechanism and establish safeguards.

To find out more visit **columbiathreadneedle.com**

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