

On your marks, get set... wait for it... go!

➤ **After a slow start and the odd splutter, the past couple of years have seen the DB superfund market get up and running, and its progress looks set to only get faster. Laura Blows finds out more**



Five years. That's how long it took from the concept of DB superfunds – that is to consolidate DB schemes into 'superfunds' that take on the schemes' liabilities, backed by investor capital – to the first deal being announced in 2023.

However, this transaction occurred during an arguably 'false start' for the sector. One proposed superfund, called PensionSuperfund was 'mothballed' in 2023 after three unsuccessful attempts to complete The Pensions Regulator (TPR)'s assessment process. This left the only superfund to have completed the assessment, Clara-Pensions, finding that year 'tough', despite having implemented its first deal. This was largely due its 'bridge-to-buyout' model occurring at

a time of improved DB funding levels following Truss' mini-Budget, thereby accelerating many schemes' own journey to buyout without needing the help of a superfund.

But between 2024-2025, Clara completed three more deals [see boxout] and, earlier this year, TPT Retirement Solutions announced its plans to launch a DB superfund implementing a run-on model, subject to passing TPR's assessment process, having already secured capital to fund the first £1 billion of transactions. "Once capital has been repaid, members would then get the majority of any scheme surplus returned to them", TPT Retirement Solutions chief commercial officer, Nicholas Clapp, explains.

Meanwhile, rumours surge that there are more entrants to the DB superfund landscape to come.

"It does feel like we might look back at 2025 as an inflexion point for superfund market," LCP head of DB pension consolidation, Laura Amin, says. "During 2025 we've seen a shift in the rhetoric from policymakers with Department for Work and Pensions (DWP) wanting to see the superfund market 'thrive', along with positive comments about the sector from TPR".

For Hymans Robertson head of alternative risk transfer, Richard Wellard, it was the inclusion of superfunds in the Pension Schemes Bill that brought about increased discussion and understanding of the sector for trustees and sponsors.

"The past year or so has seen a lot more innovation in the sector as well," he adds, "and that's not innovation for innovation's sake, but innovation for specific needs, such as Clara's fourth transaction that had a connected

covenant feature".

These deals help provide reassurance, Law Debenture professional trustee, Lynne Rawcliffe, says, as "although the superfund might seem in some ways busier, many lay pension trustees don't like being the first mover".

Regulatory regime

According to Amin, trustee confidence in the superfund market may further increase with the Pension Schemes Bill providing a firm regulatory footing and replacing TPR's interim regime.

"Awaiting the new regulations and Code of Practice adds another level of uncertainty in terms of governance, 'fit for purpose', capital, triggers, proving their models and planning, as the superfunds might find it difficult to develop new solutions, which in turn could stunt growth in the superfund market," Gunnercooke partner, Parminder Latimer, warns.

The Pension Schemes Bill has proposed easements to the DB superfund gateway tests, which prevent DB schemes that could afford to buy out from entering a superfund. In July, LCP predicted that these easements, along with new entrants to the market, would 'expand' the universe of those eligible for a superfund transfer to potentially half of all DB schemes, totalling £600 billion of assets.

The removal or relaxation of the gateway tests would not remove the trustees' statutory and fiduciary duties when considering a superfund option, Latimer states. "However, trustees would have more flexibility to consider a superfund, along with other endgame alternatives," she explains.

For instance, "could members transfer to a superfund and secure a higher level of benefits than might be the case under insurance? TPT's announcement of the intention for a run-on model that shares surplus with members shifts the dial in terms of that conversation", Amin says.

However, ABI assistant director, head of long-term savings policy, Rob Yuille,

says any calls to 'level the playing field' between insurers offering buyout and superfunds are "misplaced".

"Insurers and superfunds are distinct markets. Superfunds are an option for schemes that cannot afford buyout now or in the foreseeable future. Removing the gateway would weaken protection for scheme members as superfunds hold much less capital," he explains.

Trustee interest

Professional trustees are getting "more and more comfortable" with the notion that a superfund could be a good solution for their schemes, Rawcliffe says. "But lay trustees, unlike professional trustees, are typically less exposed to the variety of endgame options experienced by working on many different schemes, so trustee boards without a professional trustee may find it a bit more challenging to get comfortable with superfunds".

Wellard notes that "there still remains a broad misconception that superfunds are only options for schemes with concerns about their sponsor".

This seems to be changing though, as there is now "much greater awareness and understanding of the superfund model within the EBC and trustee community", Clara-Pensions chief transactions officer, Matt Wilmington, states.

Indeed, looking ahead, Wilmington notes that over 75 per cent of Clara's £12 billion pipeline "now relates to schemes

with active and financially strong sponsors seeking a settlement solution".

Only having one TPR-approved superfund so far means that "there is obviously going to be gaps in the market", Clapp says.

TPT already being an established pension provider and joining the superfund market following the success of the first UK superfund, Clara "may be less hard for trustees to get comfortable with than maybe for the first schemes with Clara, which was more untested," Rawcliffe states.

"I think we'll be in a very different place once we've had a couple of transactions under a run-on superfund model, and with other entrants that we know are waiting in the wings. It becomes more of an established market, not just having one player, and provides more options for trustees and for sponsors who are considering risk transfer as an endgame," Amin says.

Changes ahead

According to Clapp, TPT hopes to have completed the regulatory assessment submission in Q1 next year, to then be in a position to transact by Q3.

Also potentially entering the market over the next year is a public sector DB consolidator, operated by the Pension Protection Fund, to provide "an alternative endgame solution for DB schemes unattractive to commercial

consolidation providers".

According to the DWP, the extent to which existing consolidation and buyout providers serve the whole market is a matter of some contention, particularly regarding small-sized schemes.

To address that issue, Wilmington states that Clara is currently working with a number of potential clients below the £50 million mark to establish viable solutions for smaller schemes, such as through co-mingling and streamlining governance processes.

Over the coming years, "we expect to see further innovation in the pension risk transfer market, with new variations of superfunds and new models for insurers operating in a highly competitive market", Yuille says.

As more players come into the market, "there may be transfers between superfunds, i.e. between a 'run-on' model to a 'bridge to buyout' model, and these will require some careful framing in terms of which gateway tests apply, member protections and how capital buffers move with liabilities", Latimer adds.

Another challenge is that an insurer buyout solution is still considered the 'gold standard' in endgame de-risking for DB schemes. However, "over time, we expect superfunds to align more closely with the insurance market as a mainstream endgame option for DB schemes", Wilmington says.

"While the market is likely to remain smaller than insurance, there is clear potential for meaningful scale – we estimate in the region of £10–20 billion per annum based on the current funding positions of many schemes," he adds.

With the upcoming changes, the superfund market "is gaining momentum", Amin says, "and will look very different in five years' time".

However it may evolve, superfunds seem poised to take their place amongst insurers and run-on in the great DB

 **Written by Laura Blows**

Superfund deals announced so far

- *November 2023* – Sears Retail Pension Scheme transferred the pension benefits of the scheme's 9,600 members into superfund Clara-Pensions.
- *March 2024* – Debenhams Retirement Scheme, which had been through the Pension Protection Fund (PPF) assessment, agreed a £600 million bulk transfer to Clara. The deal restored benefits for all 10,400 members of the scheme, with £4 million in back-payments to be paid to members who received reduced pensions during the PPF assessment period.
- *December 2024* – The trustee of the Wates Pension Fund, together with Wates Group, transferred members' DB pensions to Clara, marking the first superfund transaction with a scheme with an active sponsor.
- *June 2025* – The Church Mission Society (CMS) Pension Scheme completed a deal with Clara, marking the first superfund transaction using its 'connected covenant' structure, as well as the first deal involving a not-for-profit sponsor.