

**AON**

# **Pension scheme funding - an analysis of completed valuations**

In Depth

September 2022



## Contents

1

2

3

4

# Overview

This year's analysis shows that the average funding position and proportion of schemes in surplus are at their highest levels since the start of the current funding regime. However, for schemes in deficit, the average recovery period has fallen by only 1.2 years over the last three years.

In addition, reaching full funding against the existing funding target will not be the end of the story for most schemes. The recent publication of the DWP's consultation on long-term funding and investment strategy increases the focus on the long-term funding target and the journey plan, to reduce reliance on the employer covenant and achieve 'low dependency' as a scheme matures. This will typically require a lower risk investment strategy and a higher funding target once a scheme is 'significantly mature'. Ahead of this becoming a legislative requirement, the majority of schemes have already set such a target along with a journey plan to get there, in line with regulatory guidance.

Our full data driven analysis aims to support our clients' better decisions.



# Key findings

This In Depth sets out the approaches to and results of UK pension schemes' funding valuations completed up to July 2022.

This is the sixteenth year in which we have produced a detailed analysis, and our key findings this year are:

- A long-term funding target was used in addition to a technical provisions target by 70% of schemes, and 59% of those schemes had a journey plan to achieve the target by the time the scheme is significantly mature;
- 76% of schemes took an integrated approach to risk management that included consideration of downside scenarios and contingency planning;
- 77% of schemes used a third party/specialist assessment of the employer covenant;
- 86% of schemes hedged at least 70% of their interest rate risk and 88% hedged at least 70% of their inflation risk, compared to 58% and 61% three years ago;
- Average discount rates in excess of gilt yields were similar to those used last year but lower than those of three years ago;
- The average difference between RPI and CPI assumptions was 0.84% p.a. for the period before 2030 and 0.09% p.a. post-2030, reflecting the announced change to the calculation of RPI from 2030;
- 55% of schemes carried out an analysis of experience in respect of demographic assumptions other than mortality;
- 54% of schemes either carried out a data cleaning exercise prior to the valuation or planned to carry out a data cleaning exercise;
- The average technical provisions funding level – 93% – and the proportion of schemes in surplus – 46% – were both higher than for any previous year since the start of the current funding regime in 2005;
- For schemes in deficit, the average recovery period, of 6.1 years, was 1.2 years shorter than three years ago, when many schemes' previous valuations were undertaken; the percentage of schemes requiring a recovery plan fell from 68% to 54%;
- An element of additional return in excess of the discount rate was allowed for in 65% of recovery plans; and
- Since the dates of these valuations, average funding levels generally improved further.

We comment on possible explanations for our findings, and look ahead to 2022 valuations and beyond.

# 1

## The funding landscape

The long-term funding target and use of integrated risk management



# 1.1 A comprehensive picture

Our analysis covers 124 completed valuations carried out by Aon consultants for our clients, under the scheme specific funding regime, covering effective dates from September 2020 to July 2021. The data also include valuations carried out by Aon consultants with earlier effective dates.

We consider:

- **The funding landscape** – the long-term funding target and use of integrated risk management;
- **The technical provisions** – the discount rate, inflation, mortality, other demographic assumptions and the funding level;
- **The recovery plan** – the recovery period, contingent security and the assumptions; and
- **Looking ahead** – to 2022 valuations and beyond.

We divide valuations into categories based on their effective dates, to allow us to illustrate how features have changed. For this purpose, we have adopted the approach used by the Pensions Regulator, under which valuations are grouped into ‘tranches’, with the most recent as follows:

Tranche	Effective dates of valuations
16	22 September 2020 to 31 July 2021
15	22 September 2019 to 21 September 2020
14	22 September 2018 to 21 September 2019
13	22 September 2017 to 21 September 2018



# 1.2 The long-term funding target

The Pension Schemes Act 2021 will require schemes to set a strategy for ensuring that benefits can be provided over the long term and the DWP is currently consulting on supporting regulations. A key principle is that schemes must be in a state of low dependency on the sponsoring employer by the time they are 'significantly mature' - the **long-term objective** (LTO). They must have adopted a low dependency investment allocation and be fully funded on a low dependency funding basis - the **long-term funding target** (LTFT). A **journey plan** must set out how the scheme will progress towards its LTO.

The legislation will be supported by a revised Code of Practice, which will provide further details, including defining the duration of liabilities at which schemes will be considered significantly mature. The DWP understands that the draft Code, to be consulted on later this year, will suggest a duration of 12 years. (Duration is the mean term of the liabilities weighted by the value of the scheme's future cashflows; in less technical terms, it might be considered the number of years until the 'average' payment date of the scheme's benefit outgo.)

The rationale for introducing the LTO principle now is the maturing of the typical DB pension scheme. The Regulator expects the Code – and therefore the new framework - to be operational from September 2023, but it also notes that the timing remains subject to change.

In its 2022 Annual Funding Statement, the Regulator notes that the Act will require schemes to have a strategy in place and states that trustees should consider incorporating this approach into their thinking now, if they haven't done so already - by adopting a LTFT, agreeing it with the employer, and setting a journey plan.

A long-term funding target, in addition to that used for technical provisions, was used by 70% of schemes with tranche 16 valuations (compared to 73% for tranche 15). Of these, 49% were on a measure of self-sufficiency, and 36% were on a buy-out basis. Chart 1.2.1 provides further information on the bases used for LTFTs. For tranche 15, 69% were on a measure of self-sufficiency, and 29% were on a buy-out basis.

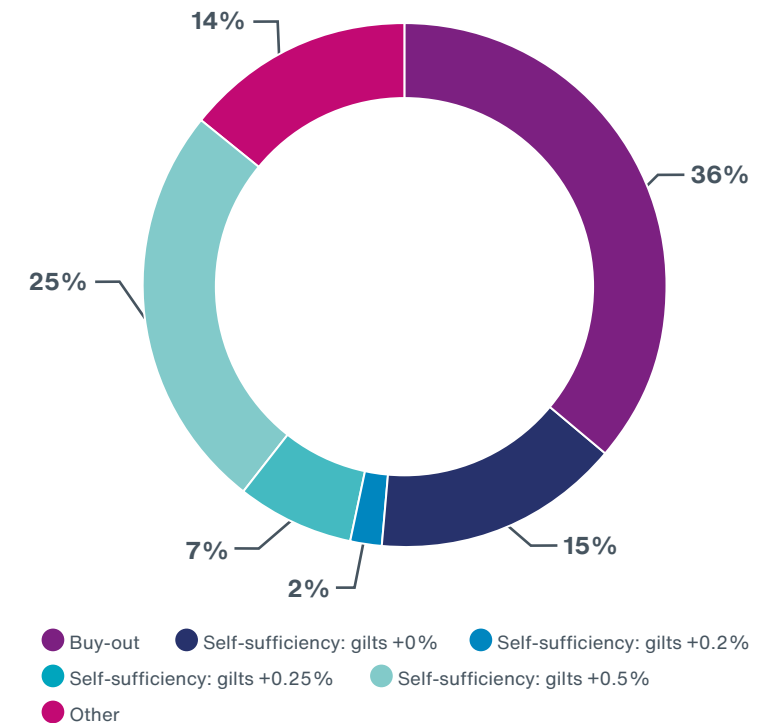
For tranche 16, the LTFT drove funding/contribution decisions for 62% of schemes: for 75% this was indirectly (for example, it was a factor considered when the funding strategy was agreed at the valuation), and for the other 25% directly (for example, contributions were contingent on the funding level measured on the LTFT basis). For 76% of schemes, the LTFT drove investment/de-risking decisions: for most (62%) this was again indirectly (for example, it was a factor considered when the investment strategy was agreed), and for the others (38%) directly (for example, de-risking triggers were driven by the funding level on the LTFT basis).

In addition, technical provisions were determined on a self-sufficiency basis for 6% of tranche 16 valuations. Though a revised Code is not yet in force, these statistics indicate that trustees and employers understand the importance of setting an LTO, and that they are anticipating the likely changes to the funding regime.



A long-term funding target was used in addition to a technical provisions target by 70% of schemes, and 59% of those schemes had a journey plan to achieve the target by the time the scheme is significantly mature

Chart 1.2.1 Basis of long-term funding target – tranche 16



Schemes with weak employer covenants (see section 1.3) predominantly used a buy-out basis for their LTFT, although the number of such schemes was small.

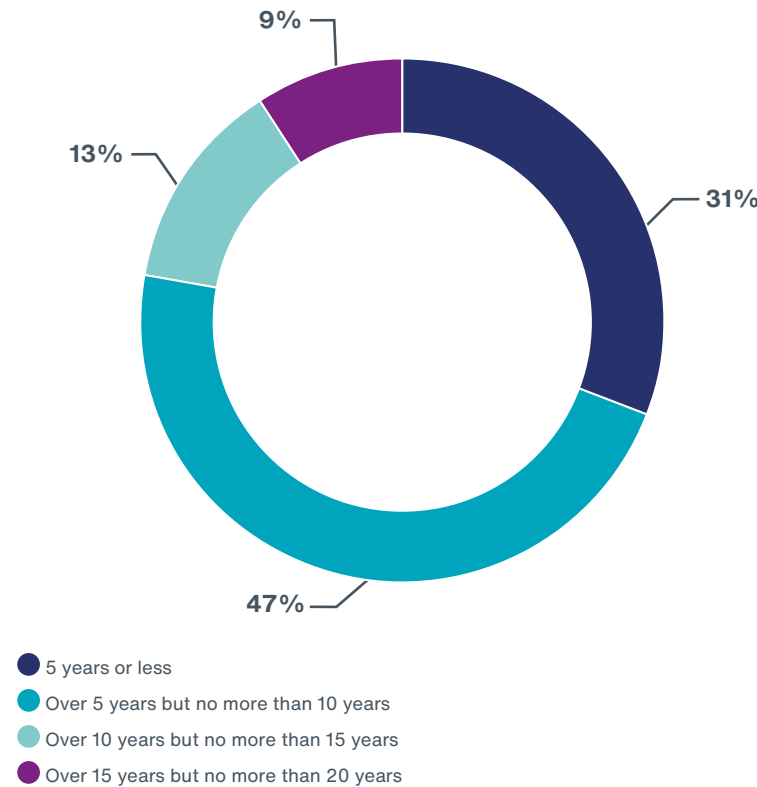
In addition to using a 'prudent' discount rate and mortality assumptions, 36% of LTFTs included an element of prudence in other assumptions; the other LTFTs used best estimate for other assumptions. 53% included an explicit allowance for expenses; the most common approach was to include an estimate of wind-up expenses.

Of those schemes with an LTO, 59% had a journey plan that aims to achieve the target by the time the scheme is significantly mature.

The current DWP consultation notes that, in the longer term, schemes might 'run on' with low dependency, secure buy-out with an insurer or target moving to a consolidator. In June 2020, the Regulator published new guidance on the standards it expects from 'superfunds', effectively establishing an interim regime for such consolidators. In November 2021, the Regulator named Clara Pensions as the first superfund to meet its standards. We might expect some schemes to set an LTO based on consolidation vehicle pricing in the future.

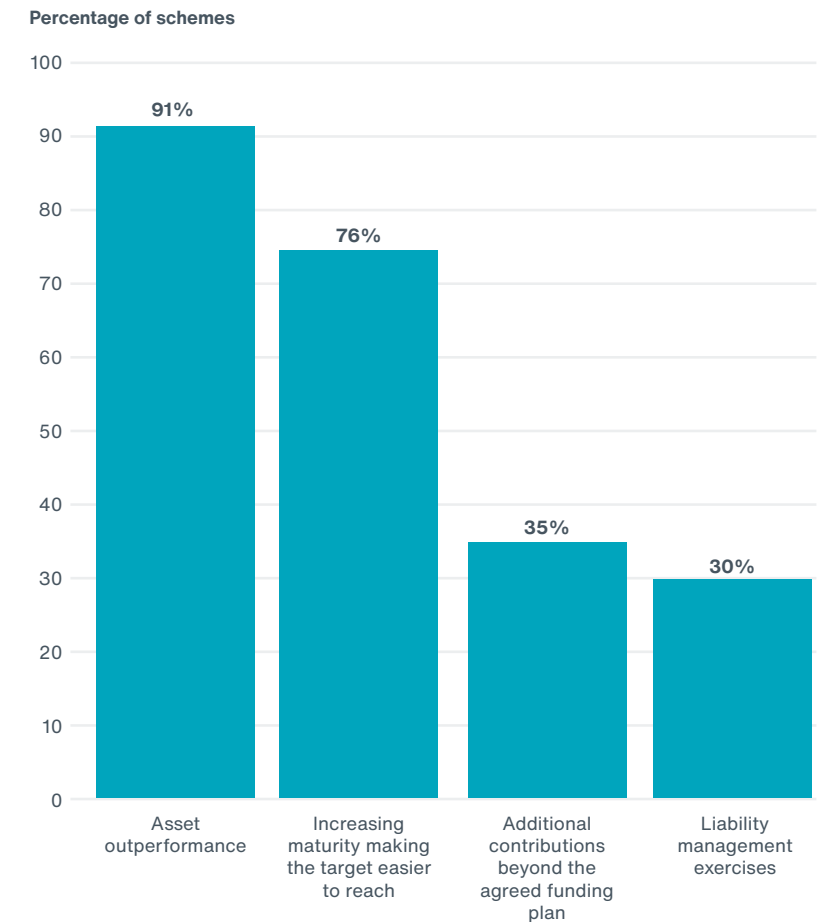
In terms of timescale, Chart 1.2.2 shows that most schemes with long-term funding targets (78%) were expecting to reach their target in under 10 years.

**Chart 1.2.2 Expected timescale for reaching long-term funding target – tranche 16**



For tranche 16, 20% of schemes had already reached their long-term funding target, compared with 9% for tranche 15. Chart 1.2.3 shows that a large majority (91%) of the schemes yet to reach their target were intending to use asset outperformance to do so, at least in part.

**Chart 1.2.3 Intended means to reach long-term funding target – tranche 16**





# 1.3 An integrated approach

The Pensions Regulator's current Code of Practice on the funding of defined benefits offers practical guidance for trustees and employers on how to comply with the funding requirements under legislation. A key aspect of the Code is the importance of an integrated approach to risk management – trustees should understand the risks across funding, investment and the employer covenant.

The Regulator continues to reiterate this expectation in its annual funding statements. Its 2022 statement again sets out the key risks trustees should focus on and actions to take, in a series of tables, considering different covenant strengths, funding levels and maturities.

Maturity is significant because, as benefits paid out increase as a proportion of scheme assets, this can put a different complexion on the risks that need to be managed, especially investment volatility. In tranche 16, 83% of schemes were cashflow negative (not allowing for asset income); 99% of tranche 16 schemes had a duration of more than 12 years on the basis used for the technical provisions. (The DWP's current consultation suggests the Regulator may propose a duration of 12 years for the definition of 'significantly mature' for the LTO, and this would be on a low dependency basis - which would typically produce a higher duration than a technical provisions basis.) The average duration of liabilities was 19 years on the technical provisions basis, indicating the average scheme is some way from being considered 'significantly mature'.

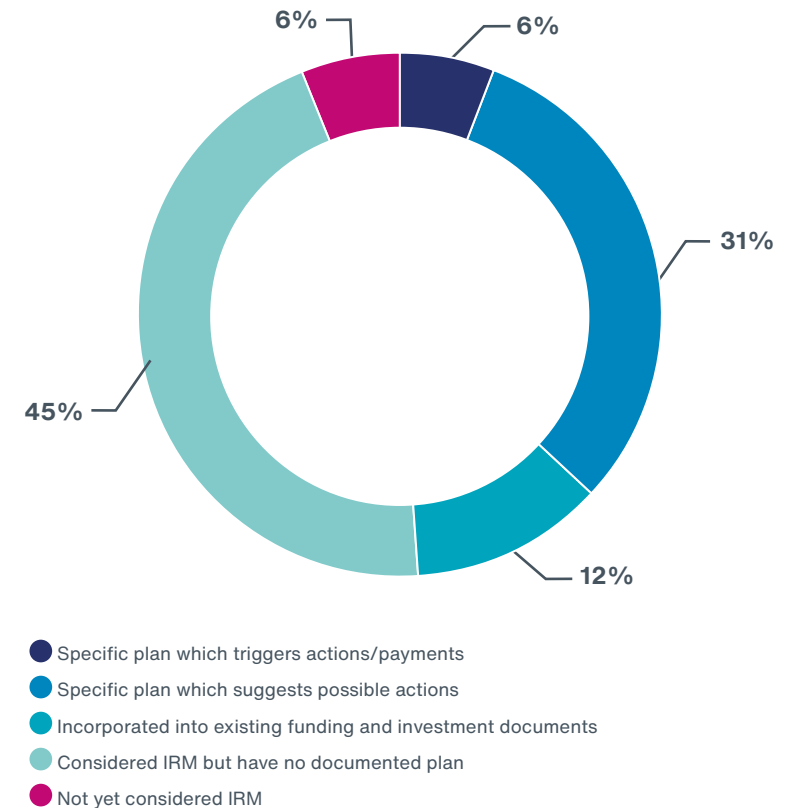


**76% of schemes took an integrated approach to risk management that included consideration of downside scenarios and contingency planning**

For tranche 16 valuations, the trustees of 76% of the schemes took an integrated approach to risk management, in respect of funding, investment and employer covenant, that included consideration of downside scenarios and contingency planning. The percentage of trustees taking an integrated approach has increased since tranche 13 (70%). Many of our clients have used our ViewPoints framework to help them consider integrated risk management.

Varying approaches to integrated risk management (IRM) were taken for tranche 16, with only 6% of schemes having not yet considered IRM.

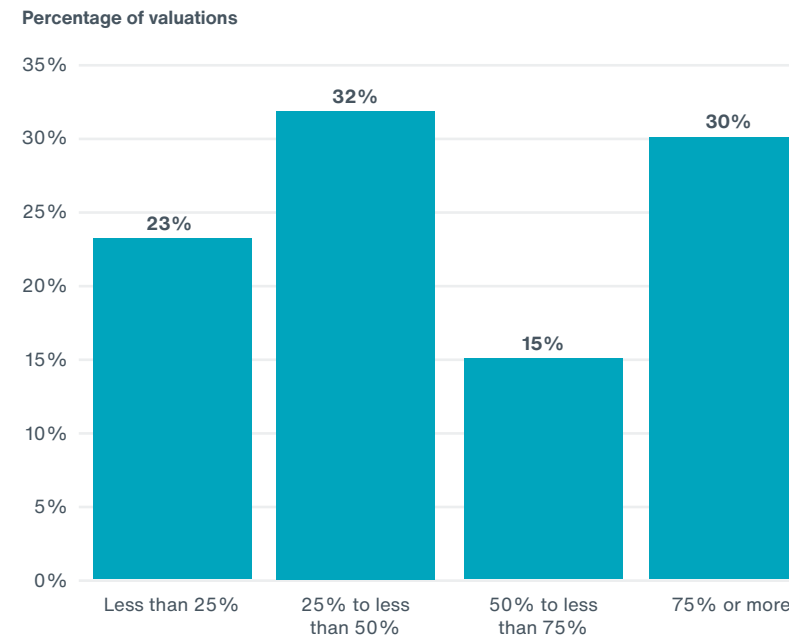
**Chart 1.3.1 Approach to integrated risk management - tranche 16**



### Funding and investment: the discount rate relative to expected investment returns

Discount rates are a key assumption for calculating technical provisions for scheme funding (see section 2.1). We compared discount rates to expected returns for schemes' investments, which were based on best estimate investment return assumptions. We allowed for the asset distribution of each scheme at the effective date of the valuation, including diversification of investment. The investment return assumptions do not necessarily reflect the views of the trustees, and do not allow for any future changes in a scheme's asset distribution or any additional return that might be gained from active management strategies. However, the analysis provides some rudimentary insight into trustees' allowance for investment outperformance in excess of a gilt return in the discount rate.

**Chart 1.3.2 Proportion of investment return in excess of gilts allowed for in discount rate - tranche 16**



Investment strategy was reviewed at the same time as the valuation for 48% of schemes in tranche 16, which is similar to previous tranches.



### Employer covenant and investment: assets and employer covenant

The current Code of Practice states that trustees should understand the strength of the employer covenant, which involves forming a view of the covenant now and how it could develop in the future. Advice should enhance the trustees' understanding and can be focussed on areas where trustees are not already confident of the position or able to readily understand it for themselves.

Chart 1.3.3 shows that 77% of schemes in tranche 16 used a third party/specialist assessment of the employer covenant, in line with the Regulator's call for an integrated approach. Only one scheme used no information beyond that which was publicly available.

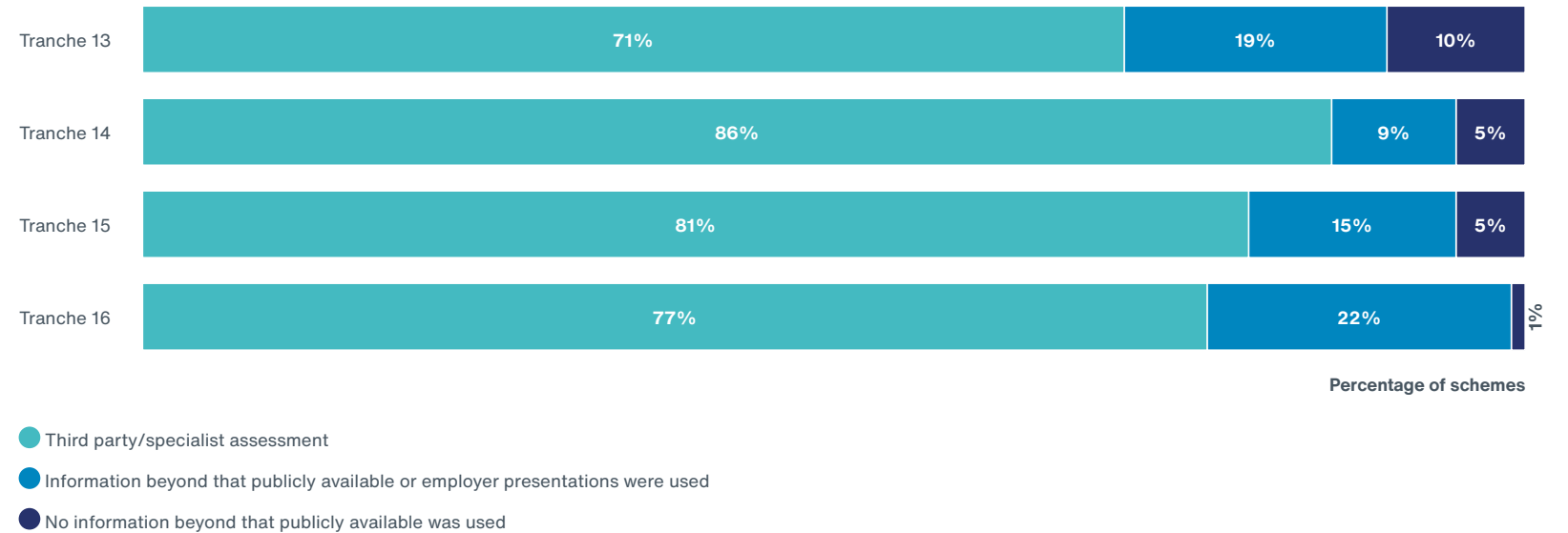


**77% of schemes used a third party/specialist assessment of the employer covenant**



**86% of schemes hedged at least 70% of their interest rate risk and 88% hedged at least 70% of their inflation risk, compared to 58% and 61% three years ago**

Chart 1.3.3 Covenant assessment - tranches 13 to 16

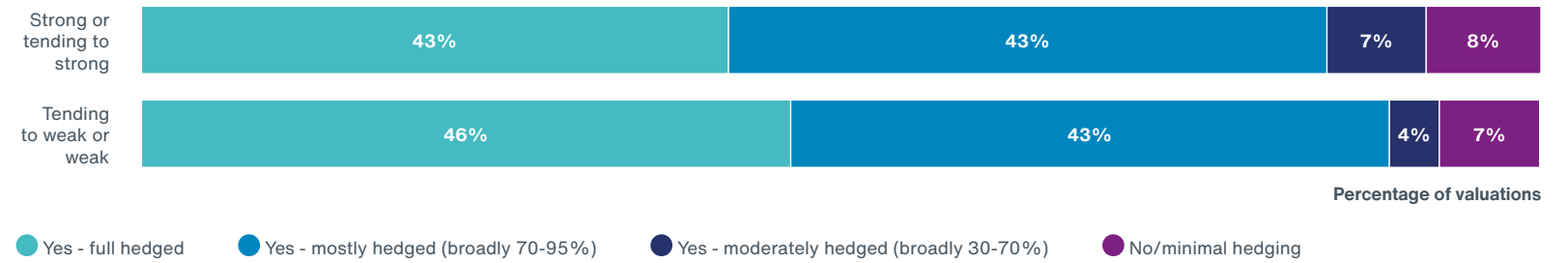


Charts 1.3.4 and 1.3.5 compare how schemes with weaker and stronger employer covenants have hedged interest rate risk and inflation risk. The large majority of schemes have fully or mostly hedged, irrespective of covenant strength.

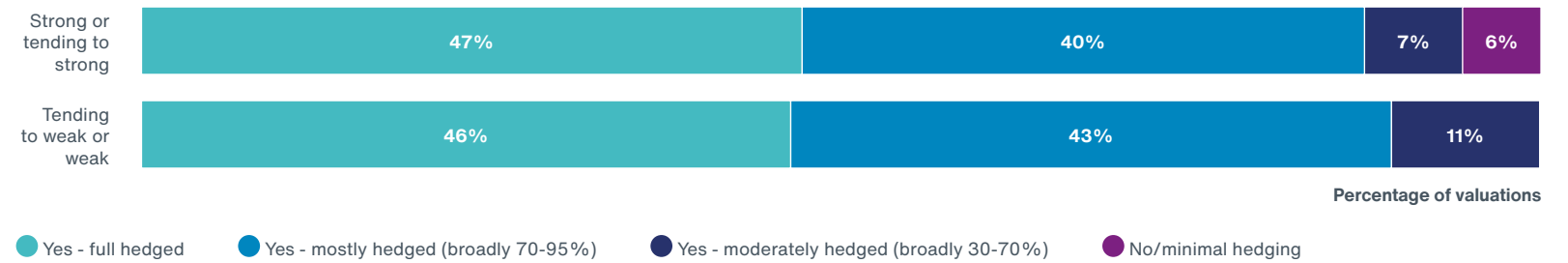
86% of schemes with tranche 16 valuations hedged at least 70% of their interest rate risk; 88% hedged at least 70% of their inflation risk. For tranche 15, this applied for 78% of schemes, for both types of hedging. For tranche 13, when many tranche 16 schemes' previous valuations were undertaken, 58% hedged at least 70% of their interest rate risk and 61% hedged at least 70% of their inflation risk.

The Regulator's first consultation on a revised Code included a proposal for an investment stress test, for schemes seeking compliance under a Fast Track approach (see section 4) - based on maturity and covenant strength.

**Chart 1.3.4 Interest rate hedging, by employer covenant - tranche 16**



**Chart 1.3.5 Inflation risk hedging, by employer covenant - tranche 16**

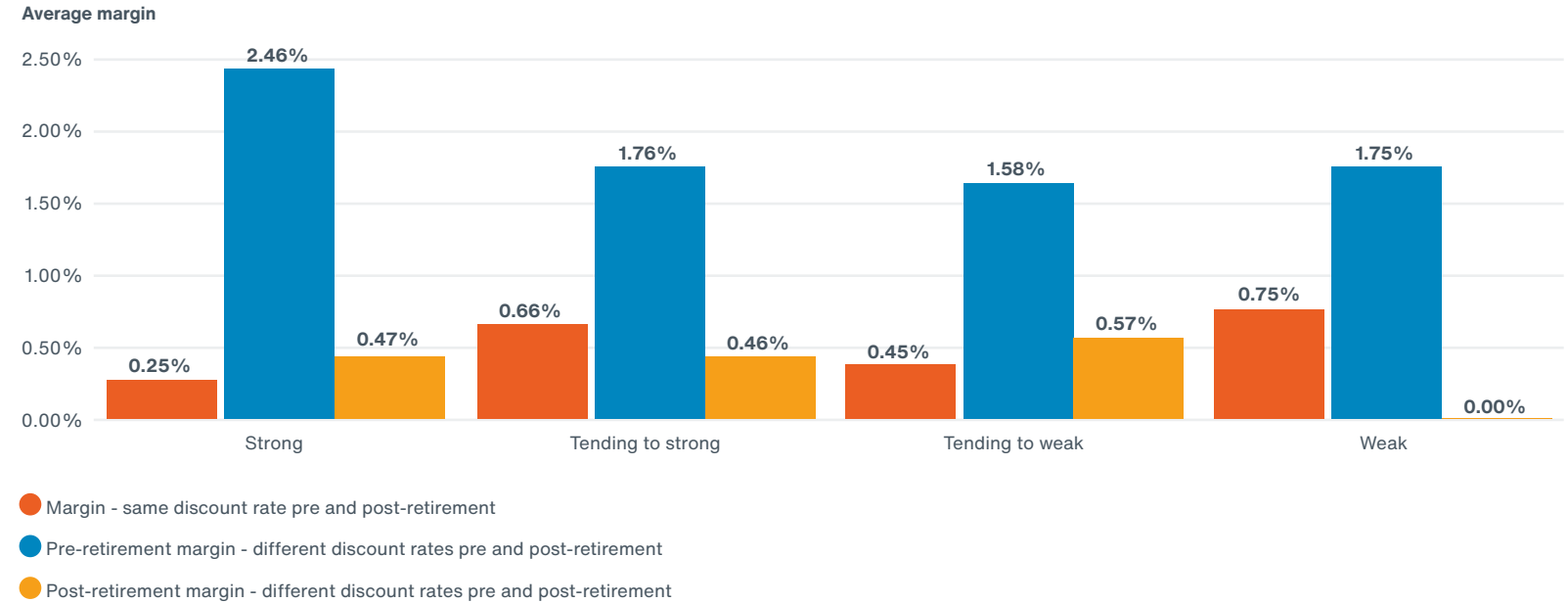


### Funding and employer covenant: discount rate and employer covenant

A key area of focus for schemes is the link between the strength of the covenant and the prudence in the discount rate.

Chart 1.3.6 shows, for tranche 16 valuations, the average margin over gilts allowed for in the discount rate split by the trustees' assessment of the employer covenant – separately for those using the same discount rate for pre and post-retirement and for those using different discount rates for pre and post-retirement. The chart does not provide clear evidence that schemes with weaker covenants used lower margins. Under an integrated approach to funding, schemes with weaker employer covenants might be expected to allow for greater prudence in the discount rate.

Chart 1.3.6 Average margin over gilts, by employer covenant - tranche 16



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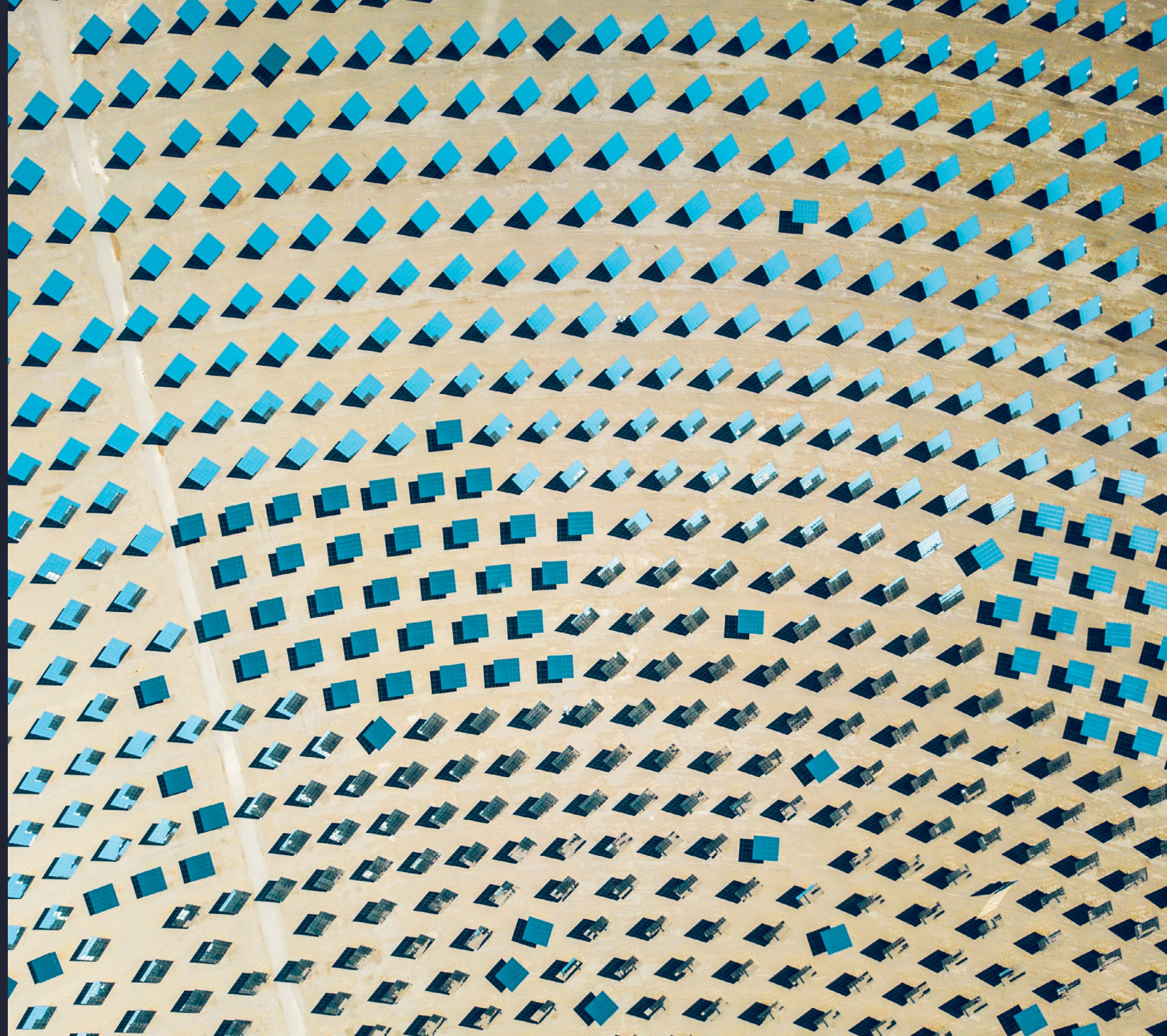
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# 2

## The technical provisions

The discount rate, inflation, mortality, other demographic assumptions and the funding level



# 2

## 2.1 The discount rate

### Valuation methods

There are currently four main approaches:

- **'Gilts plus'** – the discount rate is derived by adding a margin to the yield available on gilts (this is the 'plus' although the adjustment could be zero or even negative). Alternatively, a similar approach may be to set the discount rate relative to swap or corporate bond yields.
- **'Best estimate minus'** – the discount rate is derived by deducting a margin (the 'minus') from the best estimate returns expected on the scheme's assets.
- **Stochastic** – stochastic modelling is used to determine whether the assets and contributions are likely to be sufficient to pay the benefits.
- **Cashflow-driven** – the discount rate is derived from the returns expected on a portfolio of assets selected to generate the scheme's cashflows, adjusted for the risk of defaults.

There is overlap between the methods – for example, the 'gilts plus' approach where the 'plus' varies depending on expected investment returns is similar to 'best estimate minus'.

The 'gilts plus' approach is the most common but, when gilt yields have fallen, increasing schemes' liabilities, some commentators have questioned whether actuarial valuations based on gilt yields could lead to deficits being artificially high. There are two main ways in which the 'gilts plus' method might be used, which reflect the objectives of the scheme:

- It may be set as a prudent estimate of the return expected to be earned from the scheme's assets, in which case the 'plus' may be expected to be variable and the outcome to be more in line with the 'best estimate minus' approach.
- It may be set to reflect a long-term target such as self-sufficiency (or to approximate buy-out), in which case the 'plus' is likely to remain relatively stable over time. Falls in gilt yields will feed directly through to higher liability values in the same way that the cost of buying annuities would be expected to increase.

For schemes with tranche 16 valuations, 52% of schemes derived the margin above a reference yield (for example, gilts) at each valuation; this is consistent with the 'best estimate minus' approach above, or a 'gilts plus' approach where the addition is reviewed regularly. For 32% any margin above (or below) the reference yield was broadly fixed, for 6% a self-sufficiency basis was used and 4% used a proxy buy-out basis – for all of these approaches we would expect any 'plus' to be relatively stable over time.

Regardless of the approach adopted to set the discount rate, it is possible to compare discount rates to gilt yields - allowing for a comprehensive and consistent analysis across all valuations. This is in line with the Pensions Regulator's analysis, and the data that schemes are obliged to submit to the Regulator, and is how we set out our results below.



**Average discount rates in excess of gilt yields were similar to those used last year but lower than those of three years ago**

### Analysis

For 98% of tranche 16 valuations, a 'yield curve' approach was adopted, whereby the discount rates varied with the term of the cashflows. The prevalence of this approach is related to the use of hedging strategies to achieve greater stability in outcome, with a yield curve approach providing greater stability in measurement. The large majority (95%) of tranche 16 yield curve valuations were based on gilt yield curves.

Most tranche 16 valuations explicitly allowed for an adjustment to gilt yields when determining discount rates. This may involve adding a margin to each term-dependent rate under a gilt yield curve approach or adding a margin to the 'flat' gilt yield where a term-dependent approach is not taken. Where this margin was not available, we calculated the difference between the discount rate and the spot gilt yield at 20 years duration to approximate this margin.

Increasingly, schemes are using term-dependent margins for discount rates; for tranche 16, 21% of valuations adopted this approach. This may reflect a stronger focus for some schemes on reaching their long-term funding targets within a specific timeframe.



There was an increase in the proportion of schemes using the same discount rate margins for pre and post-retirement. For tranche 16, 75% of valuations allowed for the same margin; this compares to 55% for tranche 15 and tranche 13, when many tranche 16 schemes' previous valuations were undertaken. These figures include schemes using term-dependent margins. For schemes using a single margin, the averages are set out in table 2.1.1.

**Table 2.1.1 Average margin over gilt yields (single margin pre and post-retirement)**

	Tranche 13	Tranche 14	Tranche 15	Tranche 16
Margin	0.69%	0.66%	0.52%	0.54%

For schemes using a single margin, the average margin over gilts of 0.54% p.a. for tranche 16 was marginally higher than that for tranche 15, and lower than that for tranches 13 and 14.

For schemes using term-dependent margins, 73% adopted a long-term margin of 0.5%. There was a wide variation in initial margin and the period over which this reduced to the long-term margin.

For tranche 16, 25% of schemes used different discount rate margins for pre and post-retirement, compared to 45% in tranches 15 and 13. Table 2.1.2 shows the average margins, over tranches 13 to 16, for valuations that used different discount rates for pre and post-retirement. The average margins over gilts in tranche 16 were similar to those for tranches 13 to 15.

**Table 2.1.2 Average margin over gilt yields (margin differs pre and post-retirement)**

	Tranche 13	Tranche 14	Tranche 15	Tranche 16
Pre-retirement	2.03%	1.90%	1.91%	1.96%
Post-retirement	0.53%	0.42%	0.47%	0.46%

One can approximate outperformance over gilts using a single effective discount rate, allowing for approaches that don't specify fixed margins over gilts (including bases with term-dependent margins) to be brought into the analysis. Table 2.1.3 sets out the average outperformance of single effective discount rates in excess of the spot gilt yield at 20 years duration. The average for tranche 16 is lower than that of tranche 13, and similar to those for tranches 14 and 15.

**Table 2.1.3 Average over gilts of single effective discount rate (all valuations)**

	Tranche 13	Tranche 14	Tranche 15	Tranche 16
Margin	0.93%	0.68%	0.65%	0.60%

In July 2022, the Pensions Regulator issued its latest analysis, which covers valuations up to tranche 15. Table 2.1.4 shows how the Regulator's average single nominal rates compare to the average single nominal rates calculated for the valuations of our clients. The Regulator's analysis for tranche 16 will be published in 2023.

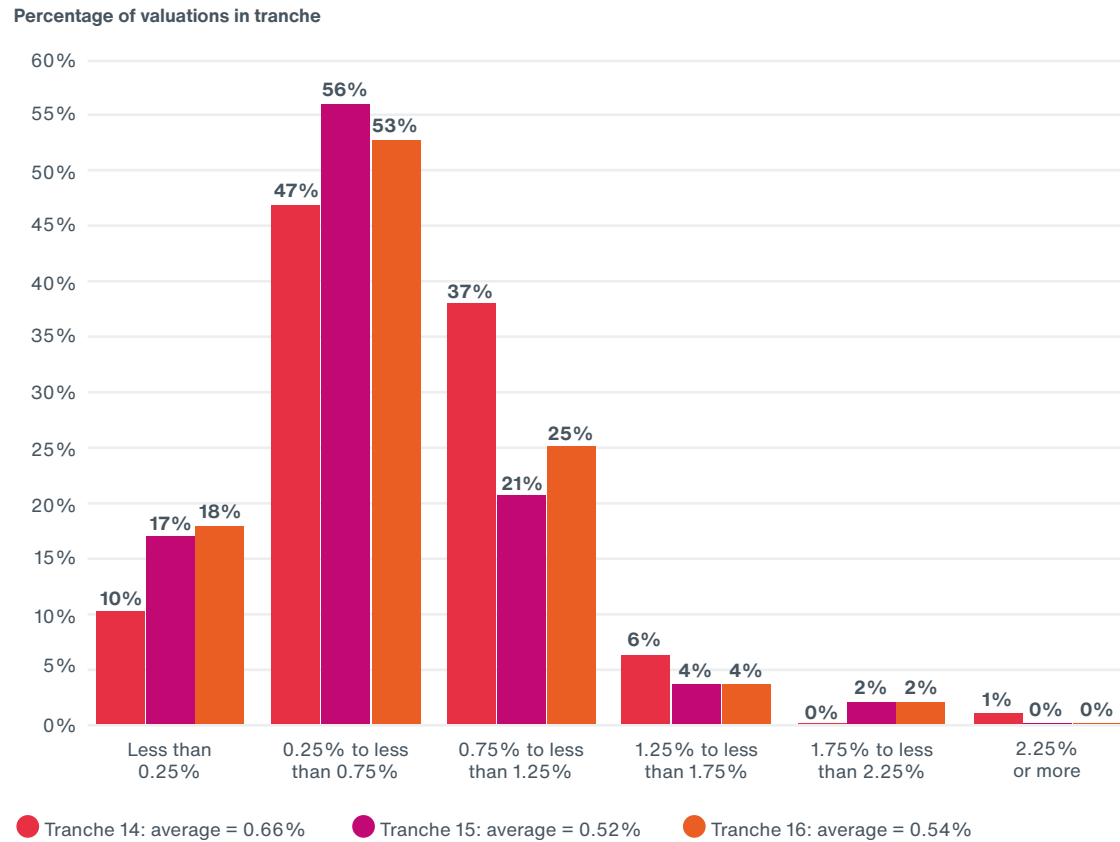
**Table 2.1.4 Average single effective discount rate (all valuations)**

	Tranche 13	Tranche 14	Tranche 15	Tranche 16
In Depth valuations	2.77%	2.41%	1.59%	1.73%
All valuations in Pensions Regulator's 2022 analysis	2.62%	2.43%	1.90%	Not yet available

The selection of a discount rate that is appropriate for a particular scheme's circumstances is key. While average rates may be informative, they do not tell the whole story. Under the scheme funding regime, schemes use a wide range of assumptions and charts 2.1.1 and 2.1.2 illustrate this range for tranches 14 to 16, under the two approaches set out above.

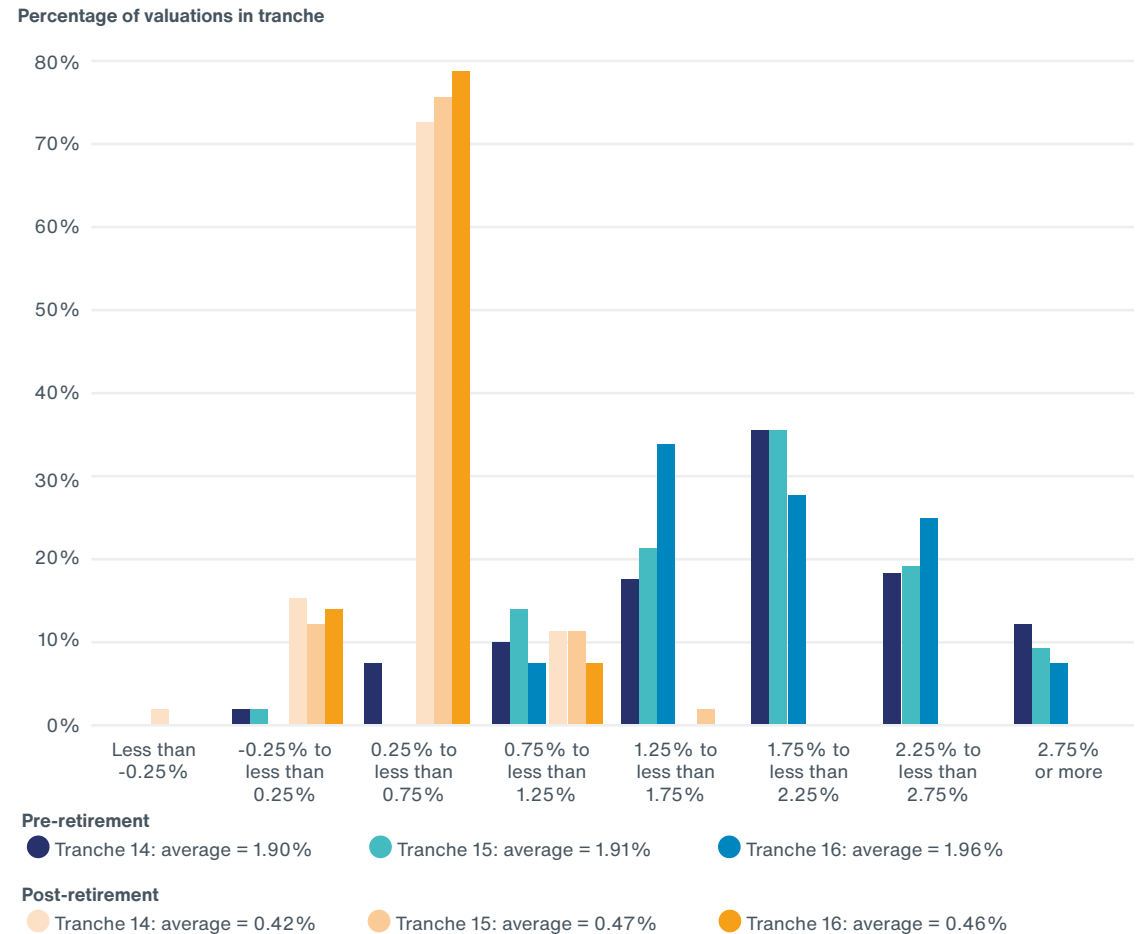
In charts 2.1.1 and 2.1.2, a convergence of the discount rate (post-retirement in 2.1.2), to around 'gilts + 0.5%', is evident over the past few years. This is consistent with the parameters for a "low dependency" LTO suggested by the Regulator in its first consultation on a revised Code of Practice – within a range of gilts + 0.5% p.a. to gilts + 0.25% p.a.

**Chart 2.1.1 Margin over gilts (where single margin pre and post-retirement) – tranches 14 to 16**



The allowance for outperformance in the discount rate is an important aspect of a valuation. An allowance that increases the annual discount rate by 0.5% p.a. would typically decrease the liabilities by around 10%.

**Chart 2.1.2 Margin over gilts: pre and post-retirement (where different discount rates used) – tranches 14 to 16**



Typically, the Retail Prices Index (RPI) inflation assumption is set by reference to the difference between the yields on fixed interest and index-linked gilts. It is sometimes considered appropriate to make an adjustment, normally a deduction, to allow for supply and demand effects in the gilt market – the ‘inflation risk premium’. 13% of schemes allowed for an inflation risk premium in tranche 16. This is the same as for tranche 15, and slightly lower than for tranche 13 (15%) when many tranche 16 schemes’ previous valuations were undertaken.

As schemes increasingly hedge inflation risk, and so can no longer justify an assumption that does not reflect a ‘break-even’ market rate, this may be reflected in a longer-term decline in the use of such an adjustment.

For tranches 16, where an adjustment was applied, it ranged between 0.05% and 0.5% p.a.; for tranche 15, it ranged between 0.1% and 0.35% p.a.. On average, it was 0.26% p.a. for tranche 16, compared to 0.18% p.a. for tranche 15.

The Consumer Prices Index (CPI) is now the measure for statutory revaluation and indexation of pension benefits. Depending on scheme rules, assumptions may be required for both RPI and CPI. CPI increases are generally expected to be lower than RPI increases. However, in September 2019, the



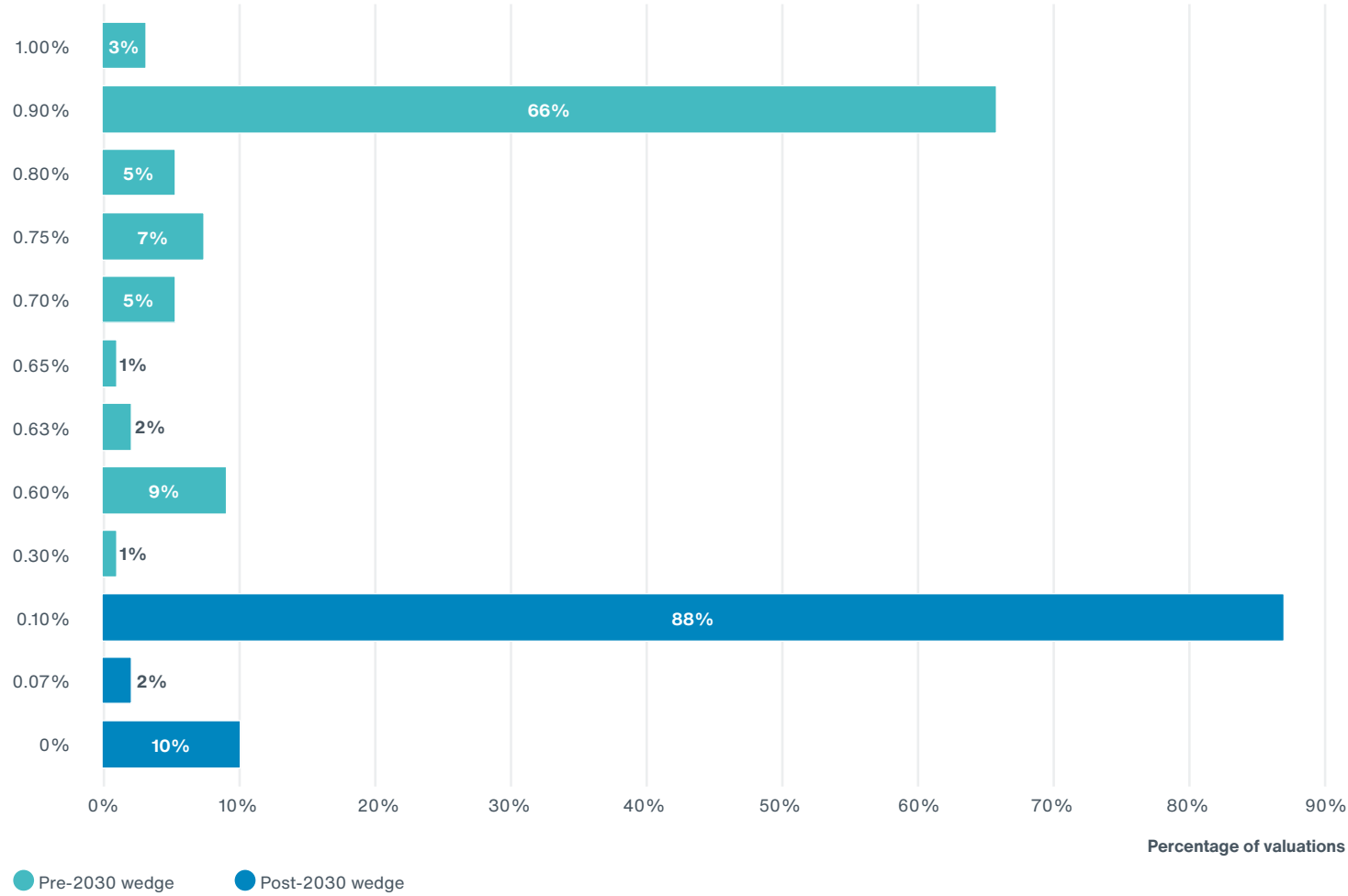
**The average difference between RPI and CPI assumptions was 0.84% p.a. for the period before 2030 and 0.09% p.a. post-2030, reflecting the announced change to the calculation of RPI from 2030**

Chancellor announced that a consultation would take place on proposals to align the calculation of RPI with that of the Consumer Prices Index including owner occupiers’ housing costs (CPIH) from a date between 2025 and 2030. HM Treasury and the UK Statistics Authority issued the consultation in March 2020 and responded to it in November 2020 (during tranche 16 but before the effective dates of most tranche 16 valuations). The calculation of RPI is now expected to change from February 2030 to be in line with CPIH, which is expected to be much closer to CPI.

For tranche 16 valuations with effective dates after the November 2020 announcement, the difference between the RPI and CPI assumptions (the ‘wedge’) averaged 0.84% p.a. for the period before 2030 and 0.09% p.a. post-2030. The assumption ranged between 0.3% p.a. and 1.0% p.a. pre-2030 and between 0% p.a. and 0.1% p.a. post-2030.



Chart 2.2.1 Difference between RPI and CPI assumptions, pre and post-2030 - tranche 16



Both RPI and CPI assumptions are important for most schemes, so allowing for an inflation risk premium or not, and the derivation of the CPI assumption, can impact upon the technical provisions significantly. Typically, a 0.2% p.a. change to inflation might alter the liabilities by around 3%.

## 2.3 Mortality

The CMI (Continuous Mortality Investigation) published the 'S3' mortality tables in 2018. The tables are based on the mortality of pensioners of self-administered pension schemes. They were used for 98% of tranche 16 valuations.

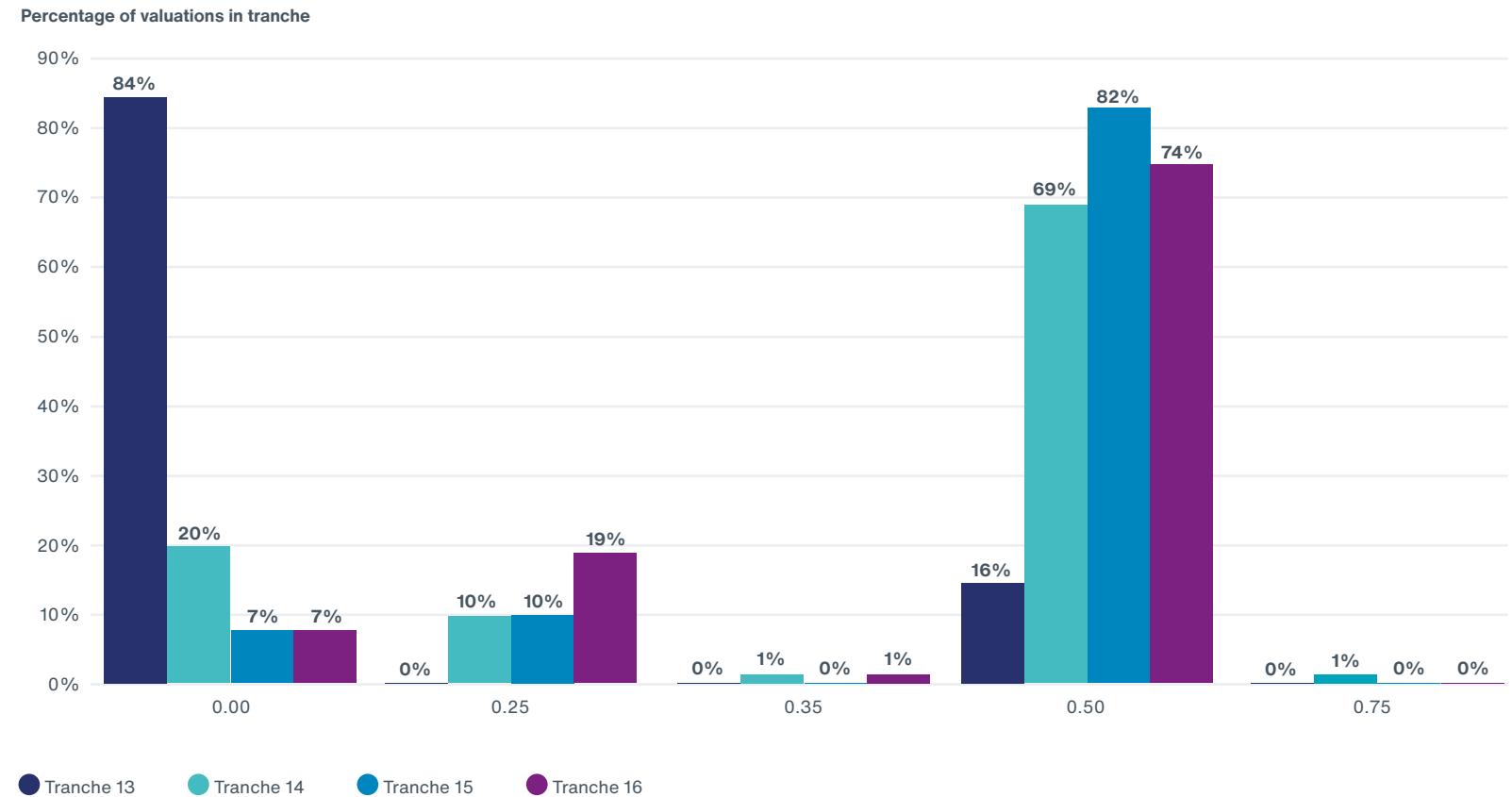
Where the S3 mortality tables were used, standard tables were used for 62% of valuations, 4% used 'mid', 16% used 'light' and 18% used 'heavy'.

Aon's Demographic Horizons™ longevity model was used for 78% of tranche 16 valuations, to accurately assess the current mortality rates in the scheme, based on a postcode analysis of scheme members and actual scheme experience where there was sufficient data.

It is normal to make an explicit allowance for further improvements in the future. The 'CMI Core Projections' model is updated annually by the actuarial profession to predict improvements. The CMI Core Projections were used for all tranche 16 valuations. The CMI\_2020 version was used for 87% of valuations; CMI\_2019 was used for the other 13%. CMI\_2019 pre-dated the Covid-19 pandemic and the core version of CMI\_2020 placed no weight on data from 2020, when the pandemic started.

Since CMI\_2018, CMI models have allowed users to increase or decrease the initial rate of improvement by a fixed amount, using parameter 'A'. Chart 2.3.1 shows that 74% of the tranche 16 valuations used 0.50% for this parameter.

Chart 2.3.1 Parameter 'A' applied to CMI\_2018, CMI\_2019 or CMI\_2020 - tranches 13 to 16



CMI models also require the input of a smoothing parameter ( $S_k$ ). However, this has become a less popular method of adjustment as the use of the A parameter adjustment has increased. In tranche 16, all valuations used 7.0 for  $S_k$  (the default).

The CMI Core Projections require trustees to set an assumed long-term level of year-on-year improvements in mortality rates. Chart 2.3.2 shows the improvement factors that were applied in tranche 13 to 16. The improvement factors were the same for females and males for nearly all valuations.

The average long-term improvement for tranche 16 was 1.53% p.a., the same as that for tranche 13, when many schemes' previous valuations were completed.

**Chart 2.3.2 Long-term improvements applied to mortality table (males) - tranches 13 to 16**

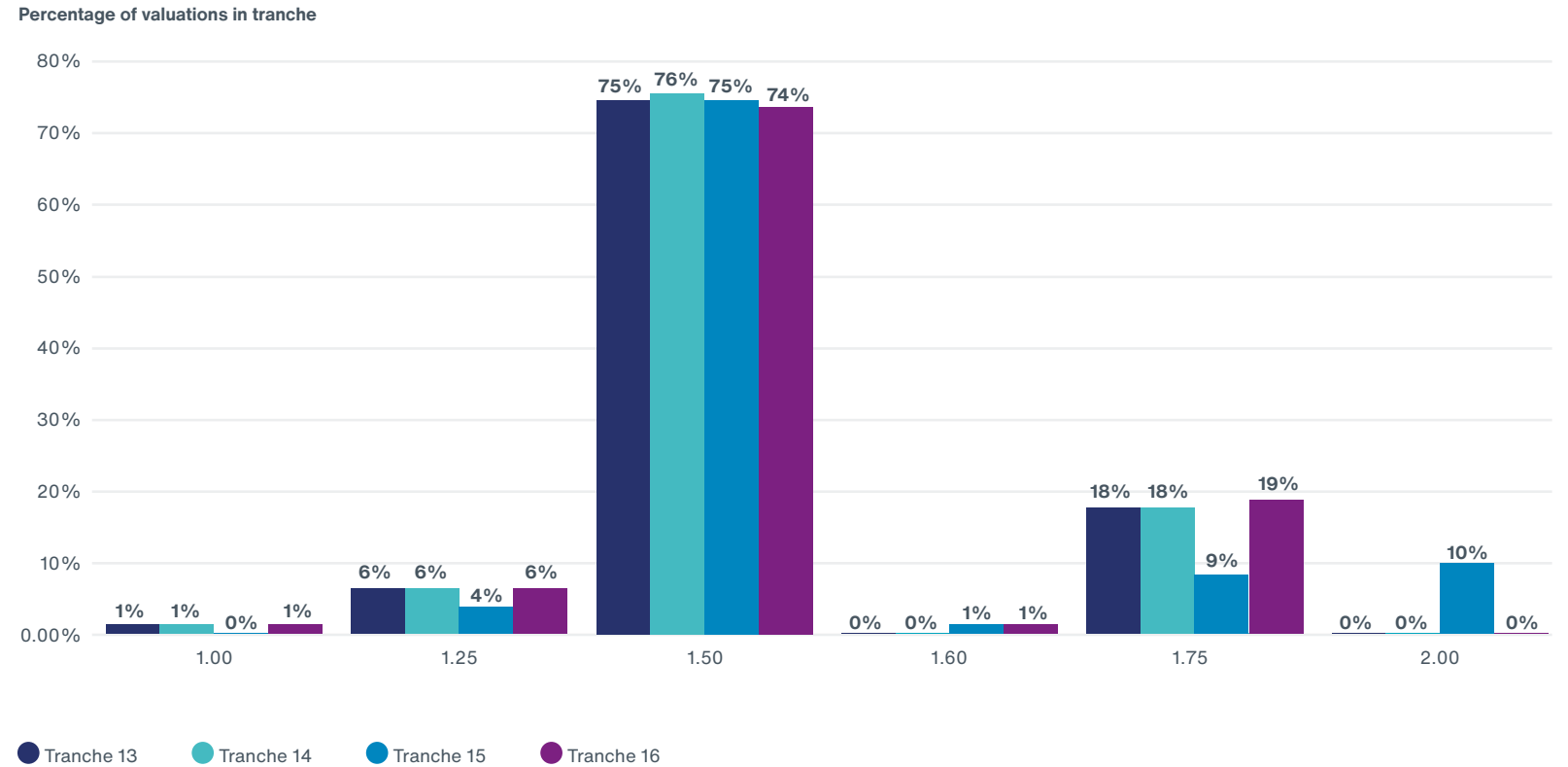
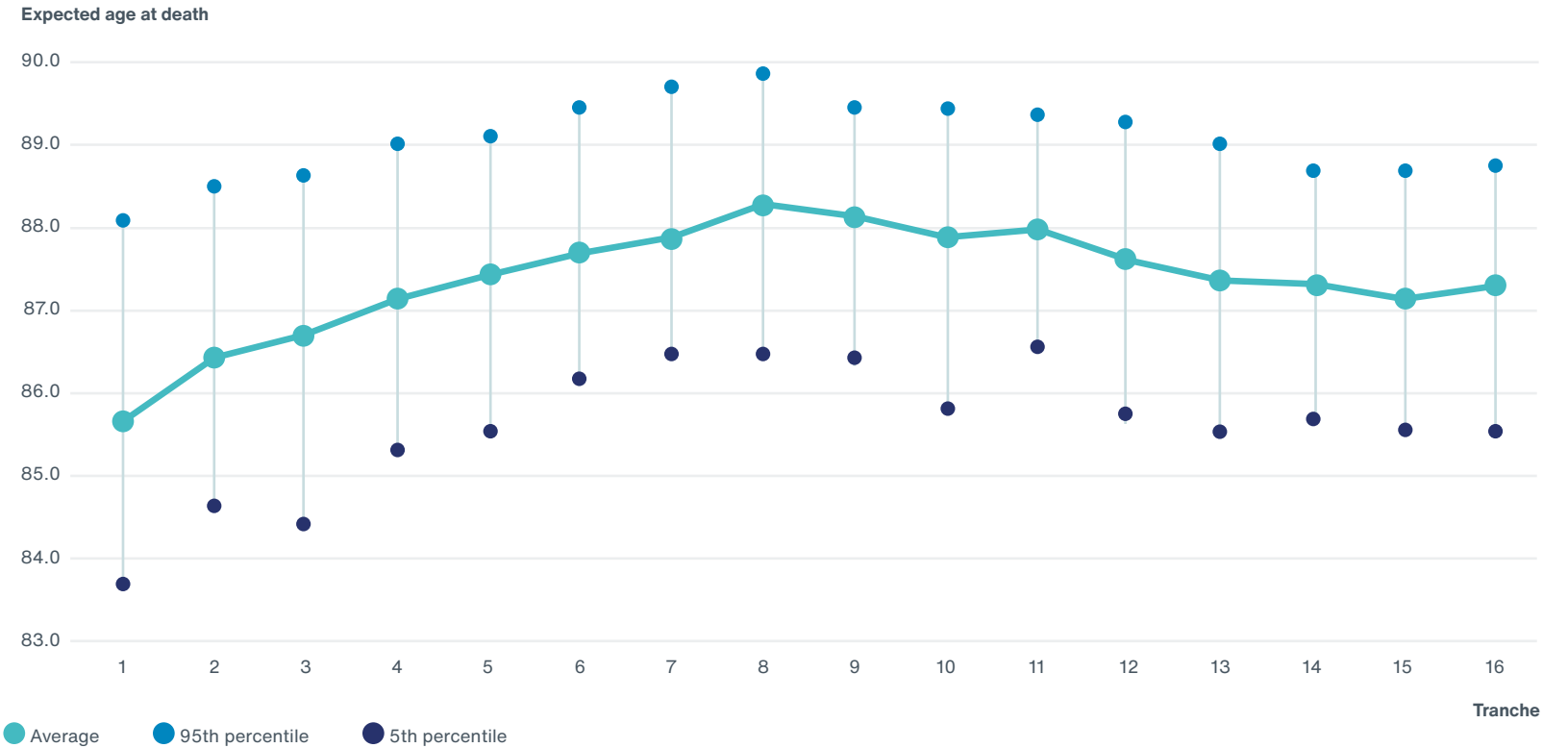


Chart 2.3.3 illustrates how expectations of longevity have been reflected in the assumptions adopted by trustees since the current funding regime was introduced. For tranche 16 valuations, the average assumed life expectancy of a male aged 65 was 1.6 years higher than for tranche 1. However, in tranches 9 to 16, the average assumed life expectancy of a male aged 65 has generally reduced slightly on the previous year's expectation.

Mortality assumptions typically allow for an increase of between 0.2 and 0.3 years over a period of three years. However, between tranche 13, when many schemes' previous valuations were completed, and tranche 16, the average assumed life expectancy decreased by 0.1 years.

For a typical scheme, an increase in life expectancy of one year, over and above the improvements already allowed for, would typically increase liabilities by around 4%.

**Chart 2.3.3 Average life expectancies for male pensioners aged 65 at date of valuation, by tranche**



## 2.4 Other demographic assumptions

Schemes commonly carry out analysis, either alongside or in advance of the valuation, to determine how the demographic assumptions used at the previous valuation compare to the actual experience of members. For example, they may consider how many members are retiring early and at what ages, the proportion of members who leave an eligible dependant when they die, and the age differences between members and their partners. This analysis results in a better understanding of the appropriate assumptions to use.

For 55% of tranche 16 schemes, an analysis of experience was carried out in respect of one or more demographic assumptions other than mortality; such analysis was carried for 34% of tranche 15 schemes. Chart 2.4.1 sets out the percentage of schemes that undertook an analysis of experience in respect of relevant factors. It indicates that such analysis was most commonly undertaken in respect of commutation.

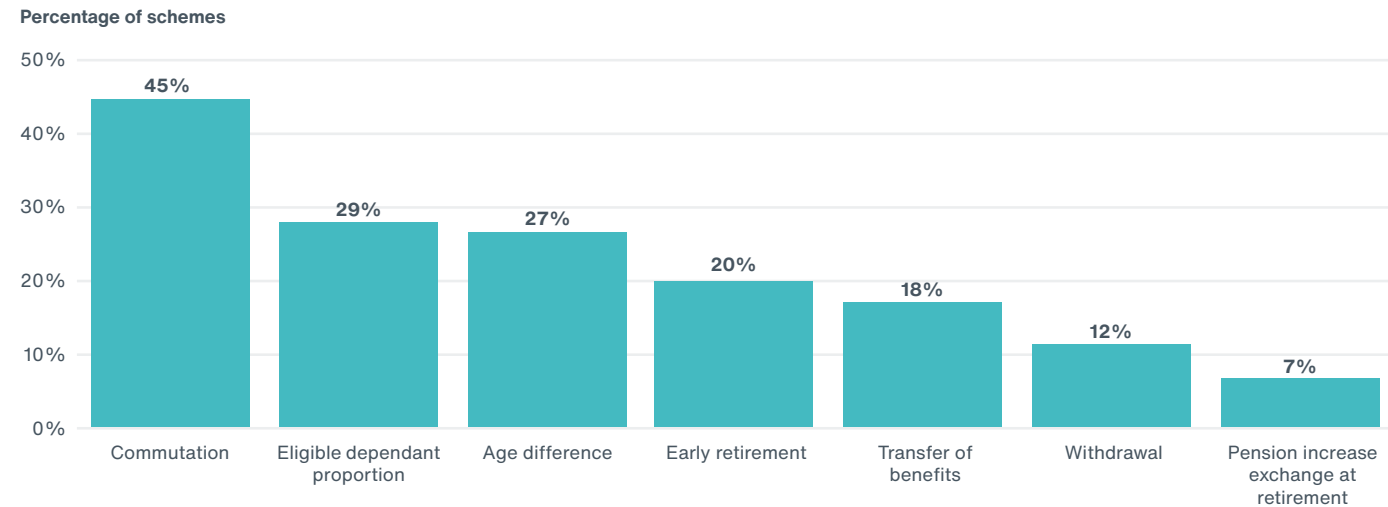
Analyses of transfers and pension increase exchange are being undertaken as schemes make additional options available to members, and as money purchase flexibilities continue to impact upon the behaviour of members in the run-up to retirement. Some schemes have adopted software such as the Aon Retirement Options Model (AROM) to help members make decisions when faced with the increased options available at retirement.

In tranche 16, 7% of valuations allowed for transfers out, or pension increases to be exchanged, in the technical provisions. A liability management exercise was anticipated by 7% of schemes with tranche 16 valuations but only allowed for in the technical provisions assumptions in one of these valuations.



**55% of schemes carried out an analysis of experience in respect of demographic assumptions other than mortality**

**Chart 2.4.1 Analysis of experience - tranche 16**





# Helping members explore their retirement options

## Aon Retirement Options Model

With Defined Benefit (DB) pension schemes now being able to offer greater flexibility for their members, you can support members in making the right, informed choice so they have the best possible retirement.

Members can compare the options available to them with the **Aon Retirement Options Model (AROM)**.

The easy-to-use, educational, online tool is designed to make complex retirement options simple. AROM is a simple side-by-side comparison of members' options inside and outside of the scheme using pre-loaded member specific data. Members can then interactively explore the flexibilities of each option to understand which one may best suit their own personal circumstances.

Launched in 2016, AROM is the market leading interactive educational tool improving outcomes for 36,000 members across a wide range of UK pension schemes. To understand how AROM could help your members and receive a demo of the tool, please call your usual Aon consultant or email us at [memberoptions@aon.com](mailto:memberoptions@aon.com).

## Why do our clients use AROM?

- Customisable so members can tailor the model exactly to their personal circumstances
- Can be integrated seamlessly into your ongoing retirement process or used for a bulk one-off exercise
- Appreciated by members as seen by the most common feedback rating of 5 stars
- Increased member engagement and education, by guiding members through the retirement options to support them in making informed decisions
- Management Information available to understand how members are using the tool and to further increase engagement

## New features for 2022

We continue to innovate and further develop AROM in line with feedback from clients and the 36,000 members loaded on to the tool.

The new features for this year include:

- In-scheme variable Bridging Pension Option toggle
- Integrated IFA call back function with preferred IFAs in place

There are further enhancements planned for 2022, including the release of additional educational videos to further increase members' knowledge of the retirement options available to them.



Here are some comments received from members over a range of schemes:

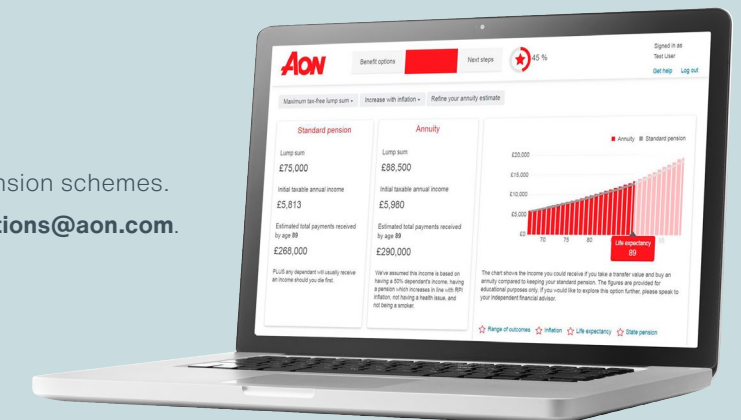
**“Excellent tool that is very intuitive, with a good explanation of the different options available.”**

**“Extremely helpful and much appreciated. Presented in an easy way that even I understand!”**

**“Very impressed with the help and direction it gives!”**

**“VERY helpful with so many options available to choose. Excellent as it gives me a clearer picture of my choices.”**

**“User friendly and good illustrations, visuals and road-mapping. Wish I'd had it sooner!”**

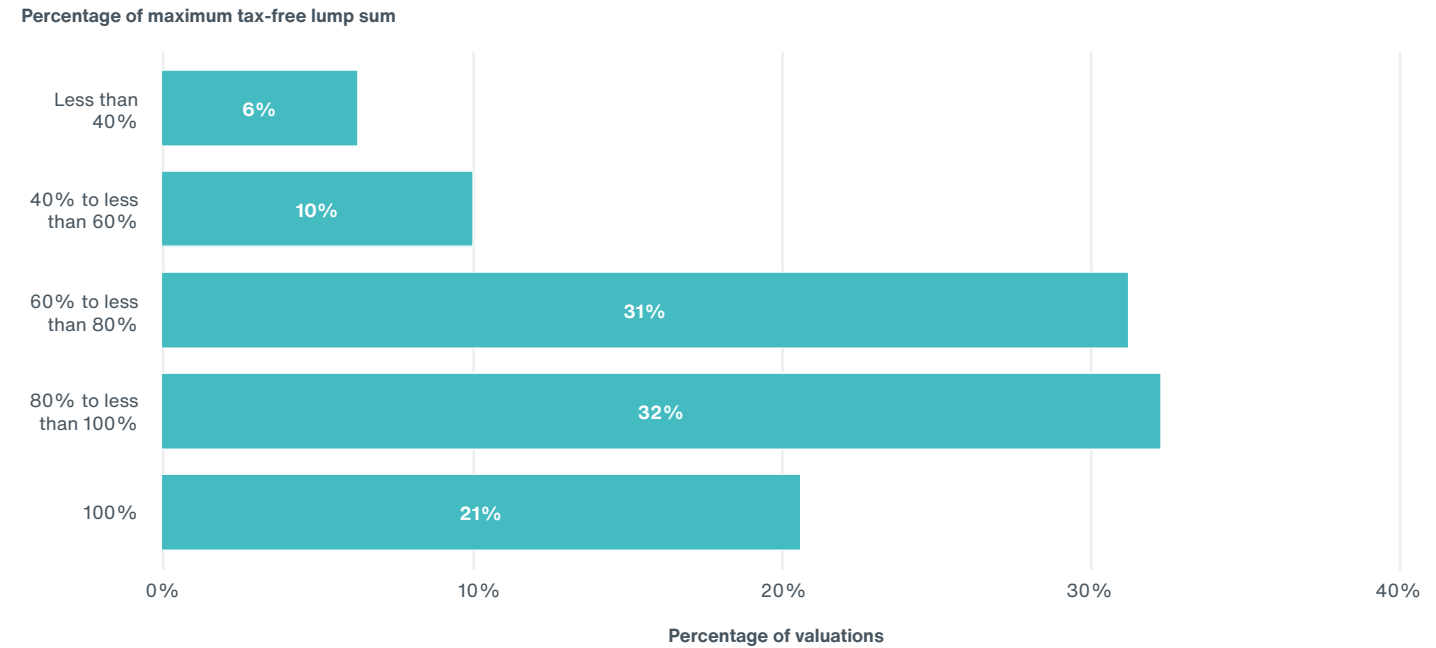


### Commutation

An assumption that allows for relatively straightforward analysis of past experience is the allowance for commutation. Legislation permits around 25% of the value of a member's benefits to be paid as a tax-free lump sum; any allowance, or change in the allowance, for commutation can be significant in the valuation of a scheme's liabilities because commutation factors are generally not cost-neutral relative to prudent funding assumptions. Allowance was made for commutation in 87% of tranche 16 valuations, and in 84% of tranche 15 valuations.

Where allowance was made for commutation under tranche 16 valuations, the average allowance, across all members of a scheme, was 75% of the maximum tax-free lump sum. Chart 2.4.2 shows the distribution.

Chart 2.4.2 Allowance made for commutation - tranche 16



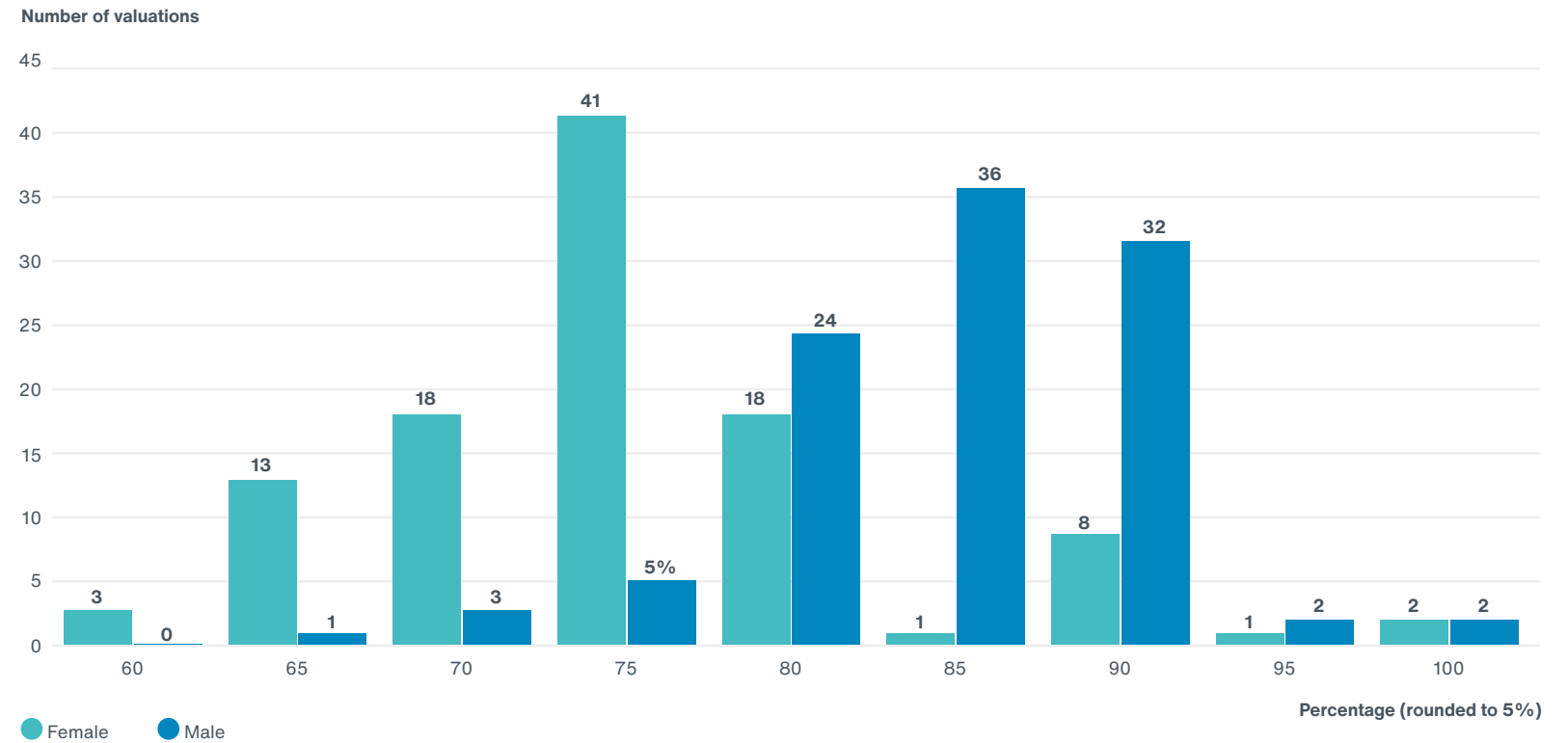
### Family details

Where benefits are paid to a spouse or other eligible dependant on the death of a member, the trustees will need to adopt assumptions to reflect the likelihood that such benefits will be payable. Scheme rules will determine the class of potential beneficiaries.

Chart 2.4.3 sets out the assumptions used in tranche 16 valuations for male and female members (rounded to the nearest 5%). The average percentage was 85% for males and 75% for females.

Where such contingent benefits are payable, an assumption is made with regard to the difference in age between a member and their partner. For tranche 16, male pensioners were assumed to be three years older than female partners for 86% of valuations (with two years older for 11% and four years older for 3%). Female pensioners were assumed to be one year younger than male partners for 69% of valuations (with three years younger for 27%, two years younger for 3%, and the same age for 2%).

**Chart 2.4.3 Percentage of members assumed to have an eligible dependant at retirement - tranche 16**



Analysis by Aon's Demographic Horizons™ team shows considerable variation between schemes for both the proportion of members with an eligible dependant and age difference, depending on four key factors: wealth, gender, age and time. Allowing for these factors can change liabilities by up to 5% compared to the approaches traditionally used to set these assumptions.

Our research has allowed us to develop a sophisticated model that can predict whether members are married, or have a partner, allowing for all of these factors. It can do this based on just basic member details usually held by schemes (such as age, gender and postcode), or can combine all available survey, tracing and death data on a scheme with our predictions based on basic member details to come up with an overall prediction.

### Data cleaning

Our clients often clean their scheme member data in advance of a valuation. This may involve exercises such as those set out below. 42% of tranche 16 schemes carried out a data cleaning exercise in the last three years. Where an exercise had not been undertaken, one was planned for 21% of schemes.

These measures allow for more accurate calculations of technical provisions. They also allow for the provision of the more accurate and complete data required for future transactions such as pensioner buy-ins, and for liability management exercises such as pension increase exchange exercises.

Data cleaning exercises, and wider data collection exercises, are also likely to be required in preparation for Pensions Dashboards and GMP equalisation projects.



**54% of schemes either carried out a data cleaning exercise prior to the valuation or planned to carry out a data cleaning exercise**

### Type of data cleaning

Deferred members	Pensioners
Existence exercise	
Tracing exercise	Address tracing e.g. missing postcodes
GMP reconciliation	
Pensions Regulator data audit	
Updating administration system to hold spouses' data	
Spot check of benefit calculations	



# 2 2.5 The funding level

The average funding level for valuations in tranche 16 was 93% and 46% found the scheme to be fully funded on the technical provisions basis. Both of these measures were higher than for any previous tranche.

The change over the typical valuation cycle, from tranche 13 to tranche 16, indicated an improvement in the average funding level and an increase in the percentage of schemes for which the technical provisions were fully funded. However, both assets and liabilities are likely to have increased significantly over this period and so a typical scheme's deficit in monetary terms would not have reduced to the extent that might be suggested by the change in the average funding levels.



**The average technical provisions funding level – 93% – and the proportion of schemes in surplus – 46% – were both higher than for any previous year since the start of the current funding regime in 2005**

Tranche	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Average funding level	86%	92%	88%	75%	86%	88%	84%	84%	92%	92%	89%	91%	91%	92%	92%	93%
Percentage of schemes fully funded	16%	23%	21%	4%	17%	16%	9%	11%	27%	31%	20%	23%	32%	32%	34%	46%

Chart 2.5.1 Risk Analyzer - funding level divergence by quartile - tranche 16

**AON** | Risk Analyzer

The technical provisions 2.5 The funding level

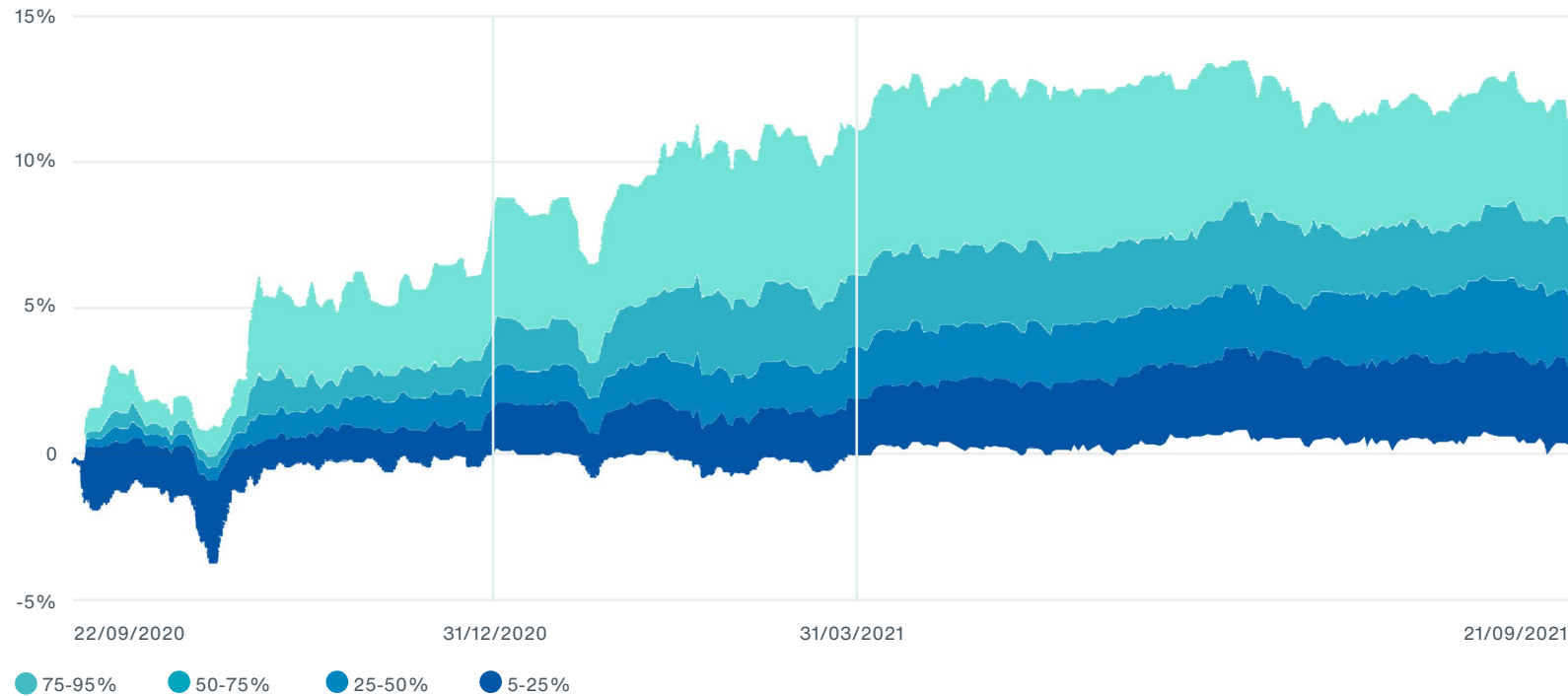


Chart 2.5.1 indicates that the funding level of a range of clients using our Risk Analyzer software increased generally over the tranche 16 period, with significant variation between schemes.

At the date of valuation, 81% of tranche 16 schemes for which a best estimate of liabilities was produced were funded at around or above 100% on that basis. Where a precise best estimate valuation of liabilities was available, the average funding level on this basis was 102%, compared to 87% on the technical provisions basis for the same schemes.

As funding levels increase, and employers find that their schemes are funded at over 100% on a best estimate basis, they are increasingly considering alternative approaches to guard against the risk of a trapped surplus. For example, the use of contingent security (see section 3.2) may be an attractive alternative to making cash contributions to the scheme that ultimately may not be required to pay benefits.

**Monitoring risk**

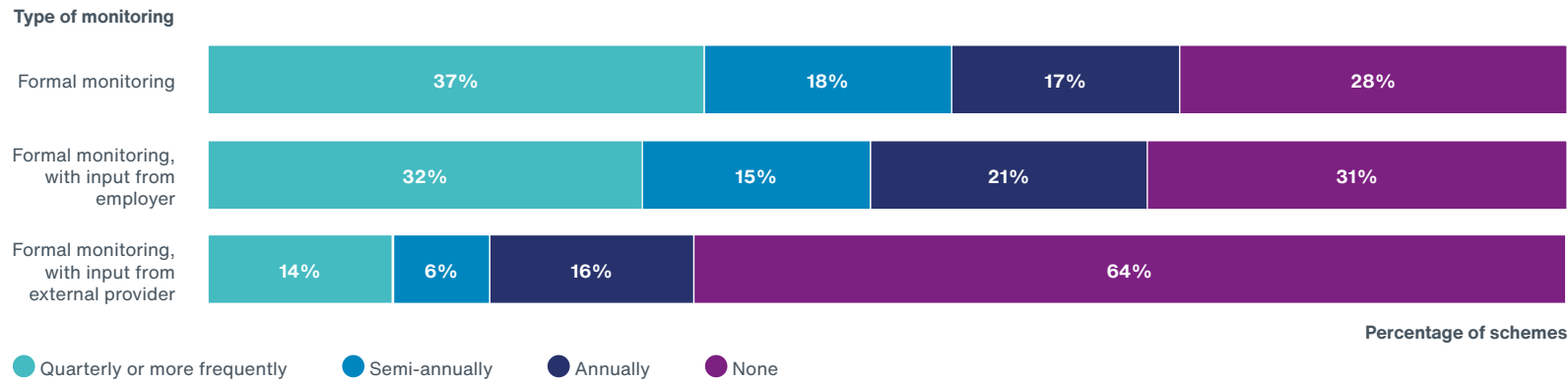
The Regulator’s Code of Practice and guidance on Integrated Risk Management recognise that risk management should be an ongoing process, as material changes can occur between valuations. It encourages trustees to have a monitoring framework in place to identify quickly any changes in the scheme environment and the balance of risks. The Regulator has suggested that contingency plans should be agreed with the employer and, where possible, include legally enforceable rights of recourse.

Most schemes choose to receive regular updates on their funding position, over and above the statutory annual minimum. Funding updates are increasingly provided to trustees and employers automatically via the web. Our Risk Analyzer monitoring tool (from which Chart 2.5.1 above has been taken) allows the funding position of the scheme to be assessed at any time. It offers information to measure the risks being run in the scheme as well as the option to consider ‘what if’ scenarios, interactively change valuation assumptions and model recovery plans.

The Regulator has suggested that schemes should consider undertaking regular and focused monitoring of investment, funding and covenant risks. In its 2022 Annual Funding Statement, the Regulator notes that, given scheme funding positions and the employer covenant can change materially over a short period of time, trustees should regularly monitor actual funding positions and the employer’s performance against forecasts and other thresholds.

Chart 2.5.2 shows that the majority of schemes (72%) with tranche 16 valuations formally monitor employer covenant between valuations at least annually. 69% of all schemes do so with the input of the employer and 36% with the input of an external provider.

**Chart 2.5.2 Frequency of formal monitoring of covenant between valuations - tranche 16**

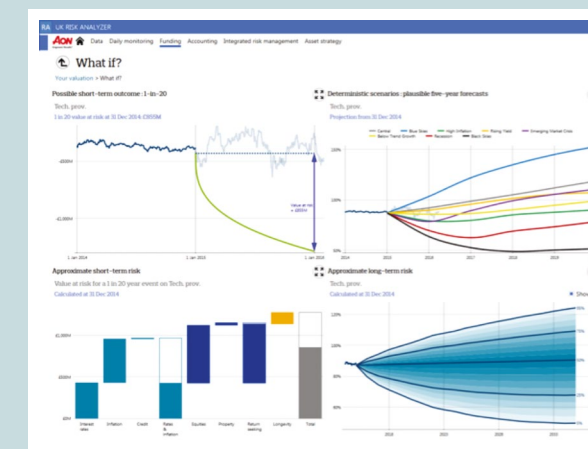


# Risk Analyzer

Valuations, updates and analysis consistent with scheme actuarial and investment advice. Risk Analyzer is the system we use to advise you, delivered to you!

Key features:

- Available on desktops, laptops, tablets and smartphones via a user-friendly secure website or mobile app
- Daily tracking of asset, liability and funding level on multiple measures (e.g. funding, accounting, buy-out) across multiple schemes
- Negotiate and agree your valuation basis, deficit contributions and interactively model your recovery plan quickly and efficiently
- Model “what if?” projections to see the impact of potential market environments and risks
- ViewPoints framework supports trustees in meeting Integrated Risk Management requirements – joined up analysis of covenant, investment and funding issues
- Build your scheme’s long-term strategy and model the impact of member option and settlement exercises
- Analyse your DC scheme – define scheme objectives considering the views of different stakeholders



Supporting over 900 schemes with £1 trillion of assets around the world.

Embedded in everything we do, Risk Analyzer is the software foundation of how Aon consults with all our clients. Whether it's the in-house calculations done by our consultants or funding updates delivered to you over the web, you can be assured of absolute consistency of advice.

For more information or a demo of Risk Analyzer please call your usual Aon consultant or email us at [risk.analyzer@aon.com](mailto:risk.analyzer@aon.com).

Watch the Risk Analyzer video and see what the tool can do for you at <https://riskanalyzer.aon.com>.



# 3

## The recovery plan

The recovery period, contingent security and the assumptions



# 3 3.1 The recovery period

Where a scheme is under-funded, the trustees must prepare a recovery plan, setting out the steps to be taken to make up the shortfall – and over what period. A recovery plan was required for 54% of tranche 16 valuations.

The Regulator’s Funding Policy sets out its approach to assessing valuations. A suite of risk indicators is taken into account. This includes a ‘Funding Risk Indicator’ – a benchmark for assessing the appropriateness of planned contributions – which also takes into account employer covenant, along the lines presented in this document (strong, tending to strong, tending to weak and weak).

The recovery period is an important element of most valuations where the scheme is found to be in deficit, and is often the subject of detailed consideration by, and negotiation between, trustees and employers.

The average recovery period for tranche 16 valuations in deficit was 6.1 years, which is higher than that for tranche 15 valuations (5.2 years). The figure for tranche 15 masked significant differences between the funding positions of schemes at valuation dates before and after the onset of the Covid-19 pandemic.

The average tranche 16 recovery period was only 1.2 years shorter than that for tranche 13, when many tranche 16 schemes’ previous valuations were undertaken. The percentage of schemes requiring a recovery plan fell from 68% to 54%.

Chart 3.1.1 shows how the average recovery periods have changed since the introduction of the current funding regime and how those of our clients compare with the average recovery periods in the Pensions Regulator’s analysis.

Average recovery periods have generally reduced since the ‘financial crisis’ of 2008.



**For schemes in deficit, the average recovery period, of 6.1 years, was 1.2 years shorter than three years ago, when many schemes’ previous valuations were undertaken; the percentage of schemes requiring a recovery plan fell from 68% to 54%**

**Chart 3.1.1 Average length of recovery period, by tranche**

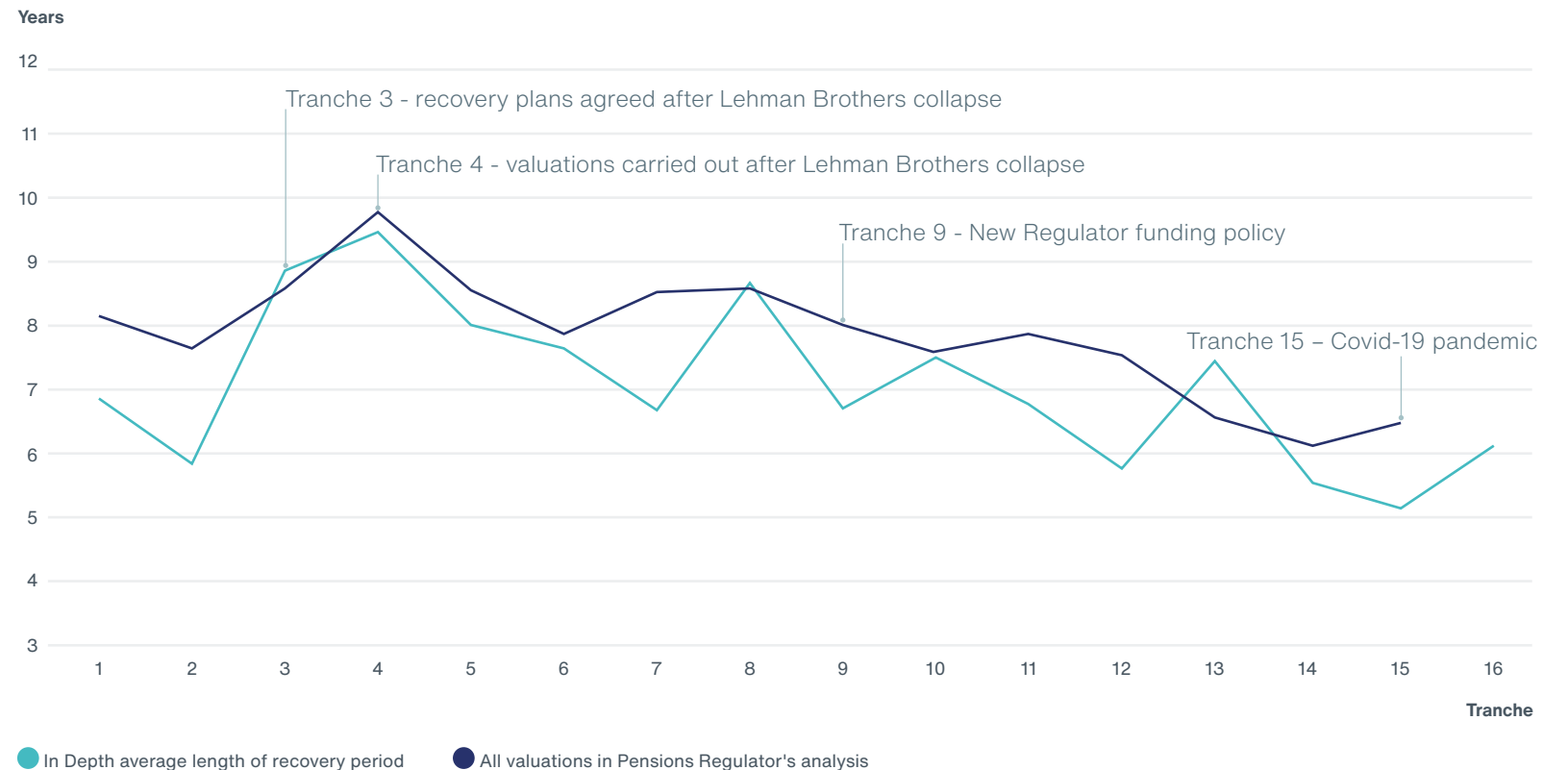


Chart 3.1.2 illustrates the distribution of the lengths of recovery periods for tranches 14 to 16.

**Chart 3.1.2 Length of recovery period - tranches 14 to 16**

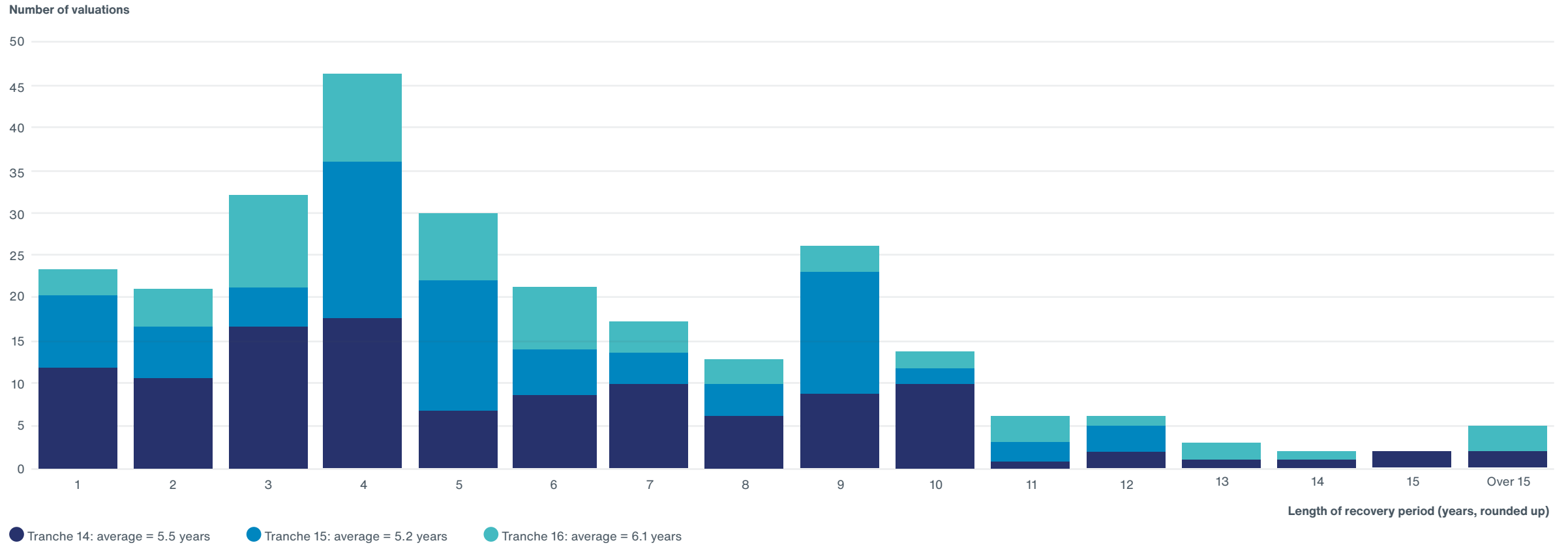
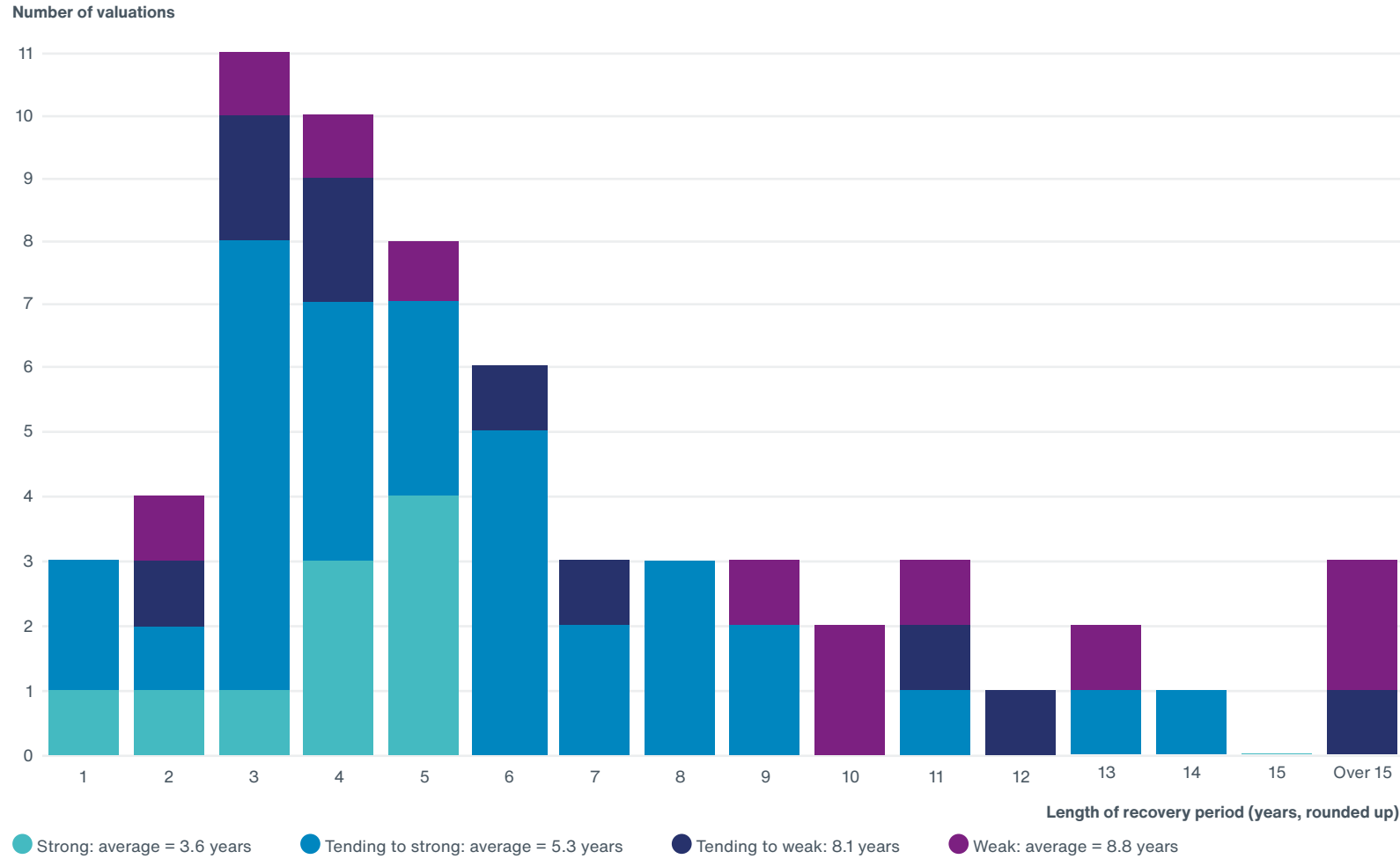


Chart 3.1.3 Length of recovery period, by employer covenant - tranche 16



The recovery periods for tranche 16 valuations only are set out in Chart 3.1.3, which also shows how the recovery period varied by the trustees' assessment of the employer covenant.

For tranche 16 valuations, where the trustees believed that the employer covenant was 'weak' or 'tending to weak', the average recovery period was 8.5 years; where it was 'strong' or 'tending to strong', the average was 4.9 years – a difference of 3.6 years. This is a significant but smaller difference than that for tranche 13, when many tranche 16 schemes' previous valuations were undertaken, for which the averages were 10.7 years and 6.0 years respectively – a difference of 4.7 years.

Where trustees do not consider the employer covenant to be 'strong', we might expect more prudent assumptions to be agreed, thereby increasing the technical provisions. However, the trustees might also accept that the deficit will be paid off over a longer period because the employer cannot afford to pay it off more quickly.

Affordability was considered a constraint on deficit reduction contributions (DRCs) for 49% of schemes in deficit in tranche 16; for tranche 15, it was 58%. In addition, for 5% of tranche 16 valuations, the scheme contributions agreed with the employer were lower than they would otherwise have been in order to allow for the employer's plans for sustainable growth; for tranche 15, it was 12%.

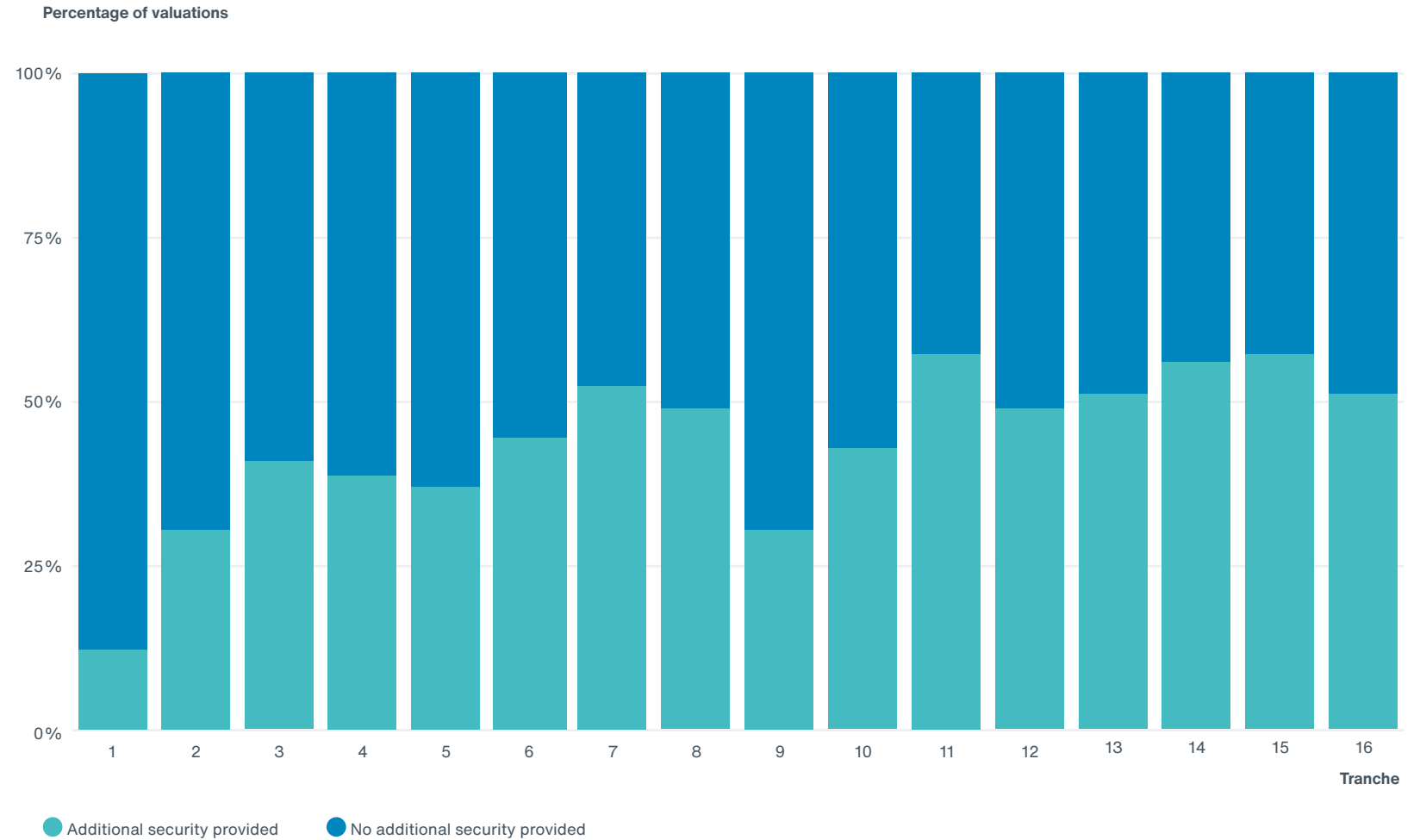
# 3 3.2 Contingent security

The Regulator’s Code of Practice recognises that trustees may seek alternative forms of security from the employer to protect the scheme in the event of the employer becoming insolvent before the deficit is fully paid off. It states that the trustees should consider the value, terms and enforceability of any contingent security when formulating a recovery plan. The Regulator has also highlighted the use of alternative financing to manage the risk of ‘trapped surplus’ or otherwise provide security as part of the long-term funding target strategy.

Contingent security options include complex arrangements such as special purpose vehicles (SPVs) and charges over assets, through to simpler arrangements such as surety bonds, parent company guarantees and escrow-style structures.

For tranche 16, 51% of under-funded schemes had put in place additional security. Chart 3.2.1 shows that the use of such arrangements is a long-standing feature of the funding regime.

**Chart 3.2.1 Additional security provided to schemes with recovery plans - by tranche**

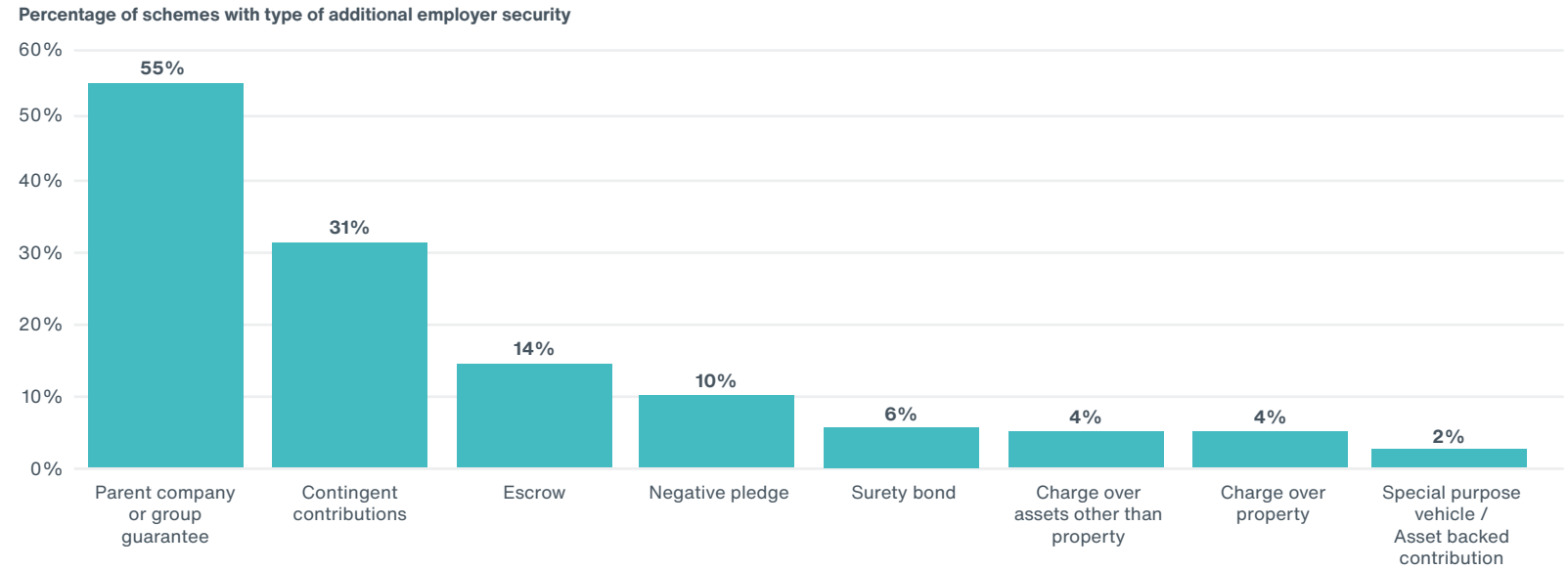


Contingent security was also used by one half of schemes in surplus, for tranche 16. As more schemes have moved into surplus, for some, the focus has turned to the potential for trapped surplus; non-cash security may mitigate the risk of over-funding as schemes get better funded and progress towards their long-term funding target.

The use of these arrangements is more prevalent among the largest schemes although a substantial proportion of smaller schemes in tranche 16 also obtained additional security. 62% of schemes with technical provisions of over £100m and 28% of schemes with technical provisions of under £100m had additional security in place.

Chart 3.2.2 shows that, where additional employer security was provided, for most schemes this was a parent company or group guarantee.

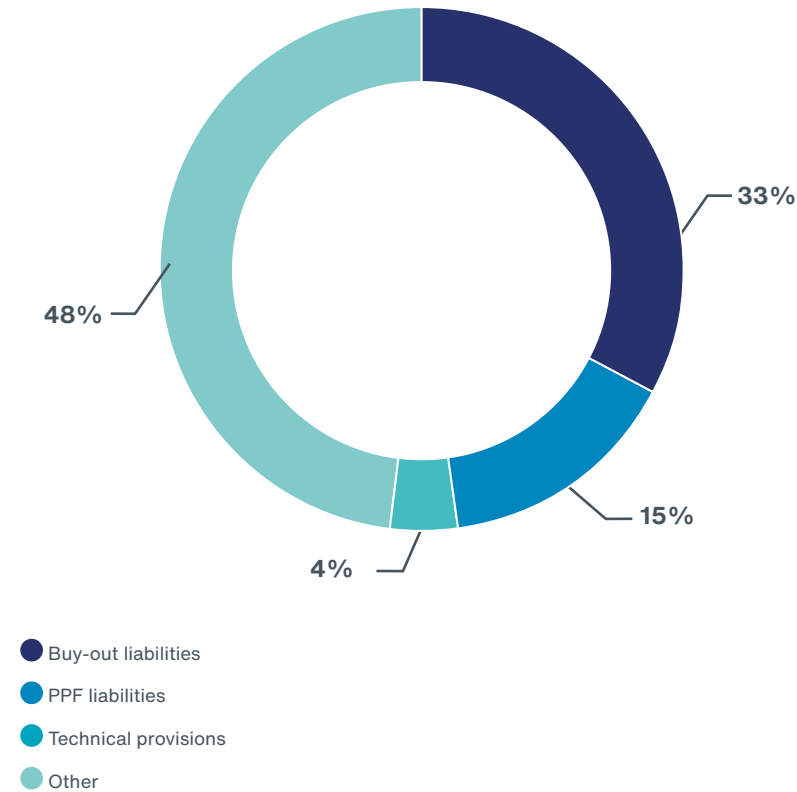
**Chart 3.2.2 Types of additional employer security provided to schemes - tranche 16**



Contingent contributions included payments dependent on investment performance, profits/cash flow, dividends, the funding level, disposal of a business and the outcome of a pension increase exchange exercise.

A parent or group guarantee can vary with regard to the measure of liabilities that is guaranteed. Chart 3.2.3 indicates that the most common type related to buy-out liabilities.

**Chart 3.2.3 Types of parent company or group guarantee - tranche 16**



Putting in place specified contingent assets can reduce a scheme's PPF levy, if they are certified annually. These include a Type A contingent asset – a guarantee from another group company. In tranche 16, 10% of schemes had such a PPF-compliant Type A contingent asset.

For tranche 16, the primary reasons for the provision of additional security included: to add security in relation to the covenant (65% of schemes), to address the risk of trapped surplus (10%), affordability considerations (8%) and the employer wanting greater investment risk to be taken by the scheme (5%).

# 3 3.3 The assumptions

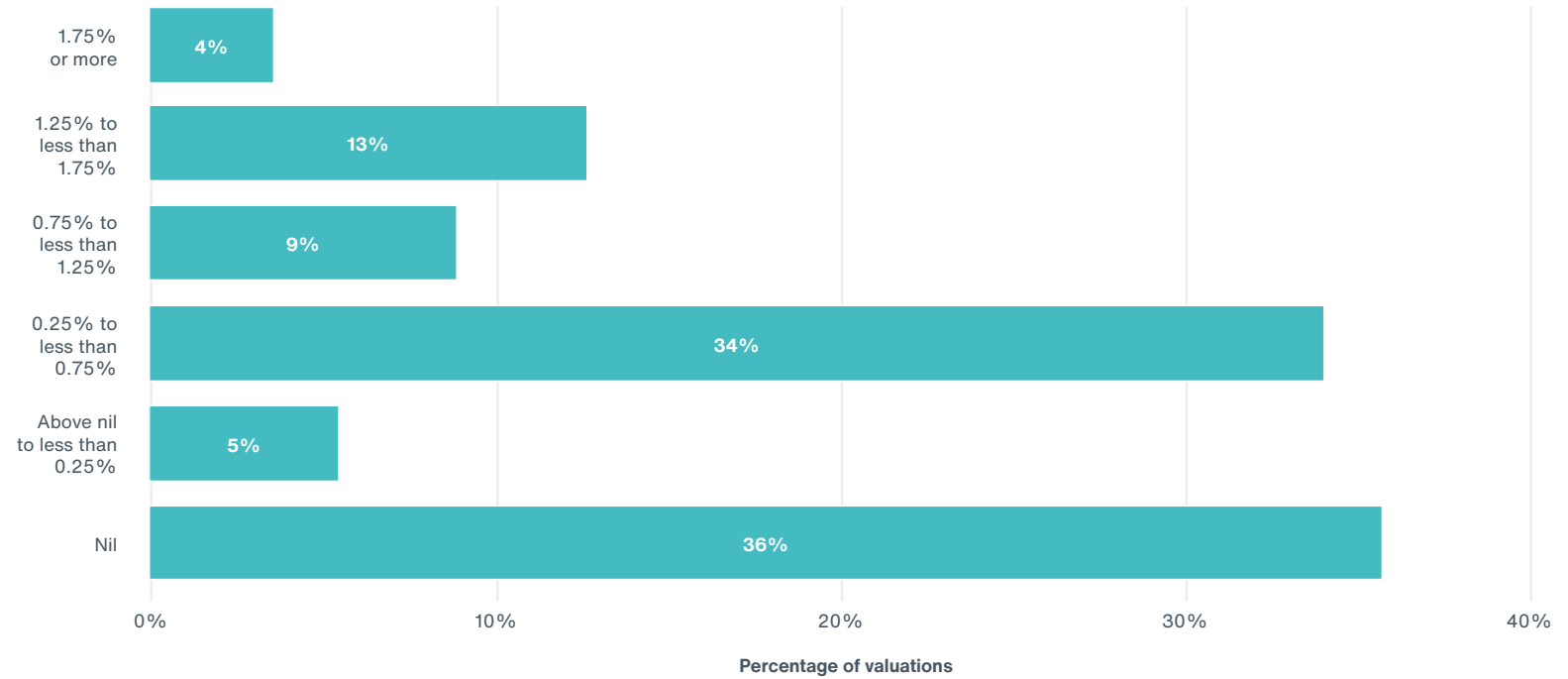
When formulating a recovery plan, trustees are permitted to adopt an expected return on assets that differs from the discount rate (or rates) used for technical provisions, which the legislation requires to be 'chosen prudently'. The trustees may determine that it is appropriate to allow for most or all of the investment outperformance over gilts expected during the recovery period.

An element of additional return in excess of the discount rate was allowed for in the recovery plans of 65% of tranche 16 valuations, and the average expected return in excess of the discount rate for schemes that did make such an allowance was 0.8% p.a.. In tranche 15, 57% of recovery plans allowed for an element of additional return, which was also 0.8% p.a. on average.



**An element of additional return in excess of the discount rate was allowed for in 65% of recovery plans**

**Chart 3.3.1 Allowance over discount rate for investment returns in recovery plan - tranche 16**





# 4

## Looking ahead

Looking ahead to 2022 valuations,  
and beyond



# 4

## Looking ahead

For valuations in tranche 17, funding positions have generally improved further since valuation dates of the tranche 16 valuations analysed above.

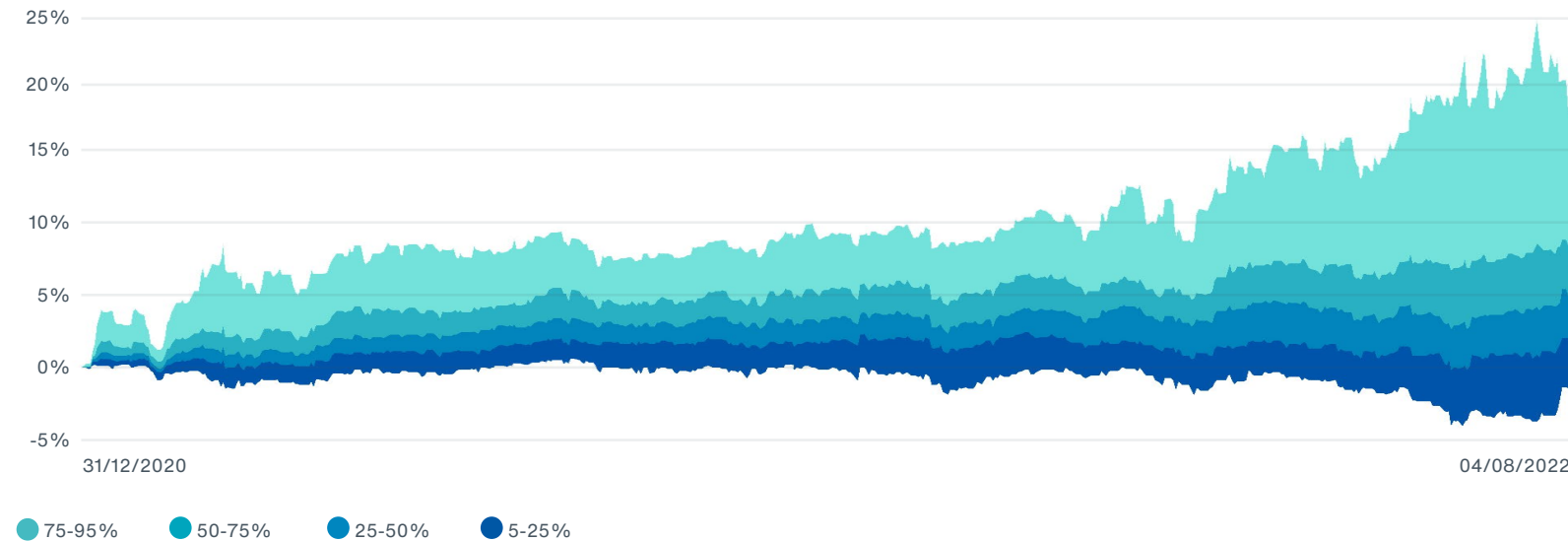
Chart 4.1 shows the changes to funding levels over the year to a tranche 17 valuation date, based on a range of clients using our Risk Analyzer software, after allowing for deficit contributions. The chart shows a general improvement in the funding positions of schemes, with the upper quartile performing particularly well over the last few months, as gilt yields have risen. However, schemes in the lower quartile may have experienced a deterioration in their funding positions.



Since the dates of these valuations, average funding levels generally improved further

Chart 4.1 Risk Analyzer - funding level divergence by quartile, 31 December 2020 to 4 August 2022

**AON** | Risk Analyzer



In March 2020, the Pensions Regulator published the first of two planned consultations on its proposals for a revised Code of Practice on scheme funding, including the following key components:

- A twin-track compliance framework, requiring schemes to opt for a Fast Track or Bespoke approach, with the former being tightly defined and the latter having greater flexibility; and
- A series of tests under the Fast Track approach, covering key aspects of funding and investment.

The Regulator intends to issue its second consultation towards the end of 2022 and expects the revised Code to be operational from September 2023, although it notes that timings remain subject to change.

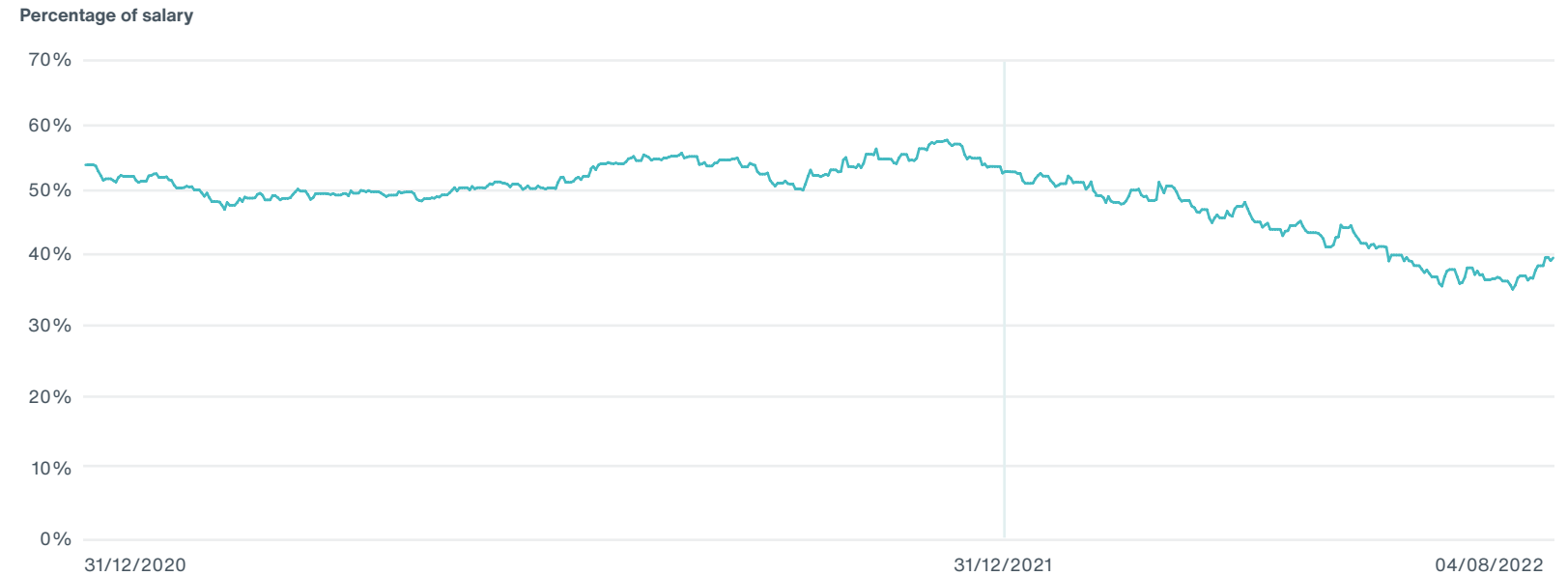
The Pension Schemes Act 2021 will require schemes to set a strategy for ensuring that benefits can be provided over the long term and the DWP is currently consulting on supporting regulations. A key principle is that schemes must be in a state of low dependency on the sponsoring employer by the time they are 'significantly mature'. Schemes that are no longer open to future accrual will be advancing towards this threshold.

Of the tranche 16 schemes analysed for this In Depth, 31% remained open to future accrual. Future service costs have reduced, over recent months, reflecting the increase in gilt yields. Chart 4.2 shows the average future service cost over a range of clients using Risk Analyzer.

Where benefit review exercises are undertaken, perhaps triggered by consideration of future service costs, the Pension Schemes Act 2021 introduces a new option from 1 August 2022 – a Collective Defined Contribution (CDC) scheme design.

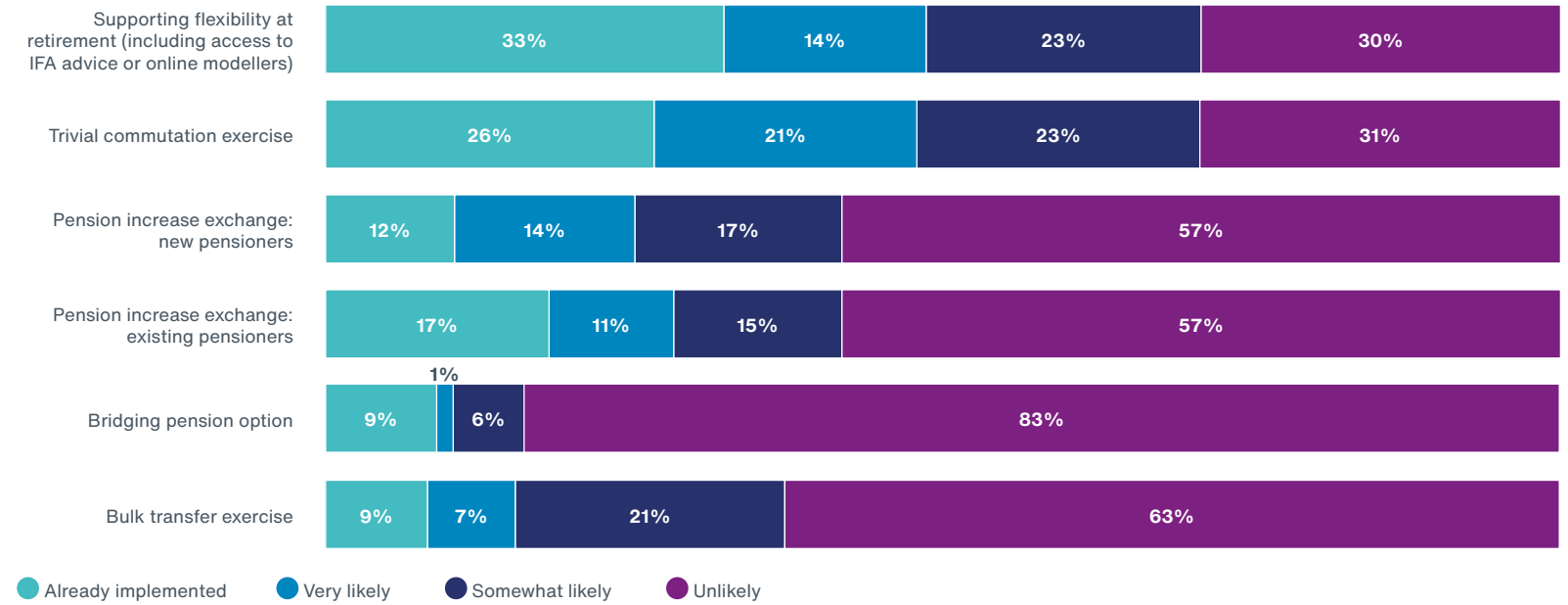
**Chart 4.2 Risk Analyzer - future service cost, 31 December 2020 to 4 August 2022**

**AON** | Risk Analyzer



Aon's Global Pension Risk Survey shows some of the actions that schemes and sponsors have taken, or are considering, to reduce the cost of provision (Chart 4.3). Liability management exercises, such as bulk transfer value and pension increase exchange exercises, can offer an immediate funding gain due to the conversion terms, reduce the overall risk, or simply reduce the overall size of the scheme because members transfer out.

**Chart 4.3 Global Pensions Risk Survey 2021/2022 - liability management**



# Helping members make more informed decisions

## Aon PIE Modeller

An increasing number of Defined Benefit (DB) pension schemes are carrying out bulk Pension Increase Exchange (“PIE”) exercises. Members value the choice these exercises provide around how they can receive their benefits.

For schemes and sponsors, PIE exercises typically speed up the journey to long-term targets and can also be run in combination with GMP conversion to provide member choice and support as part of GMP equalisation. We also see a continuing trend of schemes choosing to provide additional support for members in the form of online modellers.

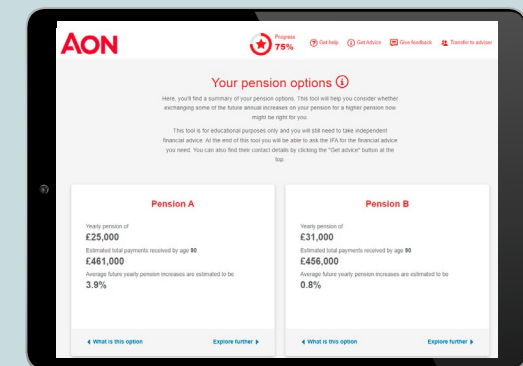
In 2022 we launched the **Aon PIE Modeller** to help pensioner members receiving PIE options understand their choices. This market-leading, web-based tool is designed to ensure members make informed decisions. It provides a simple side-by-side comparison of pension options using pre-loaded, member-specific data.

Members can explore an interactive graph of their projected pension income, with the ability to change the key assumptions to better understand how their income might change in the future. After using the tool, members are presented with clear next steps and the option to request a call back from the scheme’s preferred IFA.

## Key features

- Consumer-grade member experience, consistent with evolving member expectations
- Personalised, interactive chart of projected income
- Ability to change inflation and life expectancy assumptions
- Integrated IFA call back function and option to share access with IFA
- Flexible wording with options to add client branding and educational videos
- Captures member feedback

To understand how the Aon PIE modeller could help your members and receive a demo of the tool, please call your usual Aon consultant or email us at [memberoptions@aon.com](mailto:memberoptions@aon.com).



On 27 April 2022, the Regulator published its Annual Funding Statement, aimed primarily at schemes with tranche 17 valuations – i.e. with valuation dates between 22 September 2021 and 21 September 2022. It notes that trustees will be approaching these valuations against an economic background of high inflation, high energy prices, higher interest rates and slower economic growth – all of which may impact on their pension scheme and employer covenant.

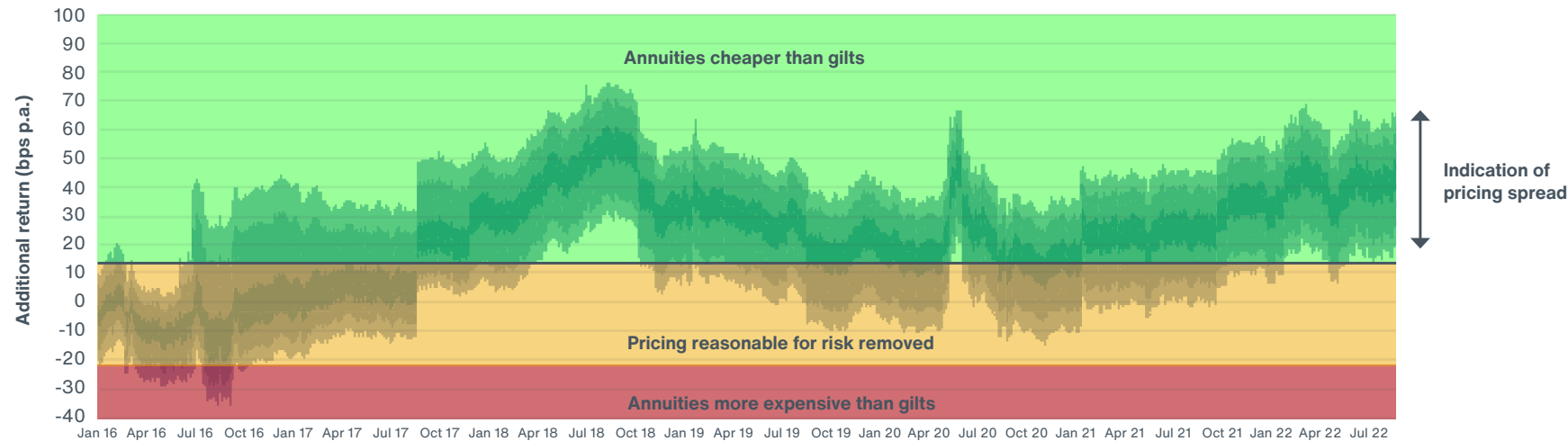
The Regulator continues to emphasise the importance of integrated monitoring, and for trustees to be alert to shareholder distributions and other value leakage to ensure fair treatment for the scheme, as well as being alert to any corporate activity and seeking mitigation where appropriate.

While favourable investment conditions over the last three years mean that many schemes are ahead of plan, the Regulator notes that there is a wider dispersion of outcomes than usual. Where schemes have achieved full funding, or are expecting to do so soon, the Regulator expects trustees to ensure that their journey plan towards their long-term funding target remains appropriate. Trustees should remain alert to their scheme’s funding position and covenant changing very quickly – especially in the current environment.

For many schemes the long-term target is buy-out. Buy-out affordability has typically improved over 2019 to 2022, partly reflecting available annuity market capacity and increased competition for onwards longevity reinsurance for annuity

providers. As Chart 4.4 shows, pricing has been stable relative to a gilt measure in 2022 despite the significant economic challenges this year. The rise in yields has reduced pension liability values in absolute terms and effectively means annuity providers need to write business for more members relative to 2020 and 2021 to produce the same business volume. This is expected to maintain competitive pressure for the rest of the year, although the heavy demand from schemes for buy-out quotations is making insurer staffing capacity a likely limiting factor on market volume.

**Chart 4.4 Aon's Bulk Annuity Market Monitor - pensioners: typical range of best prices relative to gilts**



The recent rise in long-term yields has helped buy-out affordability, by reducing scheme deficits relative to buy-out cost. If it is not reversed, we expect particularly strong demand for buy-outs over 2023. We already expect a substantial number of £1billion+ transactions to occur in 2023, which may test market capacity with regard to asset sourcing. This may be the main determinant of whether pricing remains at current attractive levels through 2023.

An ongoing review of the UK insurance solvency regime may ease some aspects of reserving, which would be supportive of favourable pricing; the outcome of this review is expected by 2023. We currently expect that this will not produce a dramatic impact on pricing, but it may (over a longer period) encourage annuity providers to retain more longevity risk than they currently do, and a lower dependency on reinsurance is positive for insurer resourcing to support smaller buy-out deals in the years to come.

The market for consolidation vehicles ('superfunds') remains poised to offer a less expensive option, for schemes where buy-out is not a realistic prospect in the foreseeable future. The first such vehicle to meet the Pension Regulator's standards of governance and administration, Clara Pensions, was named by the Regulator in November 2021.

Trustees and employers are considering the full spectrum of endgames in order to assess which will deliver the best outcomes for pension scheme members and sponsors. This includes considering increasingly popular options such as running a scheme on beyond buy-out funding, using DB surplus to fund ongoing DC contributions, capital-backed solutions, and insurance company buy-ins or buy-outs reinsured back to the sponsor's captive.



# Pension Endgame: Better Decisions

Choosing options for a pension scheme endgame can seem daunting. Pension risk settlement is continually evolving through innovation and increased efficiency, making it a challenge to identify an optimal settlement journey.

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## About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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