The emergence of superfunds

Does this change your Defined Benefit end-game strategy?

The last couple of years have seen a number of new options come to the fore to remove Defined Benefit (DB) pension risk in addition to a traditional full scheme buyout. In particular, the emergence of superfunds enables employers to fully or partially discharge DB risk at a price much lower than traditional buyout.

In the right circumstance, superfund pricing can be 10% to 15% lower than buyout, which for some schemes can mean benefits can be secured and risk removed for no additional cash, and for others a much lower premium would be required.

We've also seen the development of capital-backed investment solutions which deliver similar benefits for schemes where superfunds might not be right.

What are superfunds?

Superfunds are a type of pension scheme set up specifically to accept bulk transfers of assets and liabilities from other pension schemes, with added security provided by a substantial capital injection from the superfund provider.

There are two superfunds in the market – Clara and the Pension SuperFund. Both are 'off-balance sheet' solutions; enabling a clean break from the sponsor:

1 Clara

Each scheme entering Clara is ring-fenced in its own section of the Clara scheme. Clara operates as a 'bridge to buyout', typically holding scheme assets and liabilities for 5 to 10 years before eventually securing the liabilities with an insurer.

2 The Pension SuperFund

Each scheme entering the Pension SuperFund is pooled with other schemes. The Pension SuperFund operates as a 'run-off vehicle', running the scheme on until all benefits are paid.

Is a superfund right for my scheme?

The Pensions Regulator's 'Gateway test' is clear that a scheme should only consider a transfer to a superfund if:

- **It can't afford to buyout now**
- **It can't afford to buyout in the foreseeable future (around 3–5 years)**
- **The transfer improves the security of member's benefits**

You can assess your own situation with our handy checklist here.

More about capital-backed investment solutions

There have been other exciting developments for pension scheme financing, with the introduction of capital-backed investment solutions. These operate in a similar way to superfunds, but are ‘on-balance sheet’; the link to the sponsor is retained and the assets and liabilities remain with the scheme.

Here, the provider manages the scheme towards a pre-agreed target and provides substantial covenant-enhancing capital to sit alongside the scheme and protect against risks along the way.

What could this mean for my end-game?

The emergence of superfunds and capital-backed investment solutions could not have arrived at a better time for many schemes. The Pensions Regulator’s updated funding regime and the Pension Schemes Act 2021 will require sponsors and trustees to agree and document a written ‘statement of strategy’ relating to the scheme’s long-term funding and investment objectives.

Where schemes are considering a traditional buyout route, then the enhanced covenant provided by a capital-backed investment provider could be welcome.

And for schemes where a traditional buyout is deemed too expensive, having superfunds as an alternative exit route could be game-changing, with superfunds providing a more realistic and affordable option.

Want to find out more?

At Aon, we are working with a number of schemes who are exploring all of these options, including those likely to be among the first to transfer to a superfund in 2021. This includes working closely with the various providers and The Pensions Regulator.

Our experts are happy to provide initial background on the various options and help you explore whether these would be appropriate for you.

We're here to empower results

To find out more, please speak with your usual Aon consultant or contact one of our experts directly using the information below.

John Baines
Partner
0121 262 6944
john.baines@aon.com

Andrew Grime
Associate Partner
0113 291 5078
andrew.grime@aon.com

Karen Gainsford
Associate Partner
020 7086 9071
karen.gainsford@aon.com

Geraint Jones
Consultant
0121 335 3711
geraint.jones@aon.com

Colin Cartwright
Partner
020 7086 9044
colin.cartwright@aon.com

About Aon

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