August 2025

XPS Express

Pensions news for employers

Why employers should consider using superfunds to secure DB benefits

This edition of XPS Express explores **how the Defined Benefit (DB) superfund market has evolved over the past 12 months, and why employers should consider DB superfunds as an alternative endgame option for their scheme.**

At a glance

The last year has seen significant developments in the DB superfund market which makes it a viable alternative way of securing member benefits compared to other endgame options.

Like insurance, a superfund transaction will result in the DB scheme being transferred to a third party, but at a lower cost.

There are restrictions around which schemes are eligible, but a superfund transaction will result in greater security for members of schemes that are eligible and help employers manage future cashflow requirements.

The two recent Clara Pensions superfund transactions, which were with ongoing employers, demonstrate that superfunds are a viable alternative option for all sponsors, not just for schemes with weak/insolvent entities.

The UK Government has expressed their support for this growing market stating "we will ensure this market thrives in its potential", with the Pension Schemes Bill setting out proposed legislation that will help underpin this aim.

What do superfunds offer?

Benefits of superfunds	
✓	Secure benefits with capital backing without needing an insurer transaction
✓	Cheaper than securing benefits with an insurer (typically 90-95% of the cost of insurance)
✓	Cost of future data projects already priced in (e.g. GMP equalisation)

Drawbacks of superfunds	
X	Need to meet 'onboarding conditions'
X	Lack of choice (Clara Pensions is the only provider), however new entrants expected in the near future
X	Weaker security compared to securing benefits with an insurer because capital requirements are lower for superfunds

Suitability for a transaction

The Pension Schemes Bill proposes simplified 'onboarding conditions' (suitability criteria) for a superfund transaction replacing the current 'gateway criteria':

1 Inability to afford insurance

The financial position of the scheme is not strong enough to secure benefits with an insurer.

2 Improved likelihood of full benefits

A superfund transaction must increase the likelihood of member benefits being received in full compared to if they were to remain in the scheme.

Actions employers should take

1. **Review current endgame options** to ensure that a superfund transaction is considered alongside securing benefits with an insurer or continuing to run the scheme on.
2. **Carry out feasibility analysis** to assess whether the scheme meets suitability criteria and ensure that superfund transaction aligns with business objectives (e.g. cost, cashflow needs and accounting impact).
3. **If a superfund might be appropriate,** carry out due diligence on both the provider and the terms being offered to prepare for a potential transaction.

Are superfunds appropriate for your scheme?

Clara Pensions is the only superfund provider at present. Their operating model has the long-term aim of insuring the benefits of its membership over 7-10 years after transaction. They have now transacted with four pension schemes and currently have a membership of more than 22,000, managing assets of more than £1.4bn.

The first two transactions were undertaken where sponsoring employers had a weak covenant, but the two most recent transactions buck this trend. Clara Pensions also previously stated they would only take on schemes with more than £50m of assets. The most recent transaction with the Church Missionary Society (CMS) was on the border of this threshold.



Indicators that a superfund transaction could be beneficial

1. Majority deferred population	2. Employer with accounting sensitivities	3. Immediate transfer of governance
Pricing for deferred members will be more favourable than for insurers.	If insurance transactions need to go through the P&L, then a superfund transaction would give a lower impact.	Governance of the scheme immediately transfers to the provider, reducing future ongoing costs.

Future superfunds could adopt different operating models

A future superfund could use a range of different models, which could offer greater choice and flexibility. For example:

Superfund runs on
Continue to fund benefits indefinitely, extracting surplus on an ongoing basis

Hybrid models
e.g. offload some sections to insurers, whilst running on with less mature sections

Bridge to insurance (Clara model)
Provider aims to secure benefits with an insurer over 7 to 10 years. Profits taken at end

Superfunds may also be able to offer incentives through sharing of upside risk for:

1. **Members** through the distribution of discretionary benefits.
2. **Employers** through share value initiatives (where employers essentially become investors in the superfund).

Find out more

For further information, please get in touch with Patrick Lloyd, Charlotte Yuen or Dan Auton, or speak to your usual XPS Group contact.



Patrick Lloyd
Head of Alternative Risk Transfer
e patrick.lloyd@xpsgroup.com



Charlotte Yuen
Senior Consultant
e charlotte.yuen@xpsgroup.com



Dan Auton
Head of Corporate Solutions
e dan.auton@xpsgroup.com

© XPS Group. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. Penfida Limited Registered No. 8020393. Polaris Actuaries and Consultants Ltd, Registered No. 9640309. All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.