

Setting a surplus policy

New legislation and guidance from April 2027 will make it easier for defined benefit pension schemes to use surplus for the benefit of members and employers. To do this, schemes will need a clear policy on the use of surplus. This is emphasised in the statement from The Pensions Regulator published on 10 June 2026, which said:

“To prepare for discussions, we recommend that trustees check whether they have a surplus policy and, if they don’t, consider putting one in place.... Trustees should document discussions and considerations around surplus release to demonstrate the decision-making process and rationale, in case of any future challenge by the sponsoring employer or scheme members.”

There are several key components of a surplus policy:

- Defining the **threshold for releasing surplus**, including the funding measure, buffers and pace of release
- Having a defined and documented **surplus sharing agreement**
- **Agreeing any member benefit and/or member support** options available to the trustees
- Agreeing the **certification, notification and payment process**
- **Operating a surplus payment account** (if relevant for smoothing payments and facilitating efficiencies for the surplus release process)
- **Managing key risks**, including relevant covenant checks prior to payment of surplus

We have created a checklist on page 2 to **help trustees identify actions needed to prepare for discussions and documentation of a surplus policy**, and to **help employers identify the areas which are likely to be of focus for trustees** in agreeing a surplus policy under the new regime.



Checklist for setting a surplus policy

Key questions to address	Actions to explore / consider
☐ Have you investigated the scheme's rules and past activity, in the context of being potentially relevant guides or precedents for use of surplus?	• Confirm existing surplus rules and balance of powers on wind-up • Confirm benefit augmentation powers • Confirm nature of scheme (e.g. hybrid, multi-employer etc) • Review historic sources of surplus and uses of surplus • Review past benefit discretionary practices • Review member expectations or actions (e.g. pensioner interest groups)
☐ Have you set a comprehensive funding and investment strategy?	• Review all strategy options having regard to the full suite of options referred to in TPR's June 2025 endgame guidance (e.g. run on, insurance, superfund etc) • Document the intended plan for providing benefits over the long term, in line with new funding and investment strategy regulation requirements • Ensure current funding and investment strategy is aligned with the agreed objective and timeframe
☐ Have you set a comprehensive buffer, triggers and orderly wind down plan?	• Set a risk protection strategy, including covenant protections, funding buffers and investment guardrails • Set management action triggers and actions at each stage (e.g. funding or covenant breaching agreed metrics) • Set orderly exit plan to buyout or superfund if required • Ensure all risk frameworks are based on a firm foundation (e.g. benefit audit and benefit specification)
☐ Have you negotiated sharing of surplus between the employer and members?	• Engage with other key stakeholders to agree a sharing strategy in the context of overall funding and investment strategy • Reflect key legal and past practices • Understand relative roles and powers around surplus and benefits
☐ Have you looked at ways members could benefit from surplus?	• Consider full spectrum of potential member benefits from surplus - e.g. pension increases, lump sums, enhanced discretionary terms and enhanced member support • Look at 'utility' value to members versus cost and risk • Consider communications strategy to maximise the benefit of any member surplus sharing

Find out more

If you would like to discuss the above, please reach out to **Tom Froggett**, **Sarah Vanhouse** or your usual XPS contact.



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