

New TPR guidance makes DB superfunds more commercially viable

At a glance

The Pensions Regulator (TPR) updated its guidance on superfunds on 26 July 2024

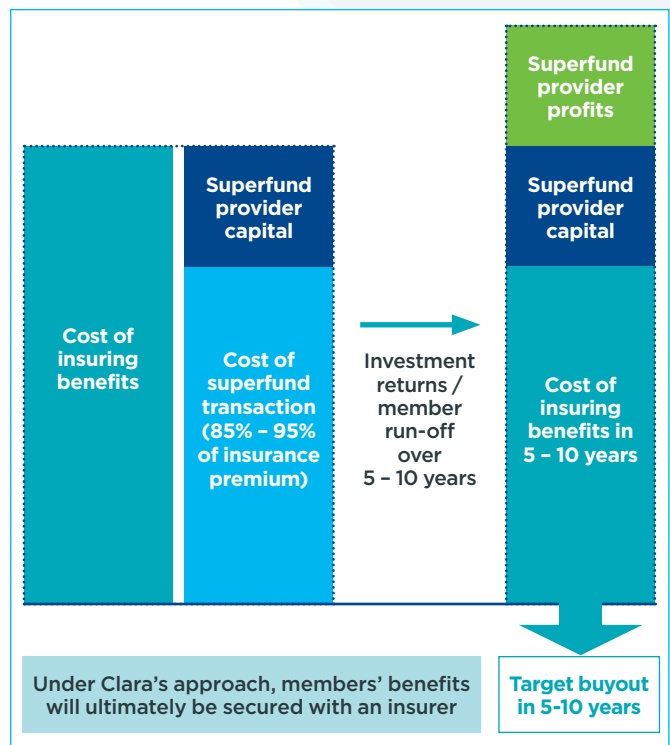
Superfunds (also known as commercial consolidators) were first established in 2020. Clara Pensions (Clara) completed TPR's assessment process in November 2021 and wrote its first two transactions in the past 12 months

TPR's updated guidance demonstrates its commitment to making superfunds a viable option, as long as it can be demonstrated that a transfer to a superfund is in the best interests of members

The level of scheme assets needed for a superfund transaction could be 85% to 95% of the premium needed to secure benefits with an insurer

For employers seeking to settle their defined benefit (DB) pension obligations, in the right circumstances superfunds provide an alternative in the context of a very busy market for pensions insurance transactions (with a record £50bn of transactions completed in 2023)

Clara's approach: Bridge to buyout



Latest TPR guidance

- Reiterates that TPR is committed to having a functioning superfund market
- Gives more clarity to superfund providers around profit extraction which should enable cheaper pricing and other types of superfund provider and models to emerge
- As a result, should mean greater choice and competition in the superfund market, which should allow future transactions at lower premiums

Actions employers can take

1. Consider the different paths available for your scheme (e.g. settlement with an insurer or a superfund, or running on) and decide which option is best for your scheme and your business.
2. If a superfund is considered attractive, consider position against TPR's gateway criteria.
3. If gateway criteria are met, engage with your trustees to make sure interests are aligned.

Key considerations for deciding whether a superfund transaction is viable

For TPR to approve a superfund transaction, it must pass the following 'gateway criteria':

- A scheme can not afford to buy out members' benefits today;
- There is no prospect of being able to buy out benefits in the near future (typically around 5 years); and
- The transaction improves the chance of members receiving their full benefit entitlements.

Benefits of a superfund	Drawbacks of a superfund
• Settles pension obligations for sponsor	• Possibly less secure than a traditional insurance transaction
• Superfund capital structure may provide additional security for the scheme versus current position	• TPR's gateway criteria limit transactions to schemes in specific circumstances
• Expected to improve member outcomes (potentially including sharing profits with members)	• Members lose their link to existing sponsor (e.g. augmentation power)
• Clearer route to buyout (with the Clara model)	• Current trustees lose their powers (e.g. to provide discretionary benefits, choice of insurer in future)

Overview of the superfund market

Clara is currently the only provider with approval from TPR to provide superfund transactions. Clara has now completed two transactions: the **£600m Sears Retail Pension Scheme** in November 2023, and the similarly sized **Debenhams Retirement Scheme** in March 2024.

Clara's intention is to secure further transactions in the coming years (including a couple more in 2024), with plans to write around £5bn of transactions in 2025.

Case study: Sears Retail Pension Scheme

Background:

- Sears went into insolvency.
- The scheme was not sufficiently well funded to buy out benefits in full.
- Trustees therefore had to consider either PPF or insuring less than full benefits.

How did the transaction work:

- Clara became the sponsor of the scheme.
- This involved a new sponsor and Clara's own (independent) trustees.
- This has come with a £30m capital injection to immediately improve member security.
- Clara will look to run the scheme on for several years, with the intention that positive investment returns and the scheme getting more mature over time will allow full benefits to be secured with an insurance company.

Find out more

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