XPS Pensions Group

Checklist
DB superfunds

Is a superfund right for your scheme?

The feasibility of a superfund transaction will depend on whether The Pensions Regulator's (TPR's) gateway criteria can be met, and also whether the transaction makes economic sense to both the Scheme and a superfund. The gateway criteria are described in more detail in TPR's 'DB Superfund guidance for prospective ceding trustees and employers'.

TPR's gateway criteria – schemes must be able to tick all three

- [ ] **1.** Buyout is not affordable now.
- [ ] **2.** There is no realistic prospect of buyout in the foreseeable future (e.g. 3 years).[1]
- [ ] **3.** Moving to a DB superfund improves the chances of providing full benefits (relative to staying in the scheme and negotiating more contributions/support).[1,2 and 3]

Examples:

- Corporate restructuring, with possibility of a one-off contribution, contingent on fully removing the pension scheme.
- Overseas parent that is not formally responsible for the scheme, but may make a one-off contribution, contingent on fully removing the pension scheme.
- The covenant is poor (or the employer is already insolvent) but yet there are enough assets in the scheme to pay a DB superfund premium in full.

Commercial conditions – schemes will usually need to tick all three

- [ ] **1.** The scheme and employer can afford to pay a DB superfund premium?[4,5]
- [ ] **2.** Deferred members make up a large proportion of the total liability?[4]
- [ ] **3.** Scheme assets over £50m.[6]

Notes

1. A poor sponsoring employer covenant will in general make it easier to demonstrate the second and third of TPR's gateway criteria are met.
2. Attractive DB superfund pricing could 'unlock' a corporate deal and obtain advanced scheme funding, that would not otherwise be available.
3. At present DB superfunds cannot be used to provide benefits that have been reduced for underfunding (unless by individual member consent). This limits their usefulness for Pension Protection Fund (PPF+) situations unless full benefits can be afforded.
4. A rule of thumb premium for a superfund is **110% of the liability measured on a gilts + 0.5% pa basis.** For a scheme with a significant proportion of deferred members, pricing could therefore be around 10%-15% cheaper than buyout, but for a scheme that is almost entirely pensioners in payment, superfund and insurer pricing may be very similar.
5. The DB superfund's premium could come from one or more of: scheme assets, the sponsoring company, group contributions, an M&A transaction, borrowing or transfer of company assets such as property.
6. DB superfunds are currently unwilling to engage on the very smallest schemes. At least in the shorter term, superfunds may focus on larger schemes than this to gain scale.

Assessing how attractive a superfund is for your DB scheme

Less attractive		More attractive
Smaller scheme (<£50m)	One of TPR's aims for DB superfunds was to help smaller schemes (under £50m). However, due to staffing constraints and the desire to gain economies of scale, DB superfunds are likely to focus on larger schemes.	**Larger scheme (>£50m)**
Mature scheme	DB superfunds expect to make returns by managing deferred pensioners more cheaply than an insurer. By contrast, for pensioners in payment, superfund pricing is expected to be similar to insurer pricing.	**Immature scheme**
Cash poor employer	It may be easier to demonstrate a superfund improves member security if a material cash contribution is made to facilitate the transfer. However, trustees need to determine if the scheme could have received the contribution without moving to a superfund.	**Employer with cash reserves**
Strong employer	A stronger employer which is able to underwrite risks in the scheme may be able to target buyout over time with limited upfront cash payments. It will also be easier for a weaker or distressed employer to show member security is improved in a DB superfund.	**Weaker/distressed employer**
Stable employer	Moving to a DB superfund may become more attractive during times of corporate activity. Trustees may be concerned about the impact of change on covenant and a DB superfund may offer a solution affordable to all stakeholders.	**Corporate activity**
Open to accrual	To date, DB superfunds have stated they will not take on members who are still accruing benefits. However, it may be possible to transfer non-active members to the superfund subject to ensuring security is maintained for the active members left behind.	**Closed to accrual**


XPS Insights
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Pensions Regulator completes first superfund assessment

Find out more

For further information see our XPS Insight on The Pensions Regulator completing its first superfund assessment.

Click here

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