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DB pension surpluses must be viewed as strategic assets – not simply opportunities for surplus release, says Hughes Price Walker

PRESS RELEASE

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Hughes Price Walker, a leading independent specialist provider of actuarial, consultancy, investment and administration services, today said trustees should view Defined Benefit (DB) pension surpluses as strategic assets, rather than simply opportunities for surplus release, with decisions balancing member security, employer objectives and long-term scheme resilience.

With changes to the DB surplus regime currently under consideration, including the Department for Work and Pensions' consultation on new surplus flexibilities, trustees will need to carefully consider how any surplus fits within their scheme's wider funding and endgame strategy.

Ray Hughes, Director at HPW said: "Improved funding positions are a positive development for many DB schemes, and the ability to consider surplus release creates new opportunities for schemes and sponsoring employers. However, surplus should not simply be viewed as capital available for distribution. The key question is how surplus fits within a scheme's broader funding and risk management strategy, and whether retaining, sharing or releasing it best supports the long-term interests of both the scheme and its members.

"One of the biggest challenges will be balancing the interests of different stakeholders. While employers may have an interest in benefiting from surplus, trustees must continue to act in accordance with their fiduciary duties and consider whether members should also benefits from any surplus position."

Hughes added: "Ultimately, the question is not simply whether surplus can be released, but how it fits within the wider strategy for the scheme. Different schemes will have different objectives, whether that is progressing towards buy-out, pursuing a run-on strategy or maintaining additional resilience against future uncertainty. Good governance and a clear decision-making framework will be essential to ensuring any surplus decisions are sustainable and aligned with the long-term interests of the scheme and its members."

Key considerations for trustee boards on DB pension surplus decisions include:

- reviewing scheme rules and any existing powers relating to surplus;
- assessing the sustainability of the surplus position, including under different economic scenarios;

- considering the employer covenant and the impact of any surplus release on long-term scheme resilience;
- ensuring member interests are properly considered and decisions are supported by clear evidence;
- reviewing whether the investment strategy remains aligned with the scheme's objectives; and
- engaging with actuarial, legal, covenant and investment advisers to support robust decision-making.