# Guernsey Defined Benefit Pension Schemes - Endgame Strategies

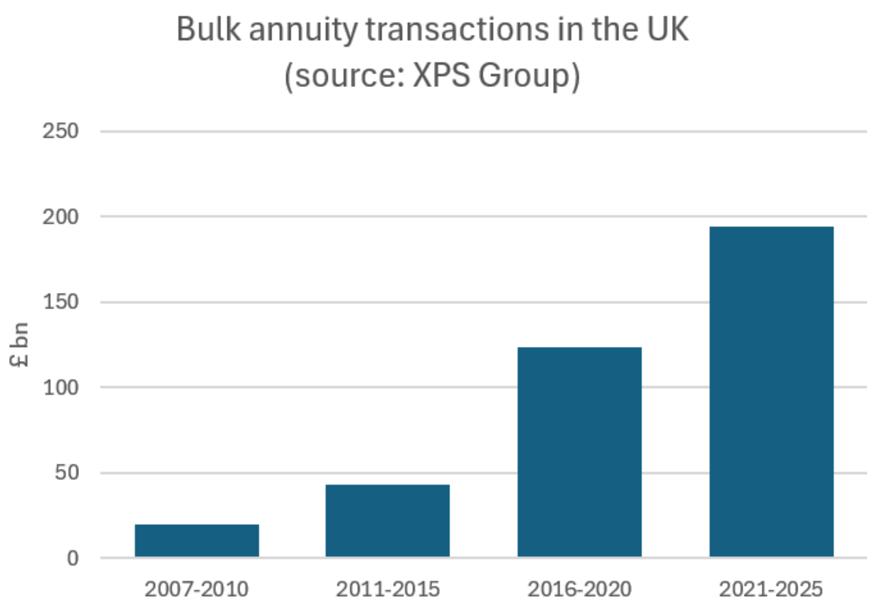
For many years, defined benefit (DB) pension schemes, both in the UK and in Guernsey, had focused on managing deficits, reducing funding risk, and navigating an environment of falling interest rates. However, the landscape has shifted materially over the past few years.

Improved funding levels, combined with changes in the insurance market, have opened up a broader range of realistic endgame options for Guernsey-based DB schemes. Trustees and sponsors are now faced not with a single objective of deficit repair, but with a broader set of strategic choices—ranging from full buy-out through to running on, with a spectrum of hybrid approaches in between.

This article considers what has changed and how Guernsey schemes are responding.

**<u>The UK Context: A Market in Transition</u>**

In the UK, DB endgame activity has accelerated significantly. Over the past decade, there has been a marked increase in bulk annuity transactions. Many schemes that were once focused solely on closing funding gaps are now able to fully insure their liabilities.




At the same time, the conversation has evolved further. With improved funding positions, industry participants are increasingly exploring how pension scheme surpluses might be used more flexibly. This includes discussions around returning surplus to sponsors, enhancing member benefits or running schemes on beyond full funding, rather than securing benefits immediately.

This shift in mindset provides useful context for considering the position in Guernsey.

**<u>What Is Different in Guernsey?</u>**

Although Guernsey shares many characteristics with the UK pensions landscape, there are important structural differences that influence endgame strategy.

- **Limited Insurer Market:** Until recently, the bulk annuity market relevant to Channel Islands schemes was very limited. In practice, only one insurer was active in writing business for Guernsey schemes, and its focus was typically on larger transactions. As a result, even schemes that reached strong funding levels often found that buy-out was not a practical or attainable option.

- **Regulatory Environment:** Guernsey's regulatory framework for pension schemes is generally less prescriptive than in the UK, providing trustees and sponsors with a greater degree of flexibility when considering endgame strategies. However, this also increases the importance of robust governance and careful consideration of scheme rules, particularly in relation to surplus use and member benefit changes.
- **Smaller Scheme Sizes:** Guernsey DB schemes tend to be smaller than UK schemes. This increases exposure to longevity risk, which is more uncertain in smaller populations. It has also historically limited access to certain endgame solutions—particularly bulk annuity transactions—where scale can be an important factor in pricing and insurer engagement.

## What Has Changed?

Two key developments have fundamentally altered the landscape for Guernsey DB schemes.

### 1. A Step Change in Funding Levels

From the global financial crisis in 2008 through to 2022, gilt yields gradually fell to historically low levels. This meant the value placed on pension liabilities increased and many schemes struggled with persistent funding deficits.

This changed abruptly in the second half of 2022. Gilt yields rose sharply and have since remained at materially higher levels than those seen over the preceding decade. The impact on DB schemes was significant. For schemes that were not fully hedged against interest rate movements, liability values fell significantly as discount rates increased and asset values did not fall by the same magnitude. This resulted in a rapid improvement in funding levels. Many schemes that had previously been in deficit found themselves fully funded.


### 2. Increased Insurer Appetite

In parallel with improved funding levels, the insurance market has evolved. In 2024, there was a new entrant to the Guernsey bulk annuity market. This entrant has demonstrated a willingness to transact with smaller schemes and engage actively with trustees and advisers, making buy-in and buy-out more accessible to a wider range of schemes.

Buy-out has moved from a theoretical concept to a realistic and achievable objective for a significantly larger proportion of Guernsey schemes.

## The Emerging Endgame Options

Against this backdrop, trustees and sponsors must now decide how to respond. Generally, three strategies are being considered:

**1. Insurance Buy-Out**

For many schemes, buy-out remains the clearest and most definitive endgame.

Under a buy-out:

- All scheme liabilities are transferred to an insurer
- Members receive benefits backed by an insurance company
- The scheme is wound up, and sponsor obligations are extinguished

| Advantages | Challenges |
|---|---|
| • Removes investment, longevity, and governance risk | • Pricing remains sensitive to market conditions |
| • Provides a high level of security for members | • Transactions require preparation, data quality, and governance, which can be time consuming and costly |
| • Offers a clean break for sponsors | • Surplus is typically absorbed in the premium rather than retained |

From a member perspective, buy-out offers a high degree of benefit security, but typically removes the potential for future upside, such as discretionary increases. With improved insurer access, buy-out is now a viable option for many Guernsey schemes for the first time.

**2. Running On (With Surplus Sharing)**

An increasingly discussed alternative is to run the scheme on, particularly where there is a surplus. Rather than paying a premium to an insurer, trustees and sponsors may choose to:

- Continue operating the scheme
- Invest assets to generate returns above the growth in liabilities
- Share emerging surplus between sponsor and members

This approach can take various forms, but the central idea is that value is retained within the scheme rather than crystallised in an insurance transaction.

| Advantages | Challenges |
|---|---|
| • Potential to unlock surplus value for sponsors | • Continued exposure to investment and longevity risk |
| • Flexibility in benefit enhancements or contribution reductions | • Ongoing governance and operational requirements |
| • Avoidance of insurer margins | • Need for clear agreement between trustees and sponsor |

From a member standpoint, this approach can provide the possibility of enhanced benefits, but comes with some ongoing reliance on sponsor strength and investment performance. This is likely to appeal where schemes are well-funded (potentially above buy-out level) and where sponsors are comfortable retaining some risk.

**3. Hybrid and Transitional Approaches**

As an alternative, schemes may consider phased or hybrid strategies, including:

- Buy-in first, buy-out later: securing liabilities in stages
- Partial transactions: insuring pensioners while retaining other risks
- Trigger-based strategies: targeting buy-out when pricing is favourable

These approaches allow schemes to de-risk progressively while retaining flexibility. For many, endgame is not a single decision point, but an evolving journey that responds to funding levels, market opportunities, and sponsor priorities over time.

## What Are Guernsey Schemes Doing Now?

In response to these changes, Guernsey DB schemes are actively evolving their strategies.

**1. Investment Strategy: Increased Focus on Matching**

With funding levels improved, many schemes have reviewed their investment strategy to protect their position rather than seeking high returns, typically by increasing their allocation to liability-matching assets, typically a tailored bond portfolio, in order to hedge interest rate and inflation risks more closely.

The objective is to “lock in” funding gains and reduce the risk of falling away from endgame targets.

**2. Active Consideration of Buy-Out**

A growing number of schemes are now undertaking feasibility studies and engaging with insurers in order to move towards transactions.

As endgame strategies become more tangible, operational readiness is increasingly important. In practice, a number of schemes may be well-funded but not yet ready to transact. Key areas of focus include:

- Data quality and completeness
- Clear and agreed benefit specifications
- Efficient trustee decision-making frameworks
- Coordination between actuarial, legal and administrative advisers

**3. Exploring Run-On Strategies**

At the same time, trustees and sponsors are increasingly considering whether immediate buy-out is the optimal use of surplus. Key questions include:

- Should surplus be retained and potentially shared?
- What level of risk is acceptable post full funding?
- How should interests between sponsor and members be balanced?

These considerations are prompting more sophisticated discussions around long-term objectives and risk appetite.

**Key considerations for Trustees and sponsors:**

- **Is buy-out affordable now, or within reach in the short term?**
- **What level of surplus exists, and who should benefit from it?**
- **How strong is the sponsor covenant, and what level of risk is acceptable?**
- **Are we operationally ready to transact if an opportunity arises?**
- **Do we have a clearly defined long-term objective?**

## Looking ahead

The endgame landscape for Guernsey DB schemes has changed significantly in a short period of time. A combination of improved funding levels and increased insurer appetite has transformed buy-out from a distant aspiration into a realistic near-term objective. At the same time, the emergence of surplus has broadened the range of strategic choices available.

Trustees and sponsors are no longer simply managing deficits; they are actively deciding how to manage surplus and risk most effectively. Whether through buy-out, run-on, or a hybrid approach, the key is to define a clear endgame strategy aligned with the scheme's funding position, governance capacity, and stakeholder objectives.

There is no single "right" answer. The optimal strategy will depend on the specific circumstances and objectives of each scheme. For many Guernsey schemes, the journey to endgame is no longer theoretical—it is already underway.