

Navigating capacity constraints to ensure a smooth and successful buy-out



Welcome to our first publication on the buy-out and wind-up market. After a record-breaking few years in the buy-in market, more schemes than ever are looking to move to buy-out and wind up. In our report, we explore the market capacity issue, and how you can aim for a successful buy-out. Over the coming months, we'll be exploring further how to navigate a buy-out within the current constraints whilst not compromising member experience on the journey.

Overcoming capacity constraints in the buy-out market

As more schemes look to buy out, the risk transfer market has started to focus more on the work required after a buy-in – which is substantial.

Over the past few years, the pensions risk transfer market has gone from strength to strength. In 2023 a record £49.1bn of buy-ins were secured, followed by £47.8bn in 2024. As the value of buy-ins completed has grown sharply, so has the number. Over the past five years it's more than doubled, from less than 150 in 2020 to almost 300 in 2024 – a huge achievement for the industry.

The type of buy-in has changed too. In 2020, most were partial buy-ins, usually for pensioners' benefits. In 2023, there was a shift as the risk transfer market became dominated by the full-scheme buy-in.

Our survey of a selection of professional trustees shows that around 97% of their schemes that completed a full buy-in are looking to convert to buy-out within the next five years.

Around 500 schemes could be looking to buy out in the next few years, with 75% experiencing a delay.

The risk transfer market has been active for many years, and some schemes that recently completed a full-scheme buy-in had previously secured benefits via a partial buy-in. Some of these partial buy-ins were secured almost a decade ago with a different insurer. Around one-third of schemes surveyed have buy-ins with more than one insurer.

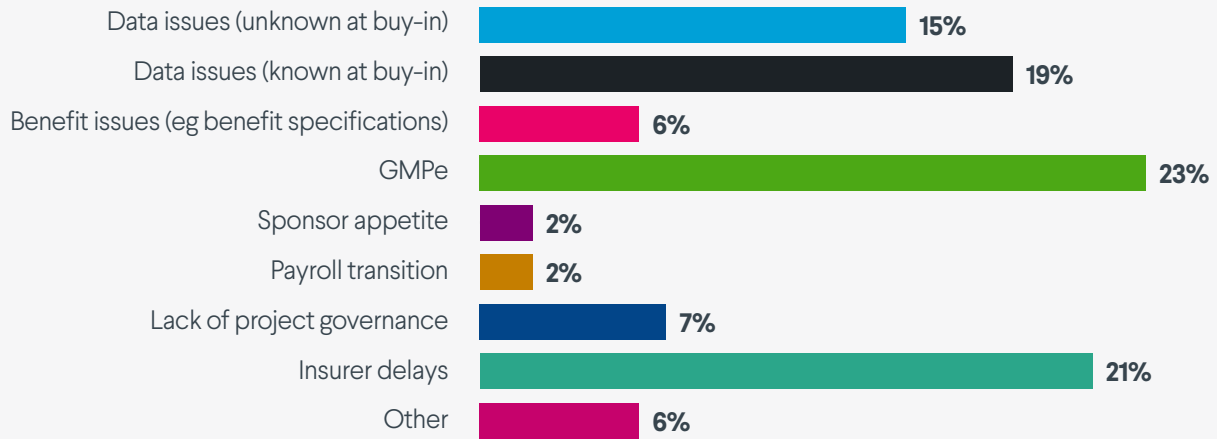
Insurers tell us there are around 500 schemes that could be looking to buy out in the next few years.

With so much activity on the horizon, the industry is asking if the market has enough resource to get these buy-outs done in appropriate timescales. As more schemes are in a position to move to buy-out, it's harder to meet expectations for how long a buy-out takes, especially in light of the numerous data projects that administrators are working on.

We surveyed professional trustees on their experience of buy-out and wind-up. Three-quarters said they are experiencing delays; the average delay is more than six months, and the longest delays are more than two years.

It can be tricky to tell stakeholders about a delay, especially if a company is expecting a return of surplus, or wants the pension scheme off the balance sheet and no longer accruing expenses.

How would you summarise the main sources of delay? (Respondents selected all that applied.)



Source: Hymans Robertson survey

Higher demand, higher supply

According to data from the insurers, in 2020–22 around 50 buy-ins converted to buy-outs in a year; the number jumped to 75 in 2023 and more than 100 in 2024. This achievement shows that there’s not only strong demand, but also fast-growing insurer resource to meet it.



Insurers are meeting demand in several ways. They’ve expanded post-transaction teams and invested in technology. They’ve also reviewed governance structures to make processes more efficient, including the onboarding process. Insurers continue to explore areas where they can improve their processes.

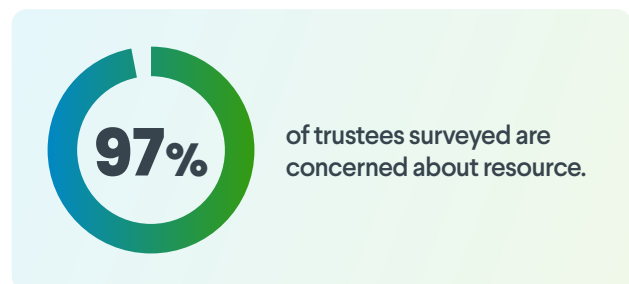
However, an insurer (and the scheme’s own administrators) still needs a lot of resource to buy out a pension scheme, which can often take several years. A scheme’s trustees or sponsor may not fully appreciate the amount of work involved, how long it could take or the implications of such a busy market. There could be more work than expected particularly where there are large data projects (such as GMP equalisation) or where a surplus is being used to uplift member benefits.

Data challenges

Good member and benefit data is important not just for a swift and efficient buy-out. The insurer needs the right data to administer members’ benefits after the irreversible transfer of administration and ultimate buy-out.

Many trustees are concerned with the member experience throughout and after the transaction. The right data and benefit specification prevents delays for members. After the buy-in, insurers may be setting up tools or member calculation processes, and poor data could lead to delays in issuing member quotes. Poor data could also cause members to make a claim on the basis of incorrect benefits.

Any scheme that’s changed administrators knows how complex data and benefit cleansing can be, and how long it can take. An already daunting task is even harder for stretched administrators. Many schemes’ data and administration teams are already dealing with Pensions Dashboards and GMP equalisation. Buy-out data cleansing work on top is a big ask, even with the longer data cleanse windows that we’re seeing in buy-in contracts.



Of the trustees we surveyed, 97% have concerns about the available resource. The biggest concern is about scheme resource for administration and administration projects, followed by resource at the insurer, and then lack of project governance.

The problem with tight schedules

Converting a buy-in to a buy-out takes a lot of time and resource – for all parties.

As insurers take on many more schemes, they need to schedule meticulously so they can do all the work in appropriate timeframes.

Some insurers have an external administrator lined up for onboarding – another element to manage. But even insurers with in-house administration teams struggle with data challenges. If a scheme gives the insurer poor-quality data, numerous queries are likely to arise, and the administrator needs time to sort out the data. Late receipt of scheme data can significantly delay onboarding.

A tight and carefully planned schedule can't easily absorb delays. An insurer can't practically rearrange everything else when it has so much on the go. It's already allocated resource to many other schemes, each with its own carefully planned schedule. If one scheme misses its 'slot', finding a way back into the schedule is no easy task.

A packed schedule therefore compounds delays. Missing a deadline by a month doesn't mean that the transactions gets pushed back by a month – it could get pushed back by several months if that's how long it takes to fit the scheme back in.

Insurers are open and transparent about the challenges when they receive poor-quality or late data. They're willing to work with schemes to resolve issues early in the process. It's vital to have regular meetings with insurers, and from the start keep them informed about any issues that could affect the timetable.

Rising to the challenge

As demand grows to convert buy-ins to buy-outs, this process will get more attention over the next few years. Professional trustees going through the process see value in the right expertise and good-quality project management, as well as technology.

In the past few years the market has sought to improve the options for small schemes looking to buy in. We expect innovation in the buy-out approach to be the next big focus by insurers and other stakeholders.

Our anonymous surveyed professional independent trustees said:

“ Good project management is absolutely key to making this project a success. ”

“ There is a lack of technology solutions to automate parts of the process and make everything smoother. ”

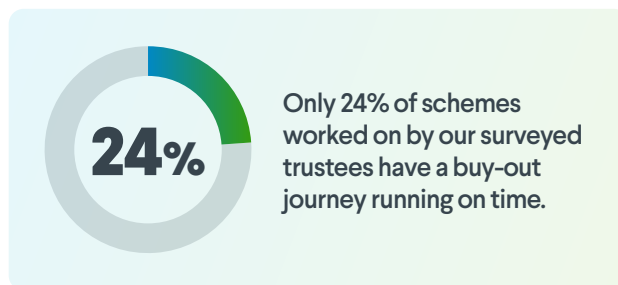
How to aim for a smooth and successful buy-out

If you've chosen to carry out a pension scheme buy-in with a view to a buy-out, it's important to understand what's involved in the full process. To move quickly and smoothly from a buy-in to a buy-out, a pension scheme would ideally begin work preparing for buy-out before it buys in.

Converting a full-scheme buy-in, or a series of buy-ins, to a buy-out takes a lot of work. It takes less work if the scheme is properly prepared. With the right upfront work, a scheme can avoid the dreaded delays that many are experiencing – some as long as three years.

It can be reasonable for a well prepared scheme to buy out within 12 months of completing a buy-in, and wind up within 18 months. However, our market data suggests that for many schemes this is an aspiration rather than reality: the professional trustees we surveyed said only 24% of schemes they work on have a buy-out journey that is running on time.

Moving quickly to buy-out can minimise running costs that the scheme would otherwise incur, and these can be substantial.



The time to buy-out can materially affect the outstanding costs for a sponsor, and any surplus available at the end of the process for the sponsor or members.

We set out the steps trustees can take before and after the buy-in to reduce the time to buy-out. Even without the aim to go as quickly as possible, a well prepared scheme can reduce the chance of delays.

Data and benefit work

A scheme that aims to buy out and wind up as quickly as possible may increase its chances of doing so with data cleansing and benefit specification work before the buy-in. A well-cleansed scheme with a robustly reviewed benefit specification can minimise the risk of delays and uncertainty about the insurer's premium.

The work starts with agreeing the scope and a detailed work plan so the trustees and administrator know what they need to do right through to winding up. The work would probably include:

- confirming contingent spouse data
- fixing any known data issues
- equalising GMPs and implementing the changes with the administrator
- having all historical records in one place, or being able to pull together relevant data into an extract.

All data cleansing work should be reflected in the main member record and payroll records. Marital tracing should be scheduled just ahead of a transaction, and regular address and existence checks should be in place.

It's also important to plan for smaller things that need to be settled, such as additional voluntary contributions and historical individual annuities. Historical data and policies aren't always well documented, so areas like these could cause delays to benefit cleansing work. For these items, it's best to know what to expect early and have a settlement plan, even if these can only be settled once a wind-up has been triggered. With a plan, the trustees might also be able to invite the insurer to help with settlement options during negotiations.

Before transacting, trustees should consider how member options will be managed during the buy-in phase, so they can be implemented immediately after transacting. If left until after the buy-in, they can drag on resource. The last thing anyone wants after a buy-in is a delay to member quotes, which could lead to member complaints.

As well as affecting member experience, delays can have a knock-on effect on other workstreams, pushing back the overall timeframe. Insurers are encouraging early engagement with the administration team to ensure a smooth member experience.

Risk management

Another area to sort out well before the buy-out is the approach to risk management, which could affect the time to buy-out and costs. We see trustees and sponsors talking about the approach earlier and earlier.

Both parties' risk appetite affects how much data and benefit work the scheme does to mitigate the risk of future claims from members. In managing long-term residual risk, the trustees and company need to agree whether the scheme is likely to use 'all risks' cover or run-off cover, the role of a company indemnity and the appetite for data and benefit investigations ahead of wind-up.

Surplus planning

If the scheme is likely to have a surplus on wind-up, the trustees and company need to agree what to do with it. If it's going to the company, the timeframe for buy-out needs to factor in a member consultation. If the surplus is going to scheme members, the trustees need to consider what methods of uplift are acceptable to the insurer – for example, benefit uplifts or higher pension increases.

The right advice at the right time

Insurers often tell us that a scheme hasn't done enough preparation to move quickly to buy-out. One insurer told of nearly 30 data extracts going back and forth with the administrator before the final data could be agreed.

Making an early start is key – the work involved could be time-consuming. A plan is also important: the trustees, insurer and company need to agree actions and timescales. Agreeing budgets and resource slots with the scheme administrator for data work gives confidence that the work will be done in the expected time.

Specialist advisers can help. Advisers with experience in buy-out understand the workstreams and interdependencies, and can manage stakeholders in a specific timeframe. They bring a deep knowledge of the insurer's requirements (and how they vary between insurers), the compliance and regulatory requirements for winding up, and a wealth of experience from schemes that have gone before.

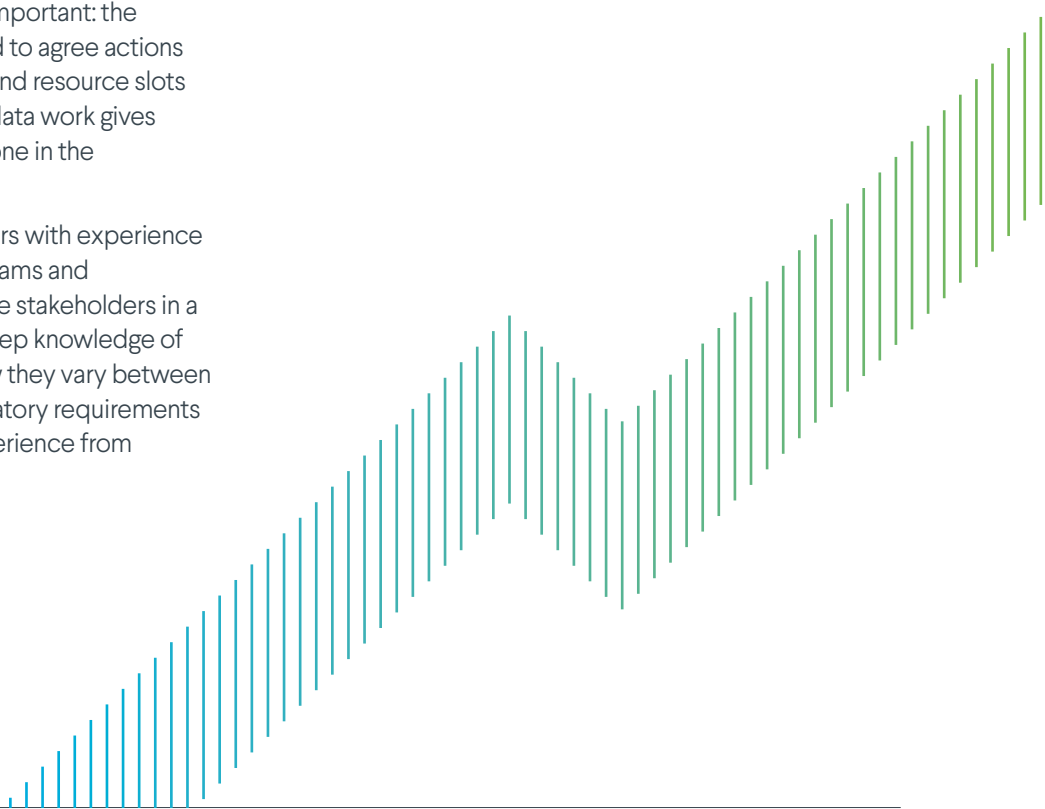
Putting it into practice

We advise a £1bn scheme whose sponsor wanted to buy out within a 12-month accounting period, to manage the accounting implications. Early on, the stakeholders worked to understand what's important to each party and identified a quick buy-out as a key objective. The scheme had a series of complex data cleanse projects, including contingent spouses' pensions and GMP equalisation.

The trustees are preparing a three- to four- year plan for all the data cleansing work needed before the scheme approaches the insurance market, to minimise data cleansing after the buy-in. The plan also considers how to align the scheme's assets to be liquid and efficiently transacted.

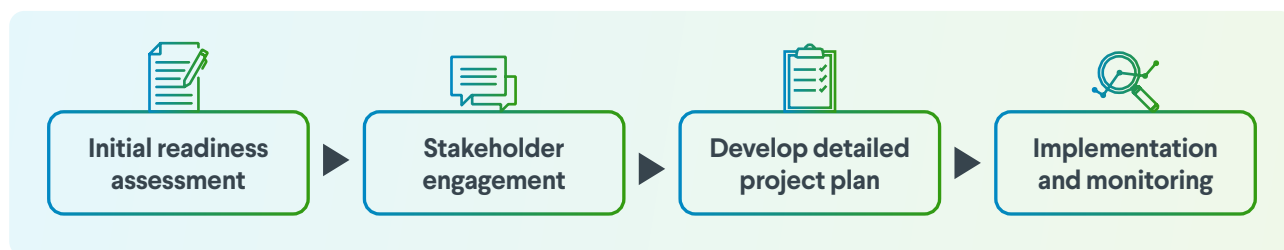
The trustees consider strategic planning to give them the best chance of meeting the target timeframe. They're also talking to insurers about how best to approach the market. By bringing the insurers in early, they too understand the objective and could do their part to help the scheme meet it.

By taking this purposeful pause before approaching the market, the scheme has thought strategically about the work it needs to do, putting itself in the best position to meet its objective. A collaborative approach between trustee and sponsor is the key to success.



Impact

Our approach pulls together the requirements of the client and insurer to agree the workstreams in advance.



By combining with our deep knowledge of the process and relationships with the post-transaction teams, we can develop a realistic plan you can have confidence in.

A scheme that takes these steps before a buy-in could be attractive to insurers in a busy market, and could move quickly to take advantage of any insurer pricing opportunities. But even a scheme that's already bought in can speed up its time to buy-out by taking this approach.

That said, several factors affect when a scheme transacts a buy-in. Many schemes aim to go to market as soon as possible with specific reasons for doing so. However a scheme that's thought through a plan for the post-transaction period will be more attractive to insurers than a similar one that hasn't made such plans.

By taking these steps, trustees benefit from control over the remaining work, and all stakeholders are clear on their role, with aligned expectations and realism on timescales. A scheme that's prepared properly can then wind up efficiently, effectively and on time.

Contact us

We hope you find our article helpful for your journey towards your pension scheme's long-term goal. We'll be sharing more articles on buy-out and wind-up over the coming months.

If you have any questions about anything we covered, or anything else you'd like us to cover, please don't hesitate to [get in touch](#).



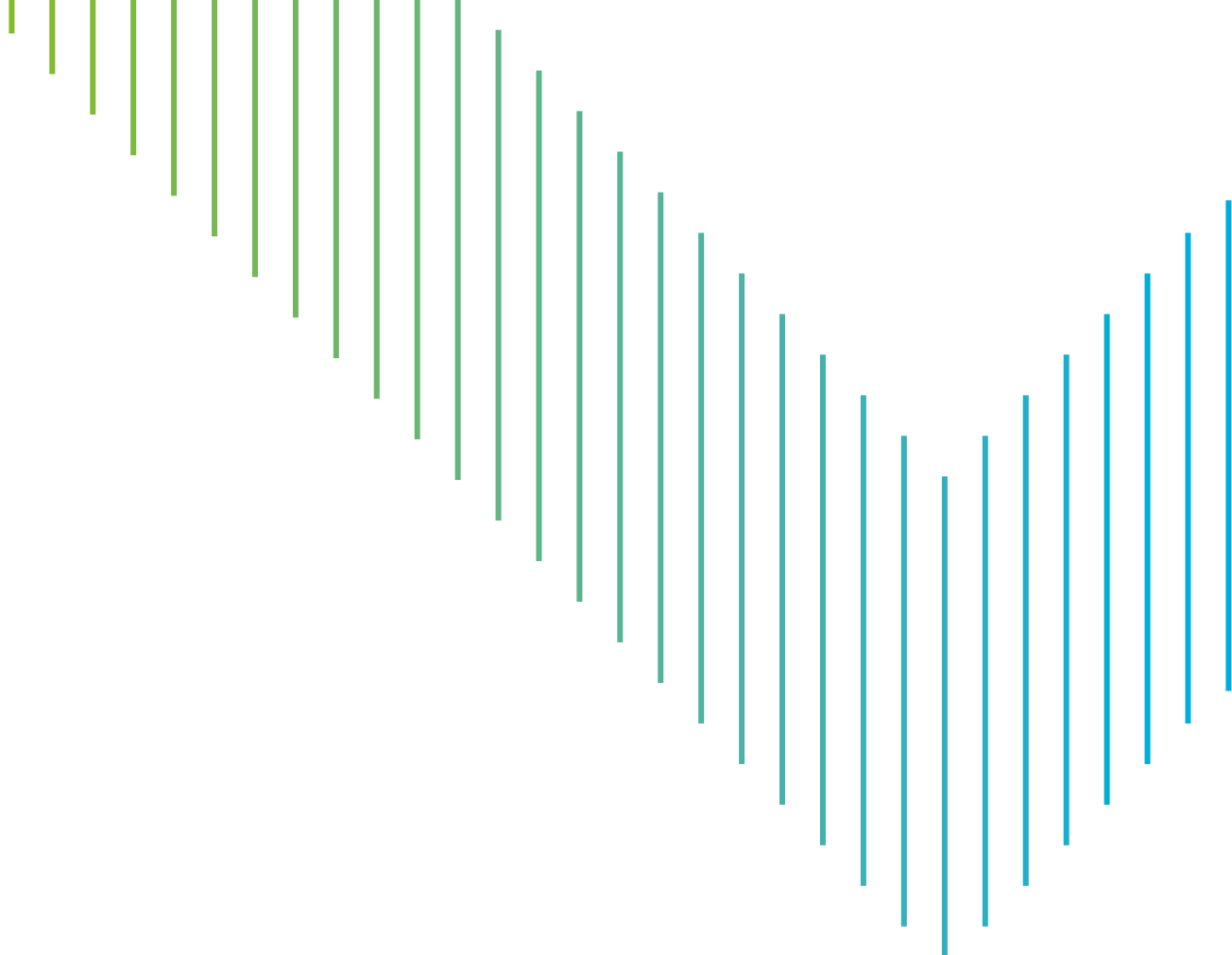
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