

# Pensions Risk Transfer Quarterly Insights

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# Expert's view



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## A mixed start to the market for 2024

*I started the year predicting 2024 would be another record year for buy-in volumes (and it still may be). However, in the first half of 2024, while we expect to see a lot of transactions by number, we expect less business written in terms of volume than in the corresponding period in 2023. Why is this? Well in my view, this mixed start is being driven by a combination of factors:*

- *Tightening credit spreads and z-spreads (the difference between hedging via swaps and gilts) had increased insurer pricing relative to pension scheme funding measures, meaning transactions might appear to be more expensive than when these were being considered in 2023.*
- *Many pension schemes continue to unearth data issues delaying them going to market, while others have taken the decision to let illiquid asset holdings run off rather than incur costs through secondary market sales or deferred premium structures.*
- *The debate on running pension schemes on versus insuring them has become far more prominent. We are working with several trustee and corporate boards delaying decisions on potential transactions until the outcome of DWP's consultation on the use of scheme surpluses is known.*

*A consequence of this mixed start has been some insurers effectively holding a "mid-season sale" to drive up volumes. This has allowed those pension schemes which were ready to go to market to accelerate timescales. In the cases we were involved in, this has also led to great outcomes in terms of the pricing and contractual terms that were achieved.*

*We continue to see the market as highly competitive with more insurers being prepared to quote for pension schemes compared to where we were this time last year. I've been a bit surprised by how much engagement we continue to see for mid-sized schemes, with this arguably being the area with the most appetite (see insurer appetite chart on the next page).*

*While the second half of 2024 is looking to be a lot busier than the first, there could be opportunities later in the year if insurers are looking for ways to meet their targets. Those schemes which are well prepared in terms of data, benefits and investments will be the ones best placed to benefit from any future windows of pricing opportunity.*

## Scheme insights

### Smaller schemes (sub £100m)

- Insurers are increasingly requiring schemes to follow streamlined processes by completing standard templates or not insuring less standard benefits (4 out of the 11 insurers now have a streamlined framework in place).
- This has benefited smaller schemes with an increased capacity for insurers to quote and means they can increasingly expect to get multiple insurers quoting (compared to 12-18 months ago when they may have had to opt for upfront exclusivity).
- Trustees and sponsors need to be aware of the limitations of these approaches and may need to make decisions on simplifying certain benefits.

### Mid-size schemes (£100m - £1bn)

- As was the case last year, there have been relatively lower numbers of mid-sized schemes seeking quotations from insurers over the first half of 2024, when compared to the increasing number of smaller and larger schemes seeking quotations.
- Our insight is that for schemes of this size there is considerable insurer interest and when these schemes do come to market, competitive processes are leading to strong outcomes e.g. market leading pricing and/or a willingness from the insurer to incorporate bespoke terms e.g. deferred premium structures, insuring more complex benefits.

### Larger schemes (£1bn+)

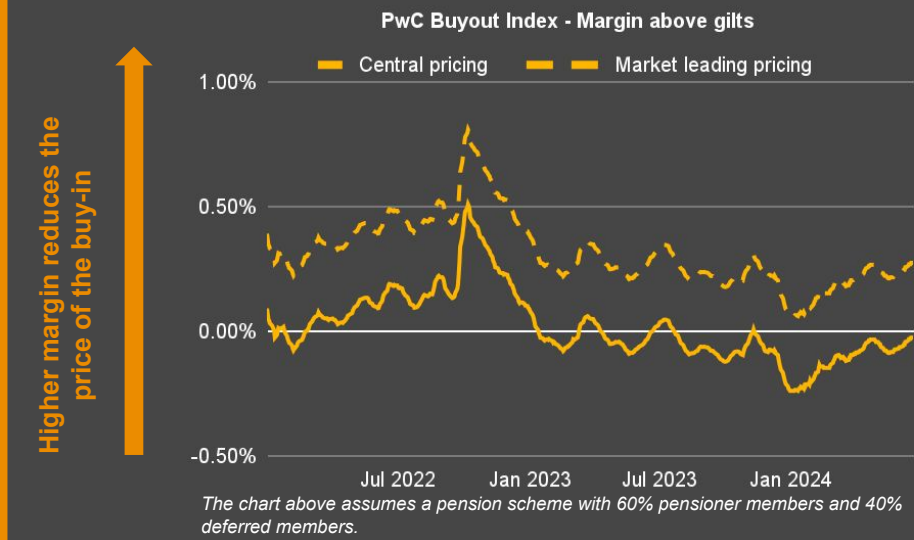
- There are c. 20 large scheme transactions in the market with these progressing at varying paces.
- 8 of the now 11 insurers active in the market are positioning themselves as being able to quote for a transaction around £1bn, which is an increase on prior periods as more insurers look to establish themselves in this space. This increased level of competition is expected to be positive for pricing but trustees and sponsors will be mindful of execution risks for those insurers with less of a track record.
- No jumbo multi-billion transactions have been announced in 2024 to date but watch this space.

# Affordability

According to PwC’s Buyout Index, the aggregate surplus across the UK’s 5,000+ corporate defined benefit pension schemes increased by £20bn in the last three months to £260bn as at 30 June 2024. Please note that not all pension schemes will have seen an improvement in their funding level as this will depend on the scheme’s individual investment performance. Please see [here](#) for more details.

| £bns (month end) | Asset value | Liability value | Surplus / (Deficit) | Funding ratio |
|------------------|-------------|-----------------|---------------------|---------------|
| Jun 2024         | 1,430       | 1,170           | 260                 | 122%          |
| Mar 2024         | 1,410       | 1,170           | 240                 | 121%          |
| Jun 2023         | 1,390       | 1,235           | 155                 | 113%          |

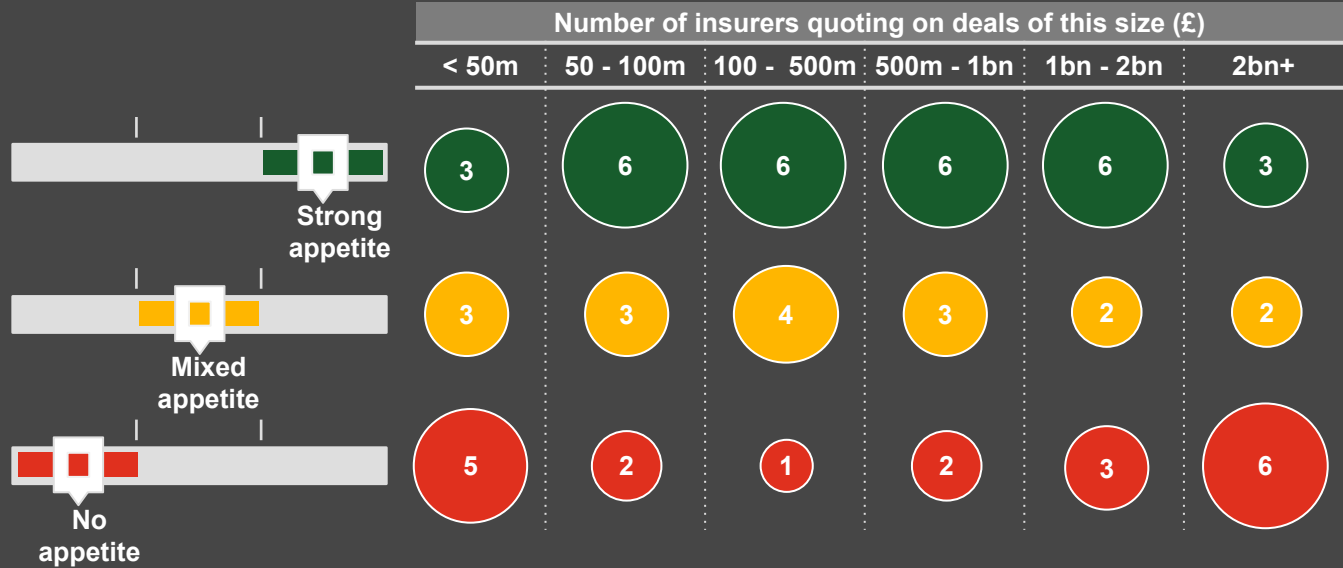
# Pricing



- Tightening in credit spreads over the end of 2023 and start of 2024 fed through to an increase in insurer pricing relative to gilts based funding measures. Pricing movements have now stabilised and have improved over the last quarter.
- Our central insurer pricing estimate relative to gilts is now comparable to 30 June 2023, although there continues to be a wider range of prices quoted by insurers on competitive transactions.
- We continue to see well run processes deliver market leading pricing which can be 3% to 5% lower than our central pricing estimate.

# Insurer appetite

Our heat map below gives our view of the current appetite across the 11 bulk annuity providers currently quoting based on appetite for different sizes of pension scheme. Currently there are multiple insurers quoting for schemes of all sizes. Our expectation is that for any size of scheme, other than potentially sub £20m schemes, 3 or more insurers may be willing to provide a quotation.



No Appetite - insurer is not currently quoting for or highly unlikely to quote for schemes of this size  
Mixed appetite - insurer may/may not quote depending on capacity, or will quote under exclusivity only  
Strong appetite - insurer is quoting for schemes of this size (note this does not guarantee they will quote on every case of this size)

# Expert's view



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*With an increasing number of pension schemes being well funded on a buyout basis (see Affordability section on the previous page), there has naturally been heightened demand from schemes approaching the insurance market. And whilst the market has generally coped well with the influx of schemes approaching them, some of the recent market developments may bring about a further shift in dynamics.*

## **Three new entrants aiming to quote for bulk annuity business by end of the year**

*Brookfield, Royal London and Utmost have all announced they are entering the bulk annuity market and are looking to provide transactable quotations by Q4 2024. We expect that these three insurers' propositions will initially be targeted at pension schemes with assets of £50m to £100m, although over time they will likely expand their offering to larger schemes.*

*It will be interesting to see whether further insurers follow suit and what level of pricing these new 'challenger' insurers will need to offer to start to build their footprint in the market, especially to counter any execution risk a trustee may need to get comfortable with initially.*

## **Solvency UK is here but is unlikely to significantly impact pricing and capacity**

*In June 2024, the Prudential Regulatory Authority (PRA) finalised changes to the solvency regime for UK insurers. These focused on the design and operation of the Matching Adjustment (MA) framework, including the assets which insurers use to match pensions liabilities. Some of these changes should lead to a slight increase in policyholder protection, however the overall impact on insurer pricing is unlikely to be significant.*

*Furthermore, while the changes give some investment freedom to insurers, they are relatively modest and many of the current restrictions remain. So in summary, they do not offer a panacea for the illiquid assets issue in pensions currently. However, one related area to keep an eye on is the MA 'sandbox' which the PRA intends to consider further and which will allow more innovation and flexibility in the universe of assets an insurer can hold.*

# Risk transfer at PwC

PwC's Pensions Risk Transfer team is a group of 30 dedicated specialists and sits within a 250 strong national pensions practice with the support of additional subject matter experts specialising in asset solutions covering illiquid and alternative assets, data and administration solutions, pensions and insurer covenant regulation, DC pensions, longevity solutions and tax structuring.

We focus on ensuring member benefits are secured optimally, while meeting overall trustee and sponsor objectives. We advise trustees and sponsors of schemes ranging from small (less than £10m in size) to multi-billion in size.

"Through a clear strategy and collaborative approach with the Company through the joint working group, advised by PwC UK, we have managed to secure the buy-in much earlier and at a much lower cost than expected. I would like to put on record as well, how impressed I have been with the PwC team. The team have done a brilliant job of making sure that everything is kept on track and that we were in the position to be able to do a deal."

**Professional Independent Trustee**

"PwC's understanding and approach to navigating the complex challenges associated with PPF+ cases demonstrated to us that they could deliver what we needed, and achieve the very high standards we expect of our specialist panellist firms. The PwC team demonstrated that they care deeply about relationships, can present excellent and innovative ideas, and genuinely care about the work they undertake in the pensions risk transfer area."

**Dan Collins, Pensions Protection Fund**

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