Pensions Risk Transfer Quarterly Insights

Q2 2025 edition

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pwc

2025 outlook

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2024 in review: a record year in many ways

The final figures are in - 2024 saw £47.6bn of buy-in transactions, just shy of the record-breaking £49.1bn total in 2023. However, the number of schemes transacting rose to around 300, up from c. 250 in 2023. Importantly, if we adjust for the rise in yields during 2024, total volumes could have actually exceeded 2023 in relative terms. In other words, demand remained extremely strong - with more schemes transacting, and insurers rising to meet that demand.

Q1 2025: a familiar pattern, with a busy insurer pipeline ahead

Much like 2024, we saw a quieter start to the year in terms of transaction volumes. However, Q1 2025 still saw the completion of a high number of smaller transactions. Looking ahead, Q2 is shaping up to be particularly busy, and we continue to expect annual volumes in the £45-50bn range. The total for 2025 may depend on the timing of a small number of 'jumbo' transactions - whether they land in late 2025, get tranched up or shift into 2026.

Appetite and pricing: a competitive landscape

March marked the formal entry of Blumont, bringing the number of active insurers in the market to 11 - a record level. Insurer appetite remains strong across the board, with growing interest in smaller transactions, marking a continued shift from the 'mega deals' focus of earlier years. We're also seeing significant pricing spreads across insurers. We share more on this on Page 2 in the section 'Estimating insurer pricing'. Therefore, engaging a wide field of insurers remains key to securing competitive pricing and assessing factors such as member experience, administrative and transition capability.

The road to buyout: forward planning is crucial

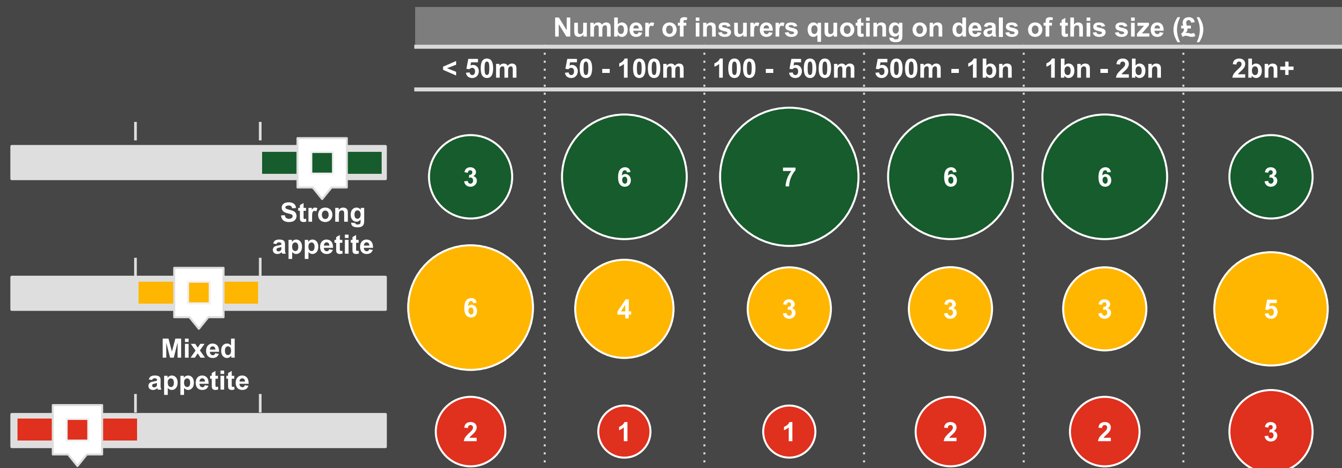
With the rising number of transactions, the focus is now turning to how insurers and administrators will manage the volume of schemes transitioning from buy-in to buyout. We strongly recommend establishing a clear plan at the point of the buy-in transaction to ensure adequate resources, funds, and protections are in place for buyout and wind-up. We've set out some further thoughts on Page 3 on risks and indemnities to consider at buyout and wind-up.

Regulatory developments and wider market trends

On the regulatory side, the Prudential Regulation Authority (PRA) has introduced new stress tests for 2025 to assess insurers' resilience to financial shocks, focusing on credit downgrades and the potential recapture of funded reinsurance arrangements. Additionally, the government plans to announce new rules regarding the extraction of surpluses from DB pension schemes in the spring of 2025. The DB superfund market is also set to expand, with at least one new superfund expected to enter the market in 2025. Beyond buy-ins, we continue to increasingly support clients exploring alternative risk transfer strategies, including superfunds, longevity swaps for run-on schemes, capital-backed and consolidation models.

Insurer appetite

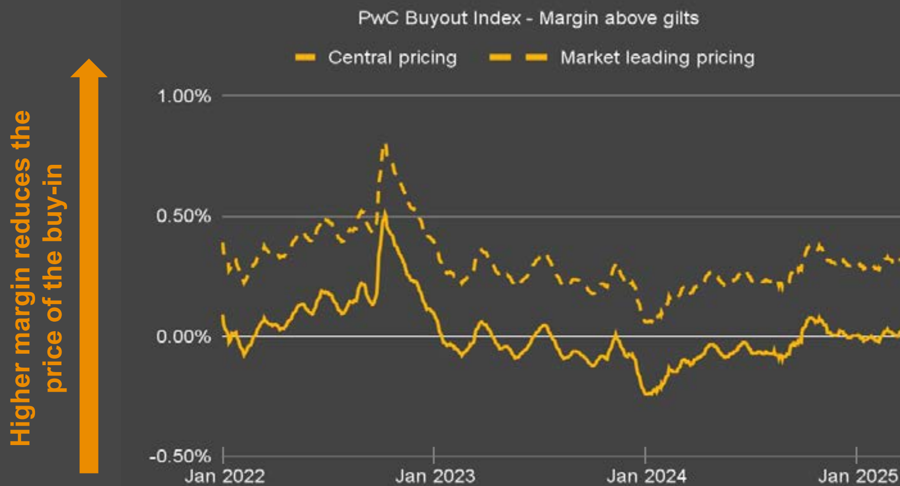
Our heat map below gives our view of the Q2 2025 appetite across the 11 bulk annuity providers based on appetite for different sizes of pension scheme. Currently, there are multiple insurers quoting for schemes of all sizes. Our expectation is that for any size of scheme, 3 or more insurers may be willing to provide a quotation, except for sub £20m schemes which may potentially require upfront exclusivity or be limited to 2 insurers.



*Please note 'appetite' refers to an insurer's typical willingness to a provide a quotation, although this could be further impacted by their capacity and availability of their pricing resource at the time of going to market.

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)

Pricing



The chart above assumes a pension scheme with 60% pensioner members and 40% deferred members.

- As in 2024, market activity has been quieter at the start of the year in 2025, following the rush of deals targeting completion before year end.
- However, insurer pricing remains attractive into Q1 2025 and there are good opportunities for those ready to approach the market.
- We continue to see well run processes deliver market leading pricing which can be 3% to 5% lower than our central pricing estimate.

Estimating insurer pricing

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PwC's approach to estimating insurer pricing

While you'll never be able to perfectly predict the outcome of a market buy-in quotation process, it is important to have a good estimate of where pricing might land in order to inform trustee and sponsor decision making on when to approach the market, provide greater certainty to insurers that the transaction will proceed and to assess the value of pricing received.

Challenges in estimating insurer pricing

We have increasingly seen a wide spread of insurance pricing in competitive processes (up to 10% in certain cases), with different insurers more or less competitive from one deal to the next. The difficulties in predicting pricing are driven by:

- Changing insurer dynamics - the insurers' ability to price competitively changes depending on their appetite (e.g. desire to hit an annual volume target), asset availability, other deals they are quoting on and reinsurance pricing.
- Market factors - insurer pricing has typically broadly tracked swaps and credit markets, reflecting how insurers invest. However, insurer strategies change in reaction to investment market movements (e.g. at the end of last year many insurers responded to low credit spreads by investing in other assets such as gilts, which are also more capital efficient for insurers to hold).
- Scheme specifics - every scheme differs in terms of scheme size, membership profile, duration, inflation exposure etc. Transparency from the insurers on how these factors feed into the price is limited.

PwC's approach to pricing

Our approach to estimating insurer pricing is regularly reviewed and updated to reflect the latest data from different sources:

- Market indices are tracked daily in order to estimate pricing at any convenient date.
- On a monthly basis we update our pricing guidance to reflect monthly pricing points provided by a panel of insurers, capturing market movements.
- We also periodically carry out a more comprehensive review, reflecting back testing against pricing seen on actual deals (which is the best source of information but is often slightly time lagged), and views from our internal investment experts, actuarial advisors to insurers and Pensions Risk Transfer specialists active in the market.

We present our view recognising the range of possible pricing, by illustrating both the "central" price and a "market-leading" price which represents a best-case outcome from a well-run competitive process.

Our approach has proven robust: for every buy-in transaction we advised on in 2024, lead insurer pricing landed within our expected range. This helps give clients greater confidence when entering the market, reducing the risk of surprises around affordability. As a result, we've seen a consistently high transaction completion rate, with deals not stalling due to unexpected pricing outcomes.

Don't forget about expenses

It's important to capture all potential costs that are likely to be incurred and not simply focus on the expected buy-in premium. In particular, a "transaction balance sheet" should be prepared including estimates of adviser fees both pre and post buy-in, and any additional liabilities as a result of known rectification exercises (e.g. GMP equalisation).

Residual risks and indemnities

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With funding levels improving and schemes moving towards risk transfer transactions, residual risk protections are becoming a key area of focus in discussions between trustees and corporates, particularly in situations where there has been limited investigation of additional potential liabilities as a result of the Virgin Media case.

While protection can usually be obtained through Trustee Indemnity Insurance and Residual Risk Cover (typically available from the buy-in provider but often only for schemes over £200m–£500m, depending on the insurer), these are often limited in scope - for example, they usually exclude liabilities arising from amendments that are void due to missing Section 37 confirmation or other execution errors. As a result, trustees and corporates tend to consider a **Company Indemnity** to sit alongside insurance to provide protection to trustees post scheme wind-up. We're increasingly seeing this considered earlier in the process, with agreement sought prior to completion of the buy-in, so that protections are clear and negotiation on any indemnity does not delay buyout and wind-up of the pension scheme.

Naturally, the starting place for an indemnity may be the sponsoring employer. However, there may be reasons why the company and/or the trustees would try and negotiate another group entity to provide the indemnity. The overriding principle is that, given the size and timing of residual risks are uncertain by nature, the indemnifying entity should be **sufficiently strong**, and expected to remain so for the foreseeable future (i.e. it has good **covenant longevity**).

In advising trustees and corporates on the appropriateness of entities that could provide an indemnity, key factors include:

1. **Strategic importance** - is it a strategically important entity within the group, and are there any material concerns regarding the entity's longevity (e.g. does the group have plans to wind-up the entity)?
2. **Financial strength and outlook** - including revenue and profitability trends, wider sector outlook, plus any access to liquidity that could be used to fund an indemnity claim.
3. **Enforceability considerations** - are there any additional considerations which may impact on the trustees' ability to call on the Company Indemnity (e.g. foreign jurisdiction)?

In addition to identifying an appropriate entity to provide the indemnity, other key considerations should include scope of indemnity cover, legal framework, and how any benefit issues post wind-up will be dealt with in practice.

Risk Transfer at PwC

PwC's Pensions Risk Transfer team is a group of 35 dedicated specialists and sits within a 300 strong national pensions practice with a wider team of subject matter experts specialising in asset solutions covering illiquid and alternative assets, data and administration solutions, pensions and insurer covenant and regulation, DC pensions, longevity solutions and tax structuring.

We focus on ensuring member benefits are secured optimally, while meeting overall trustee and sponsor objectives. In doing so, we advise on the full range of endgame solutions from traditional buy-ins to innovative alternative risk transfer solutions and run-on solutions.

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

"I wanted to express my thanks to the whole PwC team, who have not only been critical in achieving the almost impossible, in terms of complexity and timeline, but also with an outcome making this key transaction a success for Thales."

Paul Durrant

Director, Compensation and Benefits, Thales UK

Relating to a £2.7bn full scheme buy-in late 2023, including residual risk cover

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