Pensions Risk Transfer Quarterly Insights

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Expert view

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How the trends of 2024 will define the Pension Risk Transfer (PRT) market for years to come

In 2024 the landscape for PRT underwent a significant transformation - a record number of buy-ins, new insurers entering the market, innovation in the form of alternative risk transfer solutions taking off. In short, a very busy time for the industry that doesn't show any signs of slowing down. The trends that have emerged over 2024 are, in my view, going to define the PRT market over the next several years. So having said all that, here are my predictions for the next few years:

1. The buy-in market will continue to transact volumes of c. £50bn a year for the foreseeable future with the number of schemes transacting each year continuing to increase.

- 2024 is expected to see transaction volumes of £45bn to £50bn, compared to the £49.1bn we saw in 2023. However, the number of schemes transacting will have increased to c. 270 to 290 compared to the c. 250 we saw in 2023.
- Going forward we expect transaction volumes will remain around £50bn a year given insurer capacity; the actual level will be driven by whether a small number of jumbo schemes transact in a given year or if new insurers enter the market. The number of transactions will continue to rise and I wouldn't be surprised if we see over 300 transactions in 2025.

2. An insurer's ability to move from buy-in to buyout will become as important as price.

- With a rising number of transactions, focus is shifting to how insurers will manage the volume of deals looking to transition from buy-in to buy-out.
- We have seen a number of recent cases where trustees and sponsors did not select the insurer with the lowest premium (particularly where the scheme was already very well funded). Instead they preferred the provider who could demonstrate that a future buyout can be delivered in an efficient timescale. The cost of a long drawn out process can erode savings on the upfront insurance premium and therefore needs careful consideration.
- PwC research has also shown that c. £120bn of the £1.2tr of assets held by UK private sector DB pension schemes is already invested in buy-ins. This is equal to the last 5 years of business written*. This suggests that many schemes are finding that their transition from buy-in to buyout is taking longer than the commonly assumed two-year timeframe!

3. Advancements in technology will be needed to work through the number of smaller schemes seeking to buy-in.

- With more insurers entering the market with tailored offerings for smaller schemes, we expect greater access and choice for trustees and sponsors with schemes at the smaller end of the market.
- We are seeing more standardised approaches utilising technology for smaller schemes, with four insurers now offering a streamlined process.

4. Rapid growth in alternative solutions (more superfund transactions as well as innovative run-on / captive solutions).

- In 2024 we saw two groundbreaking transactions:
  - The first transaction of a pension scheme with a solvent sponsor (the Wates Pension Fund) to transfer to a DB Superfund (Clara Pensions)
  - A first of its kind Value Share Bulk Purchase Annuity involving a captive insurer with M&G
- Both of these transactions were led by the team at PwC. Our experts who led these transactions provide further insights later in this update.

5. More schemes running on, at least in the short to medium term, and hence looking to target a reasonable level of return.

- We are increasingly seeing trustees and sponsors of well funded schemes, typically backed by strong or tending to strong covenants, taking a conscious decision to run-on for a period of time with a desire to undertake a future buy-in in say 5 or 10 years time.
- These schemes are actively looking to target a level of surplus which can be used to enhance member benefits, subsidise employer DC costs or be used as a future return of surplus to the sponsor.
- PwC research suggests that c. 800 schemes with c.£840bn of assets could be in a position to decide between running on or buying out. We elaborate further on this on the next page.

** £120bn represents approximate value of buy-in transaction volumes written in the past 5 years adjusted in value for the change in gilt yields.*

Exploring the DB universe

In November, PwC held its 2024 endgame conference at which our experts shared their insights on the PRT market. At the conference we shared the results of the research we had undertaken on the UK private sector DB pension scheme universe with the aim of trying to answer the following question - “where will the £1.2tr of assets held by these schemes end up?” Please see below for a snapshot of our findings.

The DB Universe is shrinking

31 March 2022	31 March 2023	31 March 2024
Assets: £1.7tr **c. 82% funded on buyout**	**Assets: £1.4tr** **c. 96% funded on buyout**	**Assets: £1.2tr** **c. 97% funded on buyout**
5,122 schemes 9.4m members	4,985 schemes 9.2m members	4,868 schemes 9.0m members

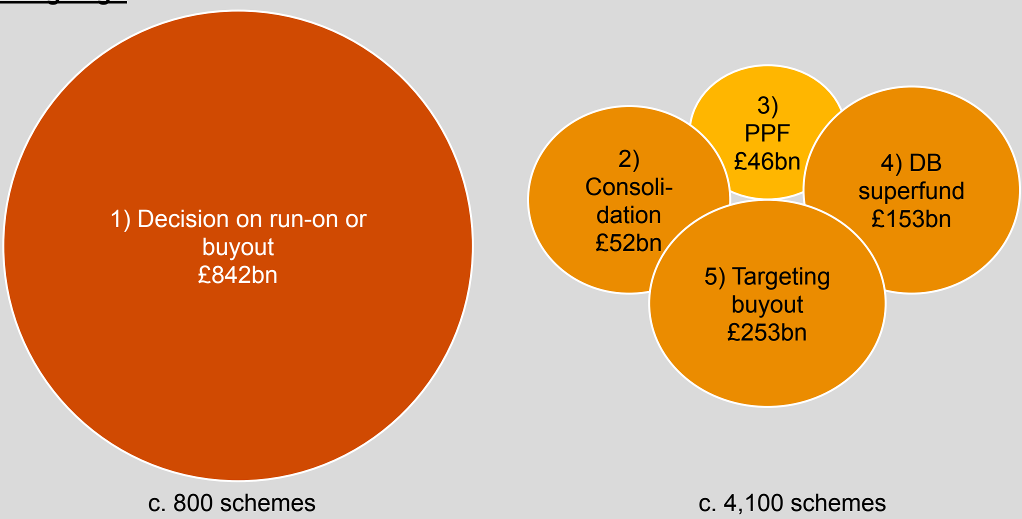
- The size of the universe has fallen from £1.7tr to £1.2tr largely due to falling values of bonds / LDI investments.
- Also, c. 250 schemes have left the universe in the past 2 years. This compares to nearly 500 schemes having completed a buy-in in the same period.

The majority of DB schemes are now very well funded on a buy-in measure

Buy-in funding	Total assets	Schemes
> 100% buy-in funding	£570bn	c. 2,000 schemes
90% to 100% buy-in funding	£200bn	c. 900 schemes
80% to 90% buy-in funding	£370bn	c. 900 schemes
70% to 80% buy-in funding	£70bn	c. 600 schemes
< 70% buy-in funding	£40bn	c. 500 schemes

- Almost half of the DB universe by assets is over 100% funded on a buy-in measure meaning there is c. £600bn of potential transactions where no sponsor contribution is required. This compares to the current market transaction volumes of c. £50bn a year.

Where is £1.2tr going?

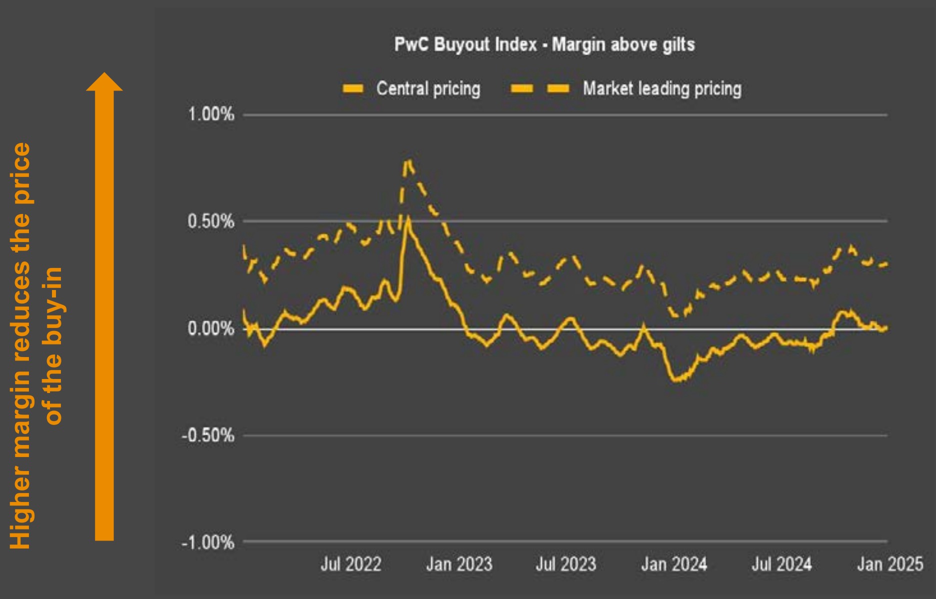


1) Here we have assumed that larger schemes with stronger covenants will be deciding on run-on or buyout.
2) Smaller schemes may find that they could benefit from some form of consolidation solution.
3) Those schemes that are poorly funded with weak covenants could need to rely on the PFF if the sponsor fails.
4) Less well funded schemes with weaker covenants may find that they could be eligible for a DB superfund.
5) Schemes that are very well funded with weaker covenant are expected to be targeting buyout in the near term.

Group 2 to 5 overlap so there are multiple solutions available to trustees and sponsors of these schemes.

Source: PwC analysis of data provided by the Pensions Regulator.

Pricing



- A slower than expected H1 for some insurers led to increased appetite to win market share and complete deals in 2024, which, alongside improved reinsurance terms and optimised insurer investment strategies, drove highly competitive pricing over the last quarter of 2024.
- A number of January 2025 deals have locked in this attractive pricing, but it is unclear if insurer appetite will persist for new transactions.
- We continue to see well run processes deliver market leading pricing which can be 3% to 5% lower than our central pricing estimate.

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

Insurer appetite

Our heat map below gives our view of the Q1/Q2 2025 appetite* across the 11 bulk annuity providers (including those expected to shortly enter the market), 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.

	Number of insurers quoting on deals of this size (£)					
	< 50m	50 - 100m	100 - 500m	500m - 1bn	1bn - 2bn	2bn+
Strong appetite	3	6	7	6	6	3
Mixed appetite	6	4	3	3	3	5
No appetite	2	1	1	2	2	3

*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)

Captive insurance

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PwC leads 'first of its kind' transaction to insure UK pension scheme while retaining value for sponsor

PwC acted as lead adviser to the corporate sponsor of a c.£500m pension scheme to enter into a innovative alternative insurance solution, a Value Share Bulk Purchase Annuity, provided by M&G. This is a 'first of its kind' transaction providing insurance benefits and security to members whilst allowing the sponsor to share in the risk and reward of the insurance arrangement.

From the scheme's perspective, this is a traditional buy-in. Members therefore benefit from the increased security offered by the scheme holding a buy-in policy. In this case, the trustees and sponsor also agreed to insure enhanced benefits for members as part of the transaction.

The sponsor is able to share in the risk and reward of the insurance arrangement through operating a wholly-owned captive insurer i.e. the sponsor owns and operates its own insurance vehicle. Structuring and commercials were key for establishing the new captive entity. Once set up, the captive entered into a reinsurance arrangement with M&G for the scheme's liabilities, supported by a capital injection from the sponsor. The reinsurance arrangement covers all risks, so the captive retains full exposure to the scheme's liabilities and so over time is expected to benefit from returns reflective of the risks taken.

Implications for the industry

Successful completion of this transaction demonstrates how sponsors and trustees can adopt alternative risk transfer solutions that provide a "best of both worlds" outcome - the trustees are able to achieve their derisking objectives while the sponsor retains value that would otherwise be passed to the insurer in a more traditional buy-in transaction. This kind of solution is certainly an option for sponsors and trustees with reasonably large, well funded schemes to consider alongside the full range of endgame options - I'm really excited to explore where this could be the right solution for others in future.

Superfunds

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PwC leads completion of groundbreaking Clara transaction

In a landmark pensions transaction, PwC has advised a family-owned construction and development business (Wates Group) on the transfer of its defined benefit members to Clara, a superfund authorised by the Pensions Regulator.

A superfund is a pension consolidation vehicle but instead of being supported by a sponsor's covenant, it is supported by a ringfenced capital buffer that looks to ensure members receive their benefits with a high degree of certainty.

The Trustee assessed the transaction to ensure it safeguards and increases the security of member benefits, with a significant cash investment from Wates Group, and an injection of capital from Clara as security over the journey to insure these benefits in around 5 to 10 years.

This deal was fundamentally different to the previous two Clara transactions, where in those cases the sponsoring employer was insolvent. Wates, as an ongoing business, made a £19m contribution to facilitate the transfer to Clara, deliver greater security for members, and remove the scheme from the corporate balance sheet.

This transaction was completed at pace and within 6 months of first approaching the Pensions Regulator for clearance. Commercial negotiations were key to ensure the transaction was good value, while ensuring members benefit from significantly increased security, and that illiquid assets could be transferred to Clara as part of the overall negotiated deal. Delivering this transaction required PwC's breadth of risk transfer, actuarial, covenant, investment, communications, tax and accounting expertise.

Implications for the industry

This transaction brings the role of superfunds into new focus for a wider scope of trustees and corporates alike, who are seeking to achieve the best outcomes for their members, but are not yet ready for an insurance buy-out. As set out in our DB universe analysis, we estimate that there could be more than 200 schemes with c. £150bn of assets who could benefit from a transaction with a DB superfund like Clara. This is likely to be sufficient to support a number of superfund providers.

Risk transfer at PwC

PwC's Pensions Risk Transfer team is a group of 35 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. 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.

"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

"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

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