Pensions Risk Transfer Quarterly Insights

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Experts' view

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The importance of being flexible and how this is now paying off

In the first half of 2024 we saw a record number of transactions driven mainly by smaller (<£100m) schemes. However, market dynamics shifted over the summer with an influx of medium and larger schemes coming to market aiming to close transactions by the end of the year. This surge created challenges for insurer resources, prompting them to reassess their triage processes to determine which schemes to prioritise for quotations.

We've found that those schemes who have been flexible in their approach to market e.g. being prepared to move to a one round pricing process instead of two rounds, or being prepared to offer to transact in Q1 2025 instead of Q4 2024, have benefited from increased insurer engagement with more insurers being prepared to quote on a given transaction.

Now we're into the busy season with quotations landing for those schemes looking to transact before the year end. Pricing is looking very good and we still see a broad range in the premiums being quoted by different insurers - justifying that getting a large field of insurers to quote is delivering benefits in terms of lower premiums, a greater choice for trustees and potentially more attractive terms on offer. In terms of transaction volumes, we're expecting a very busy end to 2024 and for this to carry through into the first half of 2025.

Virgin Media v NTL appeal ruling not delaying buy-ins but care needed

In June 2023, the High Court ruled in the case between Virgin Media and the NTL Pension Trustees II Limited (and others) that the absence of a "Section 37" actuarial certificate accompanying an amendment to benefits in a contracted-out pension scheme between 1997 and 2013 would render the amendment void. A first appeal to this ruling has been unsuccessful and there remains speculation as to how the industry will respond and whether UK government will pass regulations to intervene.

In the risk transfer space, we haven't seen this ruling generally delay buy-in transactions. Buy-in contracts will contain provisions to allow future augmentation of benefits to accommodate any additional liabilities that may arise but dealing with such issues will have cost and time implications. Trustees should look to understand their position under buy-in contracts and any other indemnity they may want to consider.

We are advising that trustees and sponsors undertake an appropriate level of due diligence to assess if the pension scheme falls into the scope of the ruling e.g. a) whether there were amendments to the scheme between 1997 and 2013, b) whether the amendments reference an actuarial certificate having been obtained; and c) whether the actual actuarial certificate can be located for those changes - and trust me when I say auditors may ask sponsors these questions!

Scheme insights

Smaller schemes (sub £100m)

- 4 out of 11 insurers now have a streamlined framework in place for small schemes, meaning smaller schemes can benefit from an increased capacity for insurers to quote, faster quotation timescales and potentially additional transitional support in the buy-in to buyout phase.
- It's important to note however that these streamlined processes may require a simplified benefit or transaction structure, and trustees and sponsors need to understand any limitations with an approach.
- There may also be a requirement to go exclusive with an insurer to benefit from this streamlined process although this isn't the case for all insurers.

Mid-size schemes (£100m - £1bn)

- Despite an uptick in Q3 2024, there have been relatively lower numbers of mid-sized schemes seeking quotations from insurers over 2024 to date, when compared to the increasing number of smaller and larger schemes.
- Published "mid-size" transaction numbers are being largely driven by schemes <£500m.
- We'd expect to see large numbers of insurers quoting where schemes of this size can be flexible in their approach to market.
- We also expect competitive processes with market-leading pricing and insurer willingness to structure bespoke transactions and cover complex benefits for these schemes.

Larger schemes (£1bn+)

- There are multiple large scheme transactions in the market with these progressing at varying paces, with an increase in larger transactions in the second half of 2024 expected to drive increased H2 volumes compared to H1 volumes of c.£15bn.
- 8 of the 11 insurers 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.

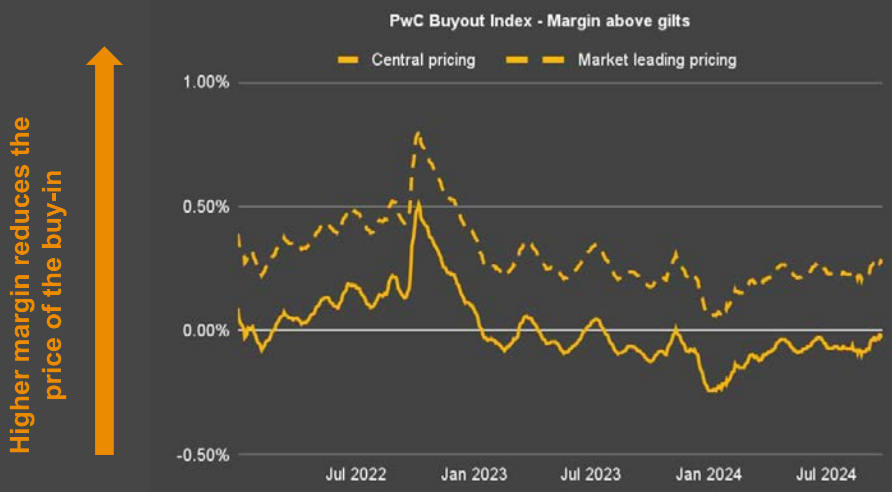
Continued strong appetite expected for schemes of all sizes in 2025.

Affordability

According to PwC's Buyout Index (more details here), the aggregate surplus across the UK's 5,000+ corporate defined benefit pension schemes increased by £40bn in the last three months to £300bn as at September 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. In short, affordability is rising whilst pricing remains accessible.

£bns	Asset value	Liability value	Surplus / (Deficit)	Funding ratio
Sept 2024	1,465	1,165	300	126%
Jun 2024	1,430	1,170	260	122%
Sept 2023	1,390	1,175	215	118%

Pricing



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

- Pricing has improved over the last quarter, as a slower than expected H1 for some insurers has led to increased appetite for 2024 deals.
- Our central insurer pricing estimate relative to gilts has slightly improved since 30 June 2024, and there continues to be a wide range of prices quoted by insurers on competitive transactions depending on insurer appetite.
- 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 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	5	3	3	3	2	2
No appetite	3	2	1	2	3	6

*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)

Expert's view

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Putting member experience at the core of transactions and building it into your selection process

As trustees and sponsors work to secure a buy-in and future buyout, it's extremely important to have the member experience front of mind throughout. *From a buy-in perspective, the day-to-day member experience may not change much, if at all, with the trustees, sponsor, administrator and communication routes all initially remaining the same. Buy-in and buyout communications are generally well-received by members as insurer transactions are received as positive for the security of benefits. We are however seeing members and employee representatives such as unions increasing focus on any benefit impacts of these transactions, meaning careful communication is more important than ever.*

There is potential that transactions do impact members' benefits and careful thinking may be required. For example the following forms of benefits may need adjusted as part of a transaction: adopting insurer's factors, any discretionary benefit practices, quirky benefits which may be difficult to insure such as underpins, potential benefit simplification (particularly relevant for smaller schemes), and any alternative or enhanced benefit options such enhanced early retirement terms, member options like bridging pensions and pension increase exchanges at retirement.

Insurer offerings differ with some offering greater flexibility to accommodate the areas listed above, although often greater flexibility is only available for larger schemes. *In recent transactions we have been involved in we have assisted trustees to get insurers to cater for quirkier benefits, member options and even members with active employment linked benefits. Early and open communication with insurers is key to allow trustees to preserve these benefits for members without resulting in material adverse pricing. Alternatively, benefit simplification where members' benefits are uplifted and amended to make them easier to insure, leaving members no worse off, can deliver pricing improvement that offset the cost of uplifts.*

Insurers are now acutely aware that their approach to member experience is becoming an increasingly important differentiator in selection processes. *They are therefore enhancing their member offerings by investing heavily in technology and customer service. We are seeing innovation in this space, particularly with regards to member retirement options (including AVC solutions) as well as offerings around financial guidance and support to members.*

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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