Risk transfer briefing, Quarter 1 2025

In this briefing, we provide an update on the current market and explore the various risk transfer options available to schemes. We also discuss the latest update to the First Actuarial Bulk Annuity Index, which monitors pricing trends in bulk annuity transactions relative to low dependency liabilities.

Market update

During the final quarter of 2024, the Trustee of the NatWest Group Pension Fund completed an £11bn buy-in with Rothesay – making it the UK's largest buy-in to date.

Transaction volumes for smaller schemes are on the rise, buoyed on by the successes of the streamlined quotation templates developed by several insurers.

Canadian financial services giant Brookfield (via its Blumont Annuity UK brand) will enter the market later this year, having applied to the Prudential Regulation Authority (PRA) and the FCA last year. This brings the number of insurers writing new deals to a record high of 11.

End game on the horizon

Over the last five years, over £175bn of bulk annuity deals have been written – and the next decade is expected to bring even greater demand.

However, over the last couple of years, the risk transfer market has evolved, and alternative solutions are emerging. These may only be suitable for a minority of schemes, but should be considered (by both trustees and sponsors) when planning for the long-term provision of members' benefits.

This sentiment is echoed by The Pensions Regulator in its Annual Funding Statement 2024:

> *"DB schemes have seen significant changes over the last couple of years and, for many, the improvement in funding levels has been a significant turning point. Long-term objectives set in an era of low interest rates, and their associated funding and investment strategies, now need to be reviewed."*

Options available

The wide range of options can be bewildering. Some possibilities include:

- **Indefinite run-on**: Establishing a long-term framework to optimise the operation of the scheme, with the explicit goal of building up (and distributing) surplus assets over time.
- **Flexible run-on**: Run-on the scheme for an agreed period of time, which could be set based on targets such as the funding level, scheme maturity or insurer pricing. Buy-out is the target end state for the scheme, but the longer-term outlook allows preparation for buy-out to happen gradually.
- **Commercial consolidator**: Transferring scheme assets and liabilities (potentially with a top-up from a solvent employer) to a for-profit arrangement with the aim of ensuring members receive full benefits, particularly where an alternative would reduce them. A 'bridge to buy-out' approach is taken by the only currently approved consolidator, Clara.
- **Buy-out**: Securing members' benefits with an insurer, which then takes on full responsibility for paying them. Scheme members become policyholders of the insurance company.

In deciding which strategy best meets the objectives of the trustees and the sponsor, there are a number of questions to consider, including:

- Is any risk transfer to be partial or complete?
- Is the link to the sponsor to be broken?
- Does the option offer value for money, and if so, is it affordable?

A record number of deals for our team

In 2024, we led on 11 transactions for scheme sizes ranging from £2m to £34m, making it a record year for our risk transfer team.

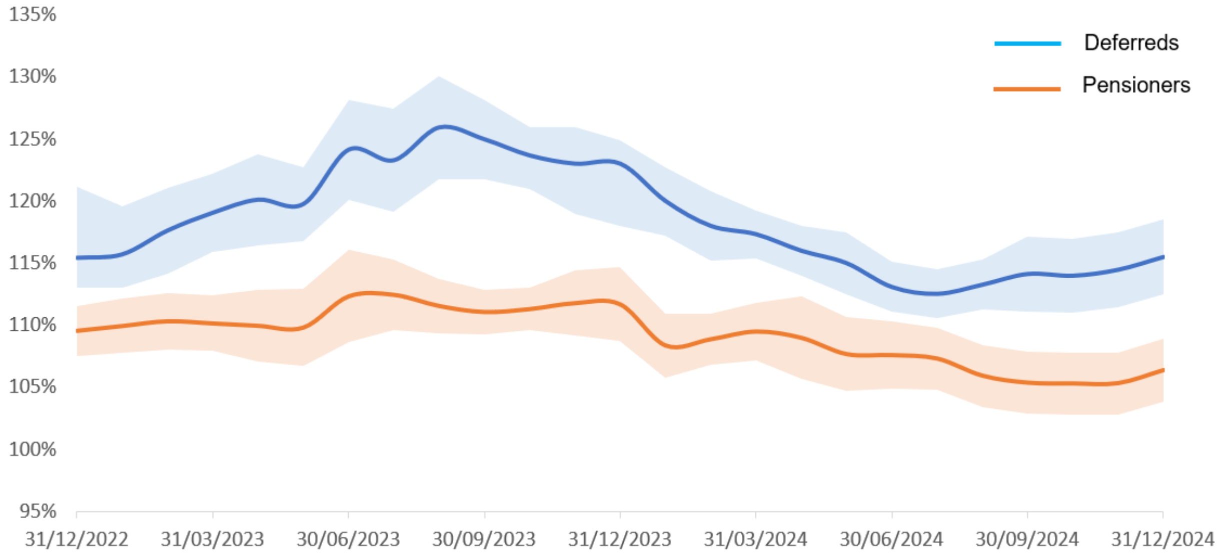
To handle the demand, we have welcomed five new team-members, including graduates and qualified actuaries.

First Actuarial Bulk Annuity Index

The chart below shows the average price of a £50 million bulk annuity transaction (with a mixture of fixed and inflation-linked liabilities) as a percentage of the liabilities measured on a low dependency basis, using a discount rate of 0.5% pa above gilt yields.

The solid lines represent our estimate of the average price relative to low dependency liabilities. The shaded area shows the range of sample pricing received from different insurers.

First Actuarial Bulk Annuity Index (£50 million transaction) – Pricing relative to low dependency liabilities



Insurers charge a higher premium for deferred members than for pensioners of the same age. This is because it's harder to predict the benefit outlay. Deferred members are entitled to exercise options around when to retire and whether to take part of their benefits as a tax-free cash lump sum. For many schemes, the cost of a full buy-out can be prohibitive. But generally, as schemes mature and approach a low-dependency target, the extra funding required to reach buy-out decreases.

The increase in gilt yields has materially reduced the cost of buy-out and increased demand. However, buy-out pricing is also affected by other variables such as credit spreads, competition, insurer capacity and reinsurance pricing. Over the last 24 months, we've seen the cost of buy-out gradually increase relative to gilt-based liabilities, peaking around summer 2023 then falling back to levels similar to those experienced two years ago. An increased appetite for schemes at the smaller end of the market led to a gradual weakening of insurer pricing relative to low dependency liabilities at the beginning of 2024.

As at 31 December 2024, we estimate that the average price of a bulk annuity covering pensioners will be 6% higher than the equivalent low dependency liabilities. In other words, for a scheme that is 100% funded on a typical low dependency basis, we estimate that for every £10m of pensioner liabilities, an additional £0.6m of funding will be required. However, for every £10m of deferred liabilities, we estimate an additional £1.5m of funding will be required.

Further information

First Actuarial is ideally placed to help schemes under £100m navigate the bulk annuity market, having helped schemes secure bulk annuities with the majority of the insurers operating in the sub-£100m market.

Find out more about **First Actuarial's risk transfer services**.

To discuss how we can help your scheme with a potential bulk annuity, please contact your usual consultant or **email our risk transfer team**.