Risk transfer briefing, Quarter 4 2025

In this briefing, we discuss pension superfunds and their future in the risk transfer market.

We also take a look at the latest update to the First Actuarial Bulk Annuity Index, which monitors pricing trends in bulk annuity transactions relative to low-dependency liabilities.

Understanding superfunds

Defined Benefit (DB) superfunds entered the UK pensions landscape in 2017, when Clara, the first *bridge to buy-out model* superfund, was founded. Guidance from The Pensions Regulator (TPR) followed in 2020, and the first transaction took place in 2023.

A superfund provides an alternative end game for a DB scheme. It allows employers to be released from their obligations and trustees to achieve a greater level of security for members' benefits. Typically, superfunds have been marketed at those schemes with insufficient resources to purchase an insurance buy-out either now or in the future.

Clara-Pensions (Clara)

Clara operates a *bridge to buy-out model*, the idea being that a scheme that is around 85% to 95% funded on a buy-out basis would transfer its assets (potentially inclusive of a top-up from the sponsoring employer) and liabilities in full to Clara, ring-fenced as a section. The assets would then be managed, with the protection of Clara's capital buffer, to achieve buy-out within five to ten years.

To date, Clara has publicly announced four transactions, involving a total of 21,000 members and £1.4bn of assets. Notably, the most recent transaction with the Church Mission Society Pension Scheme maintained the employer link under a new *connected covenant* structure. This could provide an attractive option for employers seeking to secure member benefits while retaining a link with their scheme.

With a growing pipeline of over £10bn in potential transactions, there is certainly plenty more to come from Clara over the coming years.

What is next for superfunds?

The 2025 Pension Schemes Bill looks likely to impact the DB superfund market heavily. From 2028, it will provide a formal legislative framework for the funds to operate under, replacing TPR's interim guidance.

A key aspect of the Bill is the simplification of the gateway tests required for a scheme to be eligible to transact with a superfund.

Most notably, the current requirement that a ceding scheme has "no realistic prospect of buy-out in the foreseeable future" will be replaced by two less demanding requirements:

1. The financial position isn't strong enough to enable a buy-out.
2. The transfer to a superfund will increase the likelihood that scheme liabilities are met in full.

With over half of DB schemes now estimated to be in buy-out surplus (according to TPR's Annual Funding Statement 2025), DB superfunds have become a viable option for more DB schemes in recent years.

The Bill also looks likely to provide additional options for extracting surplus from a scheme. This may have influenced TPT's proposition for an alternative superfund that would focus on running on schemes instead of acting as a bridge to buy-out.

TPT seeking to enter superfund market

On 9 October 2025, TPT Retirement Solutions, formally known as The Pensions Trust (TPT), announced its plan to launch a competitor superfund.

TPT will be familiar to many of our not-for-profit clients. In contrast to Clara's approach, TPT's superfund would target run-on rather than buy-out, with the intention that surplus would be distributed to members (after an initial period of five years).

TPT will have to seek regulatory approval before formally entering the superfund market. If successful, additional competition in the superfund landscape will change the dynamics of a rapidly developing market.

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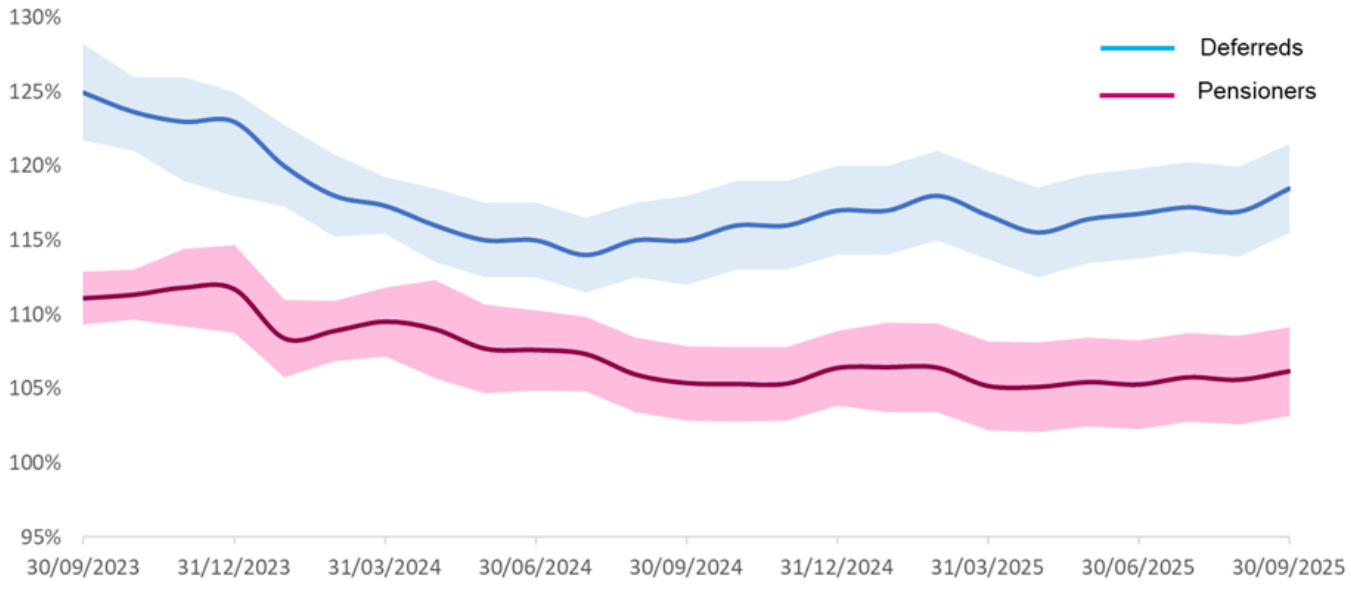
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First Actuarial Bulk Annuity Index

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. Our analysis is based on sample annuities and other pricing information provided by 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. In recent years, we've seen the cost of buy-out increase relative to gilt-based liabilities, peaking around summer 2023 and then falling back again. An increased appetite for schemes at the smaller end of the market has also led to a gradual weakening of insurer pricing relative to low-dependency liabilities.

As at 30 September 2025, 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 £1.8m 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.