



Pension risk transfer.

Quarterly review
2025 Q2
July 2025

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Market activity

The first half of 2025 confirmed the anticipated market slowdown following record transaction volumes of \$11 billion in 2024. Totalling \$700 million in the first quarter and comparable amounts in the second, transaction volumes are diverging from recently observed growth dynamics. Nevertheless, several large-scale transactions have emerged in insurers' pipelines for later in the year.

This market slowdown presents a paradox: pension plan funding remains exceptionally strong, with Ontario registered plans reporting a median projected solvency ratio of 119% as of March 31, 2025 (though this declined approximately 5% following subsequent market volatility) according to FSRA's most recent quarterly report. Typically, robust funding levels are a driver of high transaction activity.

The disconnect likely reflects that sponsors who acted earlier in 2024 may have already capitalized on favorable conditions, having recognized the evolving risk landscape and moved quickly to execute transactions. For the many well-funded organizations that could significantly benefit from annuity purchases but remain on the sidelines, the delay often stems from governance complexities or other internal priorities rather than market conditions.

The importance of robust governance processes has become increasingly evident, particularly for plan sponsors with complex decision-making hierarchies. Early planning, stakeholder education, and a well-structured process are proving essential for transacting opportunistically. Organizations that establish clear governance frameworks and decision-making protocols in advance are better positioned to take advantage of the current conditions.

Market capacity

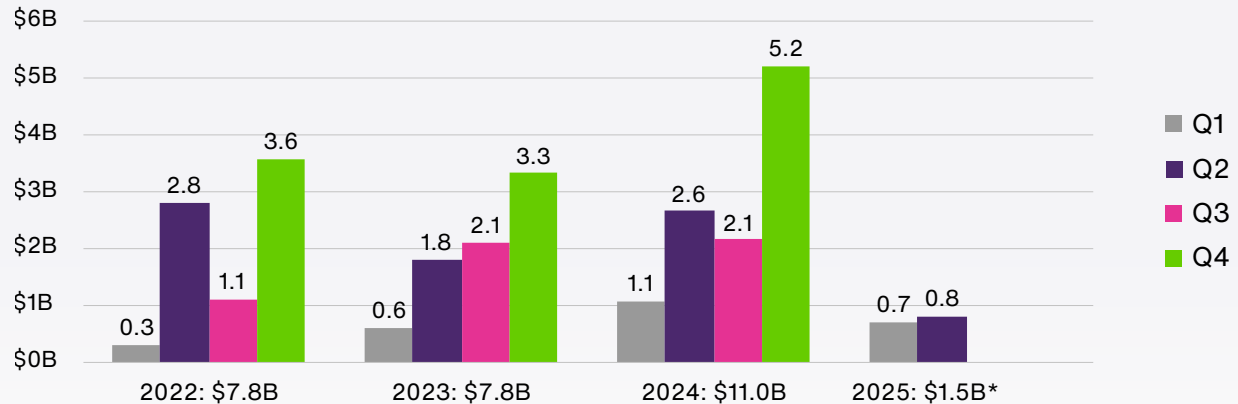
An evolving supply-side dynamic may be emerging in the Canadian market. Industry discussions suggest that some international reinsurers are exploring the possibility of providing additional capacity to the Canadian market, potentially through new market entrants or strategic partnerships among existing players. This increased reinsurer presence suggests they see long-term opportunities in the Canadian market, potentially creating additional financial capacity in the market and potentially competitive pressure that could benefit plan sponsors.

The ability of the industry to capitalise on increased financial capacity depends on its ability to avoid operational bottlenecks. As a company on the forefront of safe-by-design AI, with our significant investments in Fuel iX and Canadian sovereign AI capacity (in partnership with Nvidia), we are pleased to see and support forward-thinking insurers exploring how AI can support their processes & efficiency without introducing additional risk.

As these technologies evolve and become more sophisticated, they hold the promise of helping the industry better capitalize on future increased financial capacities. The key challenge lies in ensuring these operational improvements align with the potential rise in financial capacity, ultimately allowing for more effective service to plan sponsors.



Transaction volume



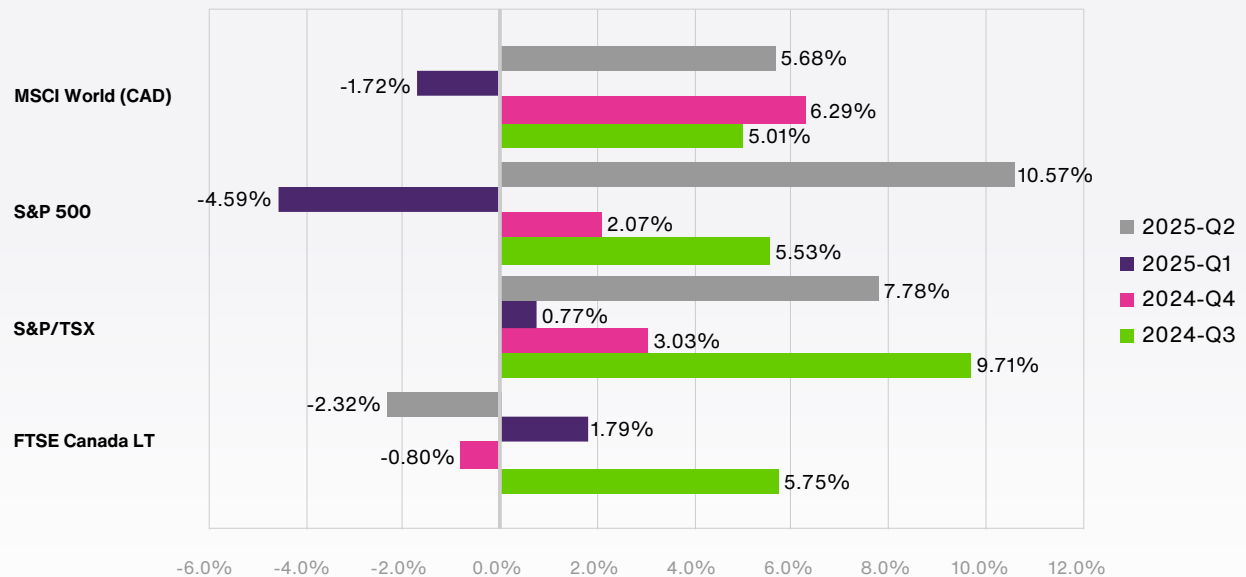
* Q2 2025 volume of \$0.8B is an estimate based on discussions with insurers.

Economic update

Volatility dominated the investment narrative throughout the second quarter of 2025, as funded ratios dropped and rebounded amid ongoing market turbulence. Following a lack of vigor in equity markets during the first quarter and a sharp decline of most major indexes in early April, a notable recovery occurred in May and June, propelling year-to-date performance into positive territory. Several factors contributed to the recovery of equity markets following the early 2025 weakness. These included robust earnings performance, renewed investor optimism, and the continuously strong momentum of the AI-focused Information Technology sector.

In contrast, fixed income yields rose across all maturities during this quarter, with long-term bonds witnessing steeper increases. This upward trend in yields resulted in negative returns for most bonds allocations. Meanwhile, credit spreads for corporate debt narrowed significantly across all durations, with the most pronounced decrease being observed in longer-term bonds. Long-term provincial bond credit spreads also tightened, while their mid and short-term counterparts closed the quarter at similar levels to the previous quarter.

Key index returns.



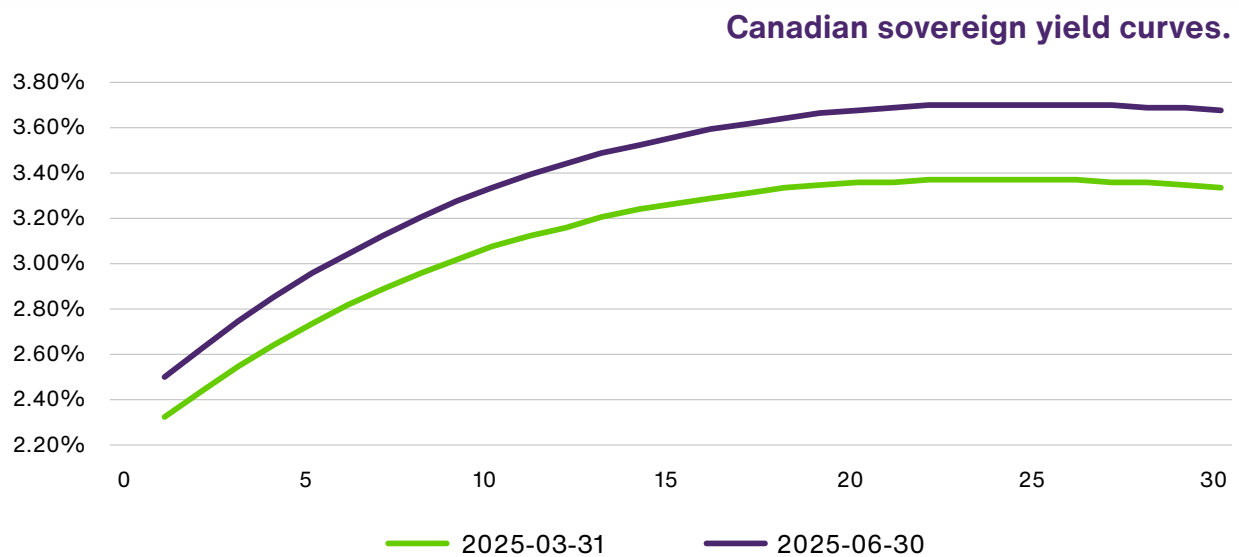
Discount rates

Given persistent uncertainty and trade tensions with the United States, the Bank of Canada opted to keep its policy rate unchanged in both April and June meetings, maintaining its policy rate at 2.75%. As the second quarter of 2025 concluded, headline inflation stayed within the central bank's target range, while core inflation indicators hovered at the ceiling of the 1-3% range.



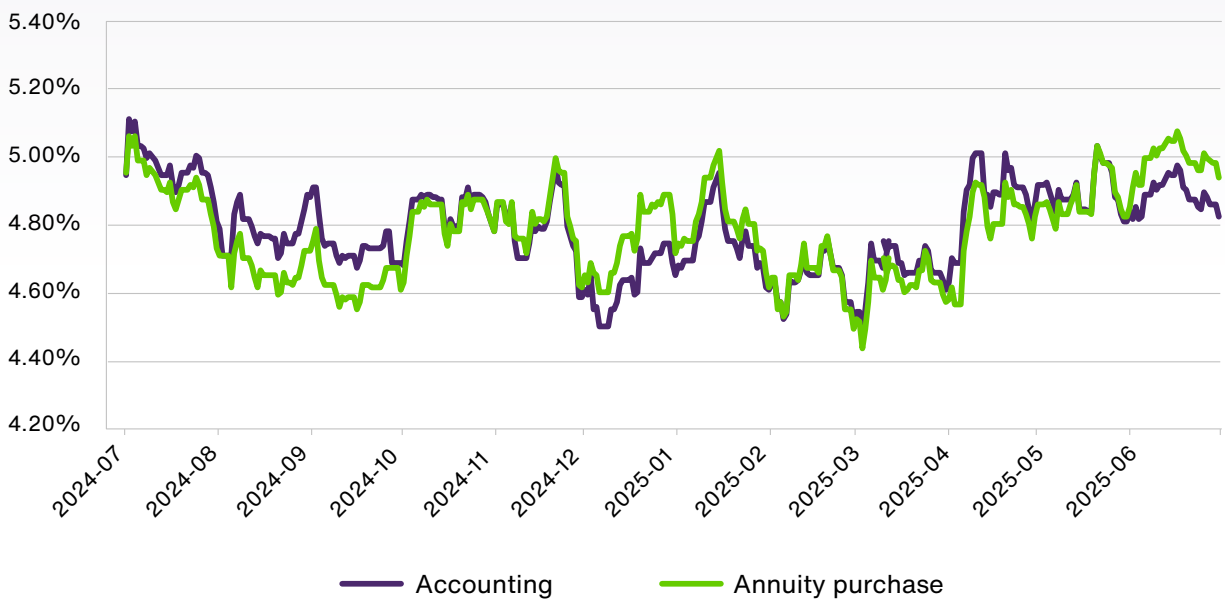


The Canadian sovereign yield curve shifted upwards and steepened during the quarter. This dual movement creates a mixed impact for pension plans: while the higher overall rate environment reduces liability valuations through increased discount rates, the steepening simultaneously undermines the effectiveness of traditional duration-matching strategies for interest rate hedging.



As of June 30, 2025, both the annuity purchase rate and accounting rate had risen to 4.9% and 4.8% respectively, both marking an increase from 4.6% at the previous quarter-end. This upward movement reflects heightened market pressure and volatility, yet it creates a strategic opportunity for pension plan sponsors considering de-risking initiatives. The current environment is particularly advantageous because the negative spread between annuity purchase and accounting rates enables sponsors to realize accounting gains through annuity purchases. For sponsors prepared to act decisively, these market conditions present a compelling case for capitalizing on de-risking strategies.

Annualized daily rates for an average duration plan.



1. Accounting discount rate derived from the TELUS Health AA Corporate Bond curve.
2. Annuity purchase rate based on most recently available CIA guidance and market conditions at June 30, 2025 for a medium duration annuity purchase.



Key takeaway:

While the average pension plan continues to maintain a solid funded status as of quarter-end, the market volatility experienced throughout the year should serve as a stark reminder of how rapidly circumstances can change. In this environment, pension plan stakeholders must clearly distinguish between what lies within their sphere of control and what doesn't. It is clear that market fluctuations—like those experienced throughout this year—remain largely unpredictable and beyond direct influence, making it essential for sponsors to focus on the risk management strategies they can actively implement.

The most impactful elements firmly within their control include robust governance processes, comprehensive adverse scenario planning, and systematic risk assessment, monitoring and management frameworks, as well as stakeholder education. This includes having clear objectives for the plan and statements of risk, enabling plan fiduciaries to have clarity on their attitudes, tolerance and capacities to all the various types of financial & operational risks a plan faces (both the rewarded and the unrewarded). We are pleased to see this risk management thinking now codified as an expectation for the industry in CAPSA Guideline No.10. These factors form the foundation of sustainable plan management, regardless of market conditions and increase chances of effective & measured, justifiable response to change (upside opportunity or downside impacts) without undue cost & stress. Those that were leaders in this, guided by the right advisers, and for whom annuities were identified to be part of the strategy under the right conditions are the ones who are ready to take advantage of the massive PRT market opportunity in 2025.

At TELUS Health, we always seek to support plan sponsors and fiduciaries with comprehensive risk management strategies, drawing on our decades long first-hand experience as regulator-appointed Administrator to over 200 plans that had been in distress.



Let's create a
healthier future together.

