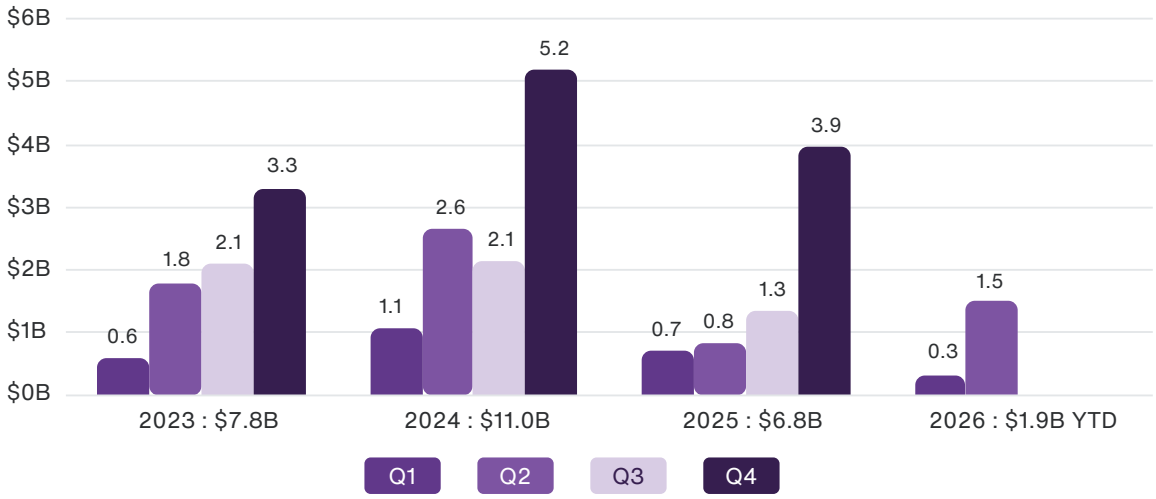
Pension risk in focus

The readiness advantage: **data, strategy and the path to better pension risk transfer outcomes.**

The Canadian annuity market experienced a modest start to 2026, characterized by aggressive pricing as insurers compete to meet their annual business targets. The recent influx of reinsurers into the market has further intensified competition, creating compelling opportunities for pension plans seeking to de-risk. While insurers are actively encouraging plan sponsors to enter the market, they simultaneously emphasize that early preparation is critical, as it streamlines execution, reduces premium costs, and strengthens insurer engagement throughout the transaction process.

After a slow Q1 (a recurring trend over the years), there was an increase in risk transfer activity over Q2. Despite this rebound, insurers continue to anticipate relatively modest volumes for the balance of the year, even when taking into account the usual Q4 increase in market activity. The slower market has also created an opportunity for insurers to raise awareness of key challenges and lessons learned from recent transactions. This reinforces a consistent theme in the risk transfer market: readiness matters. Sponsors that invest in preparation before entering the market are better positioned to capitalize on opportunities and achieve favourable outcomes.

Annuity purchase market volume.



TELUS Health

How to get ready and optimize your annuitization journey?

Data: the hidden cost driver.

Data quality has emerged as a key factor in annuity pricing. Insurers and their reinsurance partners are scrutinizing member demographics, beneficiary records, retirement dates, and data completeness with unprecedented rigor. The stakes are tangible: poor data hygiene can trigger premium margins as high as 3% of the total transaction cost. The good news is equally clear. Plan sponsors who document their data validation efforts systematically can negotiate those margins down. In a competitive market, clean data is a negotiating asset.

The annuity purchase process can be lengthy, and the annuity data becomes dated in the process. Small adjustments mainly attributable to life events such as deaths or retirements are expected, while adjustments due to data mistakes (e.g., wrong date of birth, gender, spousal information, pension amounts, etc.) should not be expected to occur frequently and should be minimized. To avoid taking on unwanted data risk and to reflect adjustments in the final price, insurers incorporate price adjustment clauses into their policies. They typically reserve the right to reprice the transaction using a then-in-effect pricing basis rather than the original competitive basis if adjustments are greater than a certain threshold of the original price. This can lead to less-than-optimal pricing. Insurers also hold additional margins if they expect a large premium adjustment due to unclean data, since premium adjustments can entail liquidating investments or holding cash reserves.

If not already underway, good data management and governance should start now, as they not only pay off for risk transfer transactions but also in on-going plan management.

Execution readiness across functions.

Successful transactions demand seamless coordination, not just between actuaries and insurers, but across investment, legal, administration, finance, and governance teams. Plan sponsors should establish a clear de-risking objective and decision framework early, understand their regulatory and governance constraints, map out settlement timelines, and prepare stakeholders for the execution schedule and transaction implications. This groundwork is not bureaucratic overhead; it can mean the difference between a smooth transaction and costly delays.

Asset & liquidity planning.

Funding the annuity premium from pension plan assets requires a carefully orchestrated asset liquidation process. The complexity increases within master trust or pooled fund structures, where redemption mechanics and timing constraints require additional coordination. Illiquid assets present a practical constraint since, if not identified and planned for in advance, these assets may not be available for liquidation in time to meet the premium payment deadline.

The liquidation process carries costs. Transaction costs, any redemption penalties, and potential market impact during execution all reduce the available capital for the premium. It is also important to recognize that benefit obligations to annuitized plan members continue during the transition. Benefits must continue to be paid to these members until the date the insurer's monthly pension payments begin, creating an additional liquidity requirement that overlaps with the annuity premium funding timeline.

Liquidity planning, conducted ahead of the transaction date, is essential to manage these interconnected factors. This includes identifying which assets can be liquidated within the required timeframe, quantifying liquidation costs, and ensuring sufficient reserves exist to cover both the premium payment and ongoing benefit obligations during the interim period.

Beyond the close.

An annuity transaction reshapes the plan's risk profile and should trigger a strategic reassessment. After the transaction's closing, the revised liability composition, investment objectives and risk appetite, future de-risking opportunities, and funding and investment policies all warrant reconsideration. While the transaction is a milestone, the strategy work for the plan should continue.

RISK OF THE QUARTER:

Liquidity risk

Risk definition

Liquidity risk is the risk that a pension plan lacks enough readily available assets to meet near-term benefit payments or transaction needs, potentially forcing asset sales at unfavourable prices.

Evaluate risk

Stress test scenarios that could materially increase near-term cash needs or reduce available liquidity, such as:

- **Higher benefit payments:** increased commuted values, retirements or benefit improvements.
- **Lower contributions:** contribution holidays or a decline in the active population.
- **Market or funding stress:** deterioration in funded status that reduces the liquidity cushion.
- **Private asset pressure:** accelerated capital calls, delayed distributions or limited liquidation options.

Monitor risk

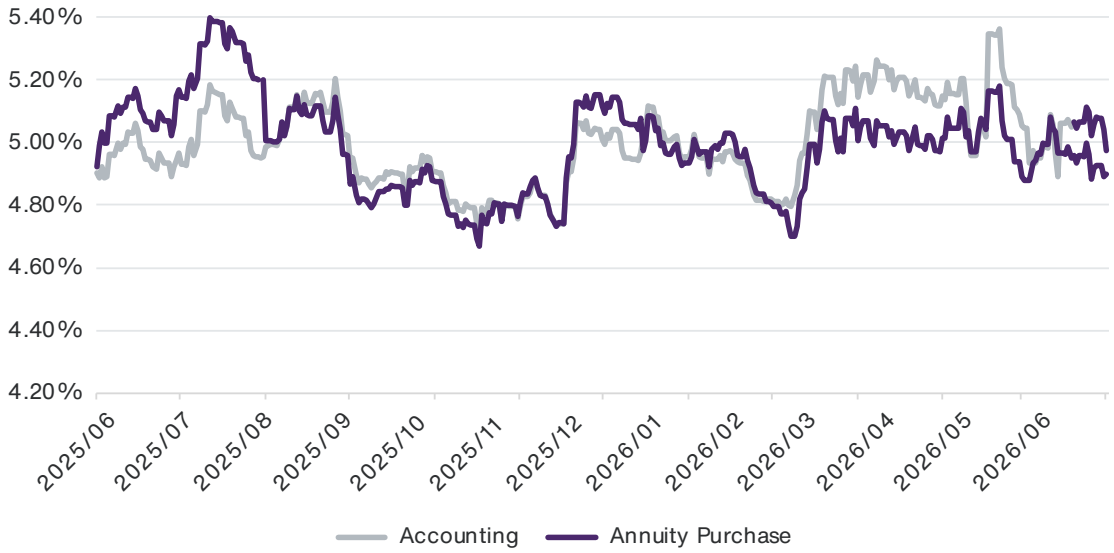
- Review projected inflows, outflows and available liquid assets regularly.
- Track capital calls, distributions, plan maturity and other demographic trends.
- Compare actual cash flows against projections and reassess assets that can be liquidated within required timeframes.

Manage risk

- Maintain an appropriate allocation to liquid assets and a dedicated liquidity buffer.
- Diversify funding sources and avoid over-reliance on a single contribution stream or asset class.
- Plan early for major liquidity events, including annuity purchases and private asset commitments.

Economic update

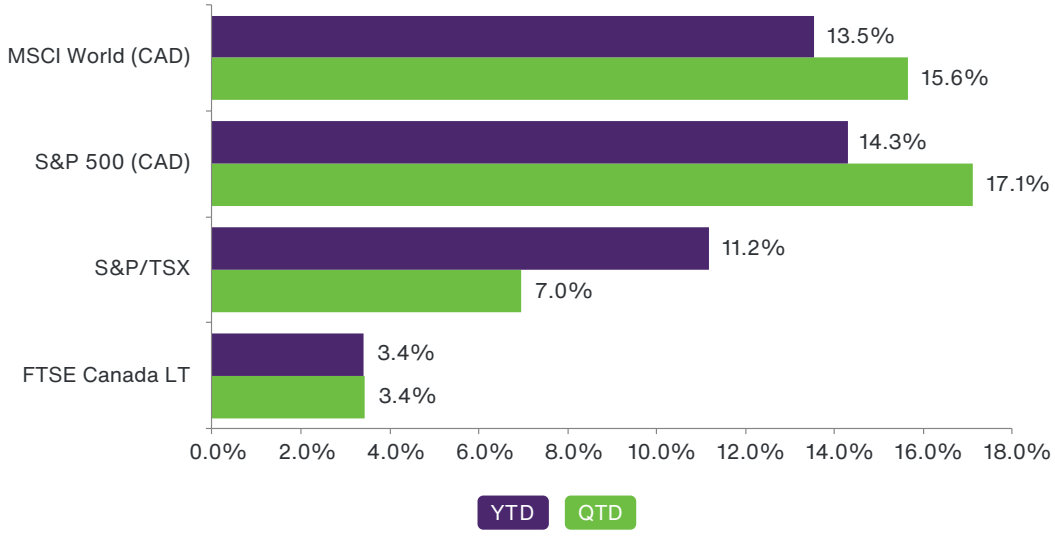
Annualized daily discount rates for an average duration plan.



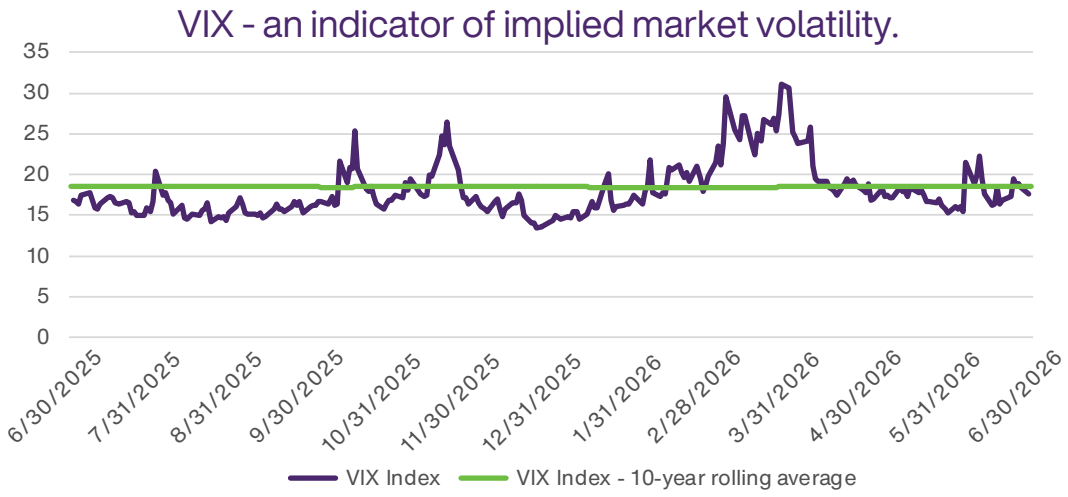
1. Accounting discount rate derived from the TELUS Health AA Corporate Bond curve.
2. Annuity purchase discount rate based on most recently available Canadian Institute of Actuaries guidance and market conditions for a medium duration annuity purchase.

Annuity purchase and accounting discount rates trended slightly downwards over Q2, with accounting rates ending higher than annuity purchase rates at June 30, 2026.

Key asset index returns.



Global equity markets delivered strong positive returns during the quarter on the back of strong technology-sector gains. Canadian equities generated positive returns but lagged most global markets.



Despite a continuation of the Iran conflict, markets have become increasingly insensitive to recent developments and market implied volatility is back down closer to long term historical levels.

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