Pension risk transfer.

Quarterly review 2025 Q3

October 2025

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TELUS Health

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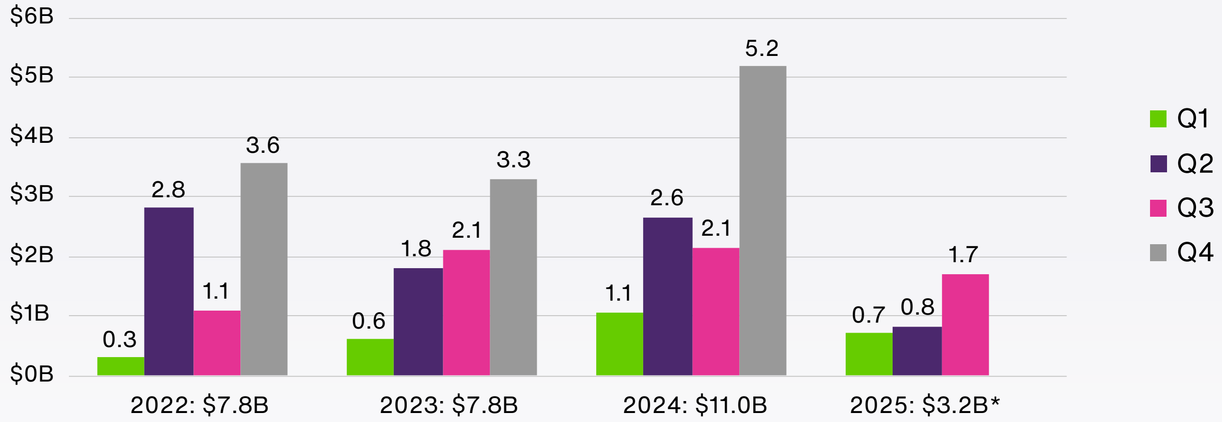
Market activity

The third quarter of 2025 upheld earlier market forecasts, with transaction volumes showing a measured yet notable increase from prior periods. Q3 saw an estimated transaction volume of $1.7 billion, surpassing the combined totals of Q1 and Q2 2025 but still falling short of Q3 volumes observed over the past two years. While total transaction volume remains modest compared to the record-breaking $11 billion transacted in 2024, transaction frequency continues at a steady pace. The market continues to demonstrate stability, underpinned by robust pension plan funding levels and a consistent pipeline of transactions across a range of sizes.

A notable development in 2025 has been the increased activity in indexed annuities, with heightened interest from plan sponsors seeking inflation-linked pension solutions. While only two major players systematically participate in this market, competitive pricing has been observed and new insurers participate in this space, particularly when traditional transaction pipelines are lower.

Transaction volume



* Q3 2025 volume of $1.7B is an estimate based on discussions with insurers.

Despite challenges around real return bond availability for hedging purposes, plans with inflation-linked indexation are showing highly attractive pricing compared to non-indexed transactions (mortality aside). In reaction to this development, the CIA has updated its indexed-annuity proxy guideline from a spread of 0 bps to 30 bps relative to the real return bonds. Market data suggests that most indexed annuity cases have been able to beat solvency proxy pricing net of mortality and market adjustments, demonstrating the competitive dynamics emerging in this specialized segment.

The third quarter concluded with a few large deals, a shift from the absent large-scale transactions seen earlier this year. This late-year surge in large activity is expected to carry forward into Q4, with additional large-scale deals in the pipeline. Although, this uptick is not expected to be large enough to bring the total 2025 transaction volume to 2024 levels.

Preparing for 2026.

As we look toward 2026, a key lesson from 2025 is the importance of early preparation and adaptability in navigating the cyclical nature of the pension risk transfer market. While Q4 traditionally experiences the highest activity, driven by year-end administrative timing and strategic planning, plan sponsors should consider the benefits of transacting during less active periods earlier in the year.

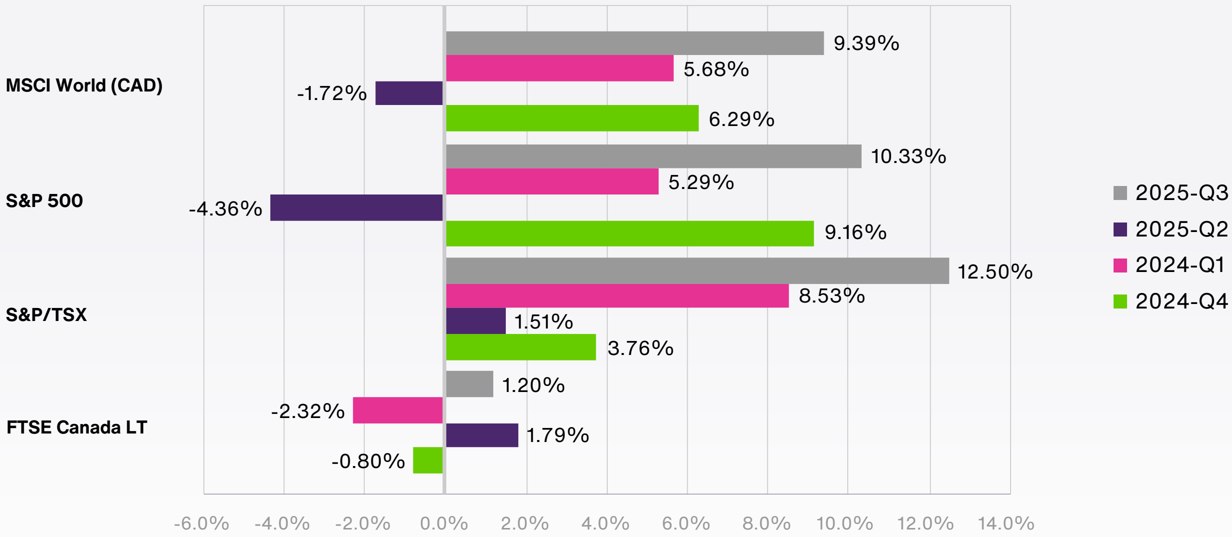
The annuity market has matured significantly, with insurers demonstrating enhanced capacity and interest in deals throughout the year. This evolution presents a valuable opportunity for plan sponsors to avoid the year-end rush, secure competitive pricing, and benefit from more focused attention from insurers.

Given that the preparation for an annuity purchase typically requires several months, plan sponsors seeking to capitalize on less active periods earlier in the year should begin the initial steps of the process well before year-end. This involves proactive planning with discussions beginning 9-12 months before going to market, leveraging scheduled committee meetings to engage proactive annuity purchase discussions on the agenda. Additionally, the growing number of sponsors coming to market with complex plan structures and benefit arrangements requires extended lead times to prepare for an annuity purchase. Engaging consultants early during this period can facilitate the development of effective stakeholder communication strategies and ensure alignment on de-risking objectives.

Regardless of the stage that plan sponsors are at in their de-risking, retirement consultants are well-equipped to support plan sponsors by providing educational sessions tailored to stakeholders' needs. These sessions can help demystify the process, address concerns, and build consensus, laying the foundation for a smooth and timely transaction.

At TELUS Health, we remain committed to guiding plan sponsors through these opportunities, ensuring they are equipped to navigate the challenges and capitalize on what lies ahead in 2026. 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 or plan sponsors that had been in financial distress.

Key index returns.



Economic update

The third quarter of 2025 saw strong market gains alongside increasingly polarized expectations regarding the global economy's trajectory. Equity markets sustained their upward momentum, underpinned by strong corporate earnings, optimism surrounding advancements in AI-driven technology, and Central Bank rate cuts. These factors collectively fueled significant growth in major indices, delivering a notable boost to pension plan assets.

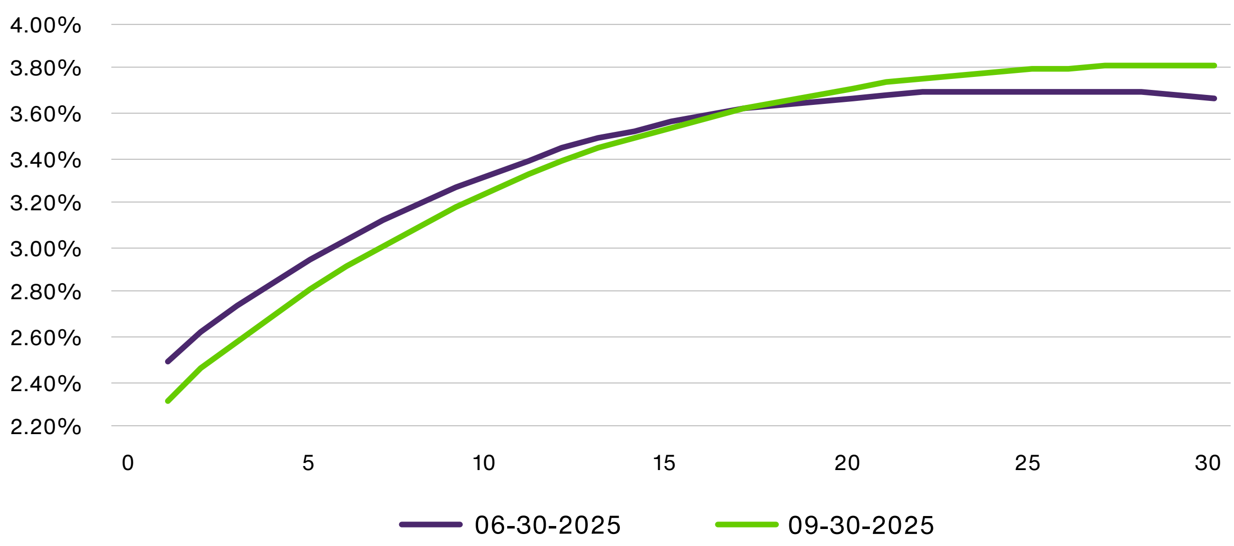
Conversely, fixed income markets were much more influenced by the worsening economic indicators. Canadian 10-year bond yields peaked at their highest level of the year in mid-July but declined to 3.14% by the end of September. This volatility led to uneven returns for bond portfolios, with long-term bonds bearing the brunt of the decline. While a modest recovery was observed in September, credit spreads narrowed further during the quarter, particularly for shorter-term and lower-quality instruments.

Key index returns.

In response to indicators of a slowing economy, the Bank of Canada implemented a 25-basis-point rate cut in September, bringing the policy rate down to 2.5%. This decision was driven by a declining GDP and employment, with headline CPI remaining stable at 1.9% in August.

The Canadian sovereign yield curve steepened over the quarter through a simultaneous decrease of short-term rates and increase in long-term rates. This steepening presented mixed implications for both hedged and unhedged pension plans. While higher yields reduced solvency liability valuations through increased discount rates in some cases, the curve's steepening may cause mismatches between asset and liabilities for plans employing traditional duration-matching strategies.

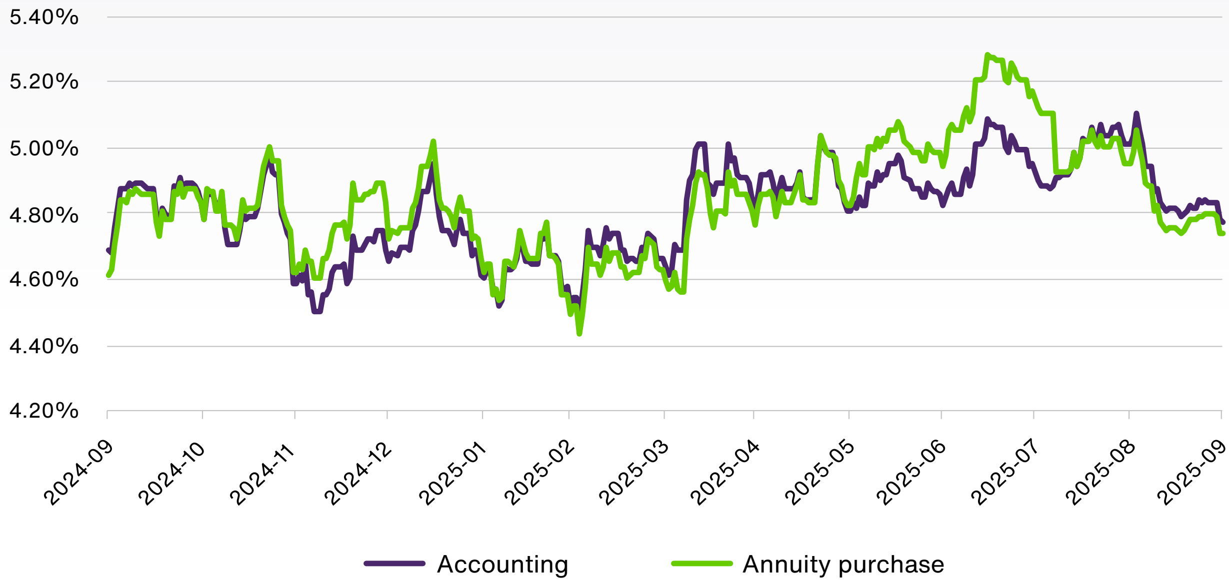
Canadian sovereign yield curves.



Discount rates

As of September 30, 2025, the annuity purchase rate and accounting discount rate stood at 4.7% and 4.8%, respectively. These rates, though slightly lower than mid-year levels, remained elevated. The narrow spread between the two rates continued to offer opportunities for pension plan sponsors to execute de-risking strategies, potentially realizing accounting gains through annuity purchases when insurers pricing is competitive.

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 September 30, 2025 for a medium duration annuity purchase.

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healthier future together.

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