



# Pension Risk Insights and Outlook

2025 Year-end review

## **In this issue:**

This issue highlights that while annuities remain an important tool, Canadian pension plans are increasingly focused on holistic, data-driven risk management, supported by strong governance, analytics, and regulatory guidance, to actively manage risk in a position of strong funded status.



The TELUS Health Pension risk transfer outlook has traditionally reported on quarterly market and economic activity in the pension risk transfer space, highlighting the role annuities play in managing pension risk. However, risk transfer is not the only solution or end objective for pension plans. Many plan sponsors choose to continue running their plans and managing risk actively, supported by robust risk management tools, analytics and ongoing advisory relationships. For these plans, interim measures to reduce risk can be as deliberate and effective a strategy as executing an annuity purchase transaction.

This expanded outlook reflects that philosophy: focusing on helping plan sponsors develop and implement the right risk management strategy for their specific objectives, whether that leads to action today or disciplined preparation for the future.



## 2025: A year in focus.

2025 proved to be a strong year financially for Canadian pension plans, with many ending the year in favorable financial positions despite navigating significant economic uncertainty. Even as macroeconomic volatility demanded attention to core business operations, improved funded status for plan sponsors allowed for greater financial flexibility to explore addressing pension risks in new ways such as pension risk transfer, liability hedging, and investment strategy refinements.

The implementation of 2024 CAPSA risk management guidelines further encouraged this strategic pension risk review. These guidelines set standards for responsible pension oversight for plan administrators – those responsible for the governance and management of pension plans. The guidelines establish a framework for systematic, holistic risk assessments to support strategic decision-making.

Throughout 2025, plan administrators and their advisors focused on ensuring compliance with CAPSA requirements. This journey involves documenting risk budgets, quantifying exposures across multiple risk dimensions and articulating rationale for the risks they choose to retain versus transfer or hedge. Regulators expect plan administrators to actively address the requirements addressed in the guidelines relative to their current risk management practices, recognizing that many are at the beginning of this journey.

The release of the risk management guideline prompted important conversations about risk management frameworks, but also revealed persistent challenges: education gaps about available tools, lack of comprehensive risk budgeting processes, and uncertainty about how to prioritize among competing risks. Plans that had already adopted sophisticated risk management approaches moved forward with confidence, while others worked to build the foundational understanding to enhance their risk management framework.

The year demonstrated that favorable market conditions alone don't drive pension risk management decisions; governance frameworks, clarity regarding pension regulators expectations, and organizational readiness matter just as much. As 2025 closed, plan sponsors found themselves in an enviable position: strong funded status providing financial flexibility and clear guidance from pension regulators. Holistic risk management will remain a key focus in 2026 for plan administrators whether they are improving existing risk frameworks or embarking on a new journey.



**Managing surplus proactively:** FSRA's Q3 2025 report indicated a median solvency ratio of 124% for Ontario plans, with stability maintained through 2025. With many Canadian plan sponsors sitting on meaningful surplus, the focus this year will likely be on both protecting and strategically utilizing these positions to derive value.

Surplus can evaporate quickly with the changing environment so it is imperative that plan sponsors review their funding and investment strategies to protect their gains. Derisking strategies such as LDI, annuity purchases or longevity insurance can be implemented to protect funded statuses.

Beyond simply safeguarding, sponsors can also explore ways to deploy surplus through enhanced benefits, contribution strategies or investment approaches that support broader plan objectives. Actions should balance surplus protection with strategic utilization thoughtfully considering decision impacts between current and future plan members. Proactive governance and defining plan objectives are essential for surplus management decisions.

Surplus is not a permanent state and allows for a window of opportunity. The exceptional equity returns in 2025 created this opportunity, but relying on similar returns to maintain surplus is not a risk management strategy. Plan sponsors who act strategically now, with robust governance and clear objectives, will be better positioned regardless of what 2026 brings.



## On the annuity purchase market.

### Key observations this year:

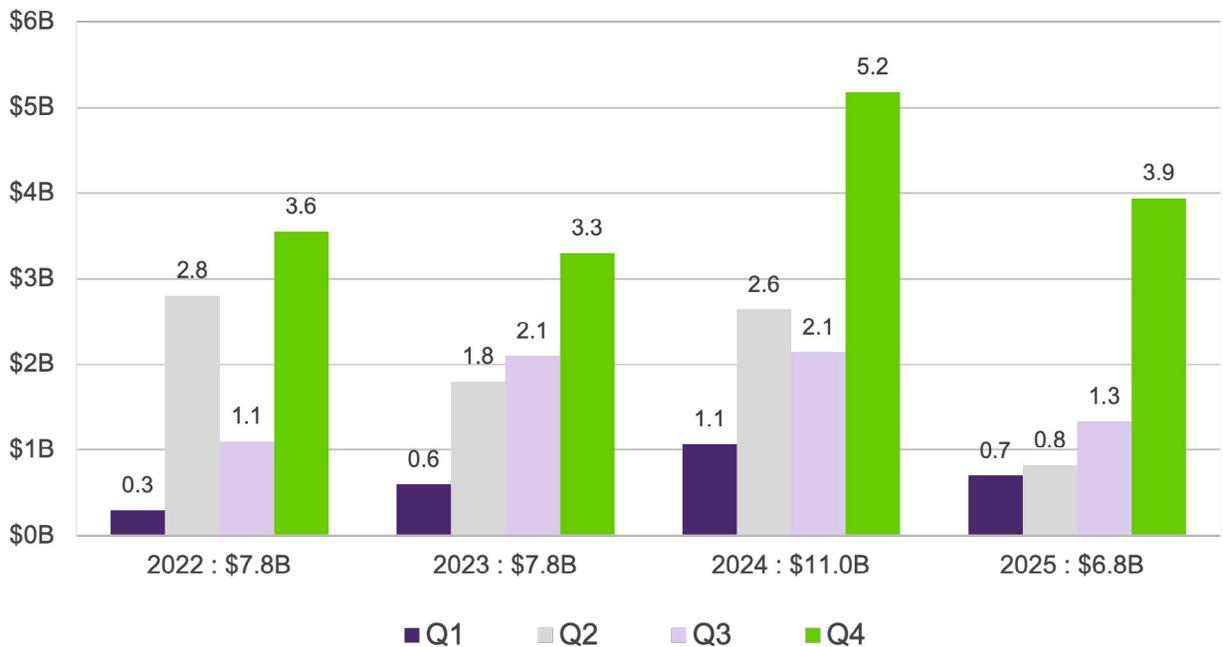
- **Market volume and activity:** The Canadian pension risk transfer market ended 2025 with \$6.8 billion in transacted annuities. The fourth quarter of 2025 generated \$3.9 billion in sales contributing 57% of the annual volume. While this concentration of activity is consistent with typical year end seasonality, Q4 2025 represented a larger portion of annual business than in prior years. This timing places significant demand on both insurers' and consultants' capacity.

The decline of total volume from 2024 is a result of fewer jumbo transactions (sized \$500M+), however the number of deals remained steady. This highlights the significant impact that a single large transaction has on annual market figures. One possible explanation for the intensity of Q4 is the cumulative effect of sustained efforts by both insurers and consultants throughout the year to bring transactions to market to take advantage of a slower overall pipeline environment. Many of those transactions ultimately converged in the fourth quarter, contributing to an unusually busy year-end

- **Reinsurer participation continues to broaden:** A new reinsurer entered the Canadian pension risk transfer market in 2025, underscoring the growing depth and resilience of the market. Continued reinsurer interest supports insurer capacity, promotes pricing competitiveness, and enhances the market's ability to absorb a wider range of transaction sizes and structures over time.
- **Pricing remained competitive:** Competitive pricing persisted throughout 2025 as insurers expanded beyond their traditional appetites. With jumbo deals scarcer this year, insurers adapted to compete across a broader spectrum of transaction sizes and complexities. While insurers remained selective about resource allocation, they showed flexibility in consideration of deal types. Primary success was achieved by plans with engaged decision makers and transaction readiness, giving insurers confidence to commit resources.
- **Evolving perspectives on risk transfer decisions:** Economic and political volatility led many plan sponsors to prioritize core business operations and risk management strategies over pension risk transfer when allocating management attention and resources. Particularly larger plans remained on the sidelines despite favorable pricing and active insurer interest. This suggests plan sponsors recognize that continued plan management and incremental risk mitigation can serve as deliberate alternatives over full risk transfer for those comfortably retaining some pension risk.

- Insurer strategy reaches beyond immediate transaction:** Insurers are increasingly investing time to support plan sponsors in their risk management journeys, offering education to demonstrate value upfront. This trend reflects a strategic shift of insurers positioning themselves for potential future annuity purchase through sustained engagement rather than waiting for formal transaction requests. At TELUS Health, our consultants understand each insurer’s competitive positioning, appetite for different deal types and pricing dynamics. This expertise remains essential to manage party interests, provide objective advice and ensure decisions align with plan objectives.

**Market volume by quarter**



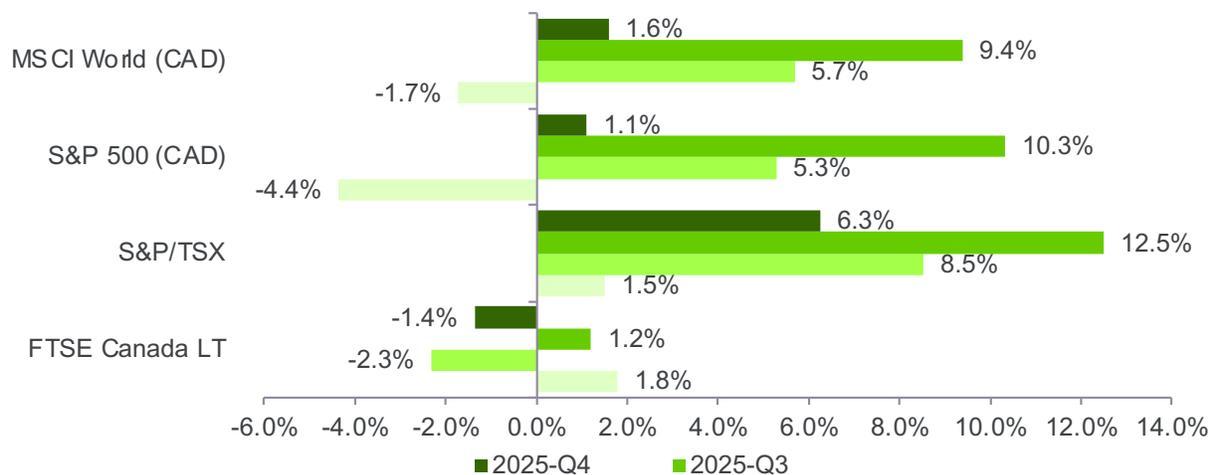
## Economic update

This year witnessed robust returns across all major equity markets, leading to significant improvements in the funding positions of pension plans that embraced return seeking assets. This favorable outcome mirrors the trends observed in 2024, despite navigating a different set of market challenges. While bullish investors celebrated strong market performance, more cautious and pragmatic investors may have felt sidelined by the prevailing trends.

Despite the year's positive results, several market risks intensified during 2025. Among these, the growing concern over inflated valuations in the equity markets, alongside the increasing concentration of major equity indexes was on the forefront. These trends have placed pension plans heavily reliant on index-based investments at heightened risk. In recent years, these exposures have delivered strong results, a trend clearly reflected in TELUS Health's Q4 Performance Universe of Pension Managers' Pooled Funds. For instance, the MSCI World Index ranked in the first quartile of the Global Equity Strategies universe for the 5-year period. However, their concentration raises critical questions about the resiliency of such strategies.

For pension plans, the reliance on concentrated equity positions poses unique challenges which goes beyond traditional asset allocation considerations. While these plans are long-term entities capable of weathering short-term volatility, excessive concentration in a few dominant market areas can create unintended risk exposures. This underscores the importance of reassessing asset allocation strategies to diversify risk exposures. By reducing dependency on concentrated positions, pension plan sponsors can better support long-term stability. For sponsors considering annuities, investment positioning and liquidity planning ahead of the premium payment, and a clear post-transaction strategy for the remaining liabilities, remain essential for transaction readiness.

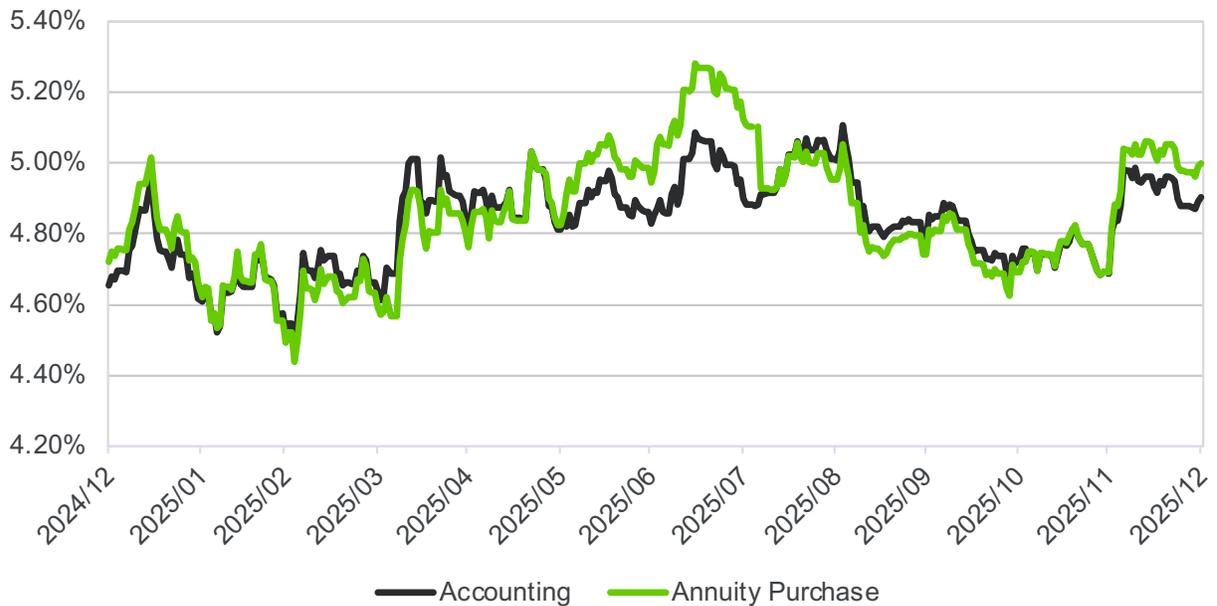
### Key index returns



## Discount rates

As of December 31, 2025, the annuity purchase rate and accounting discount rate for a medium duration plan stood at 5.0% and 4.9% per year, respectively. This marked an increase compared to the end of the third quarter, which had been characterized by a predominantly downward trend in yields. This trend reversed sharply in December, as long-term Canadian treasury rates rose in response to stronger-than-expected GDP growth and labor market numbers, leading investors to price in a 'higher-for-longer' interest rate environment.

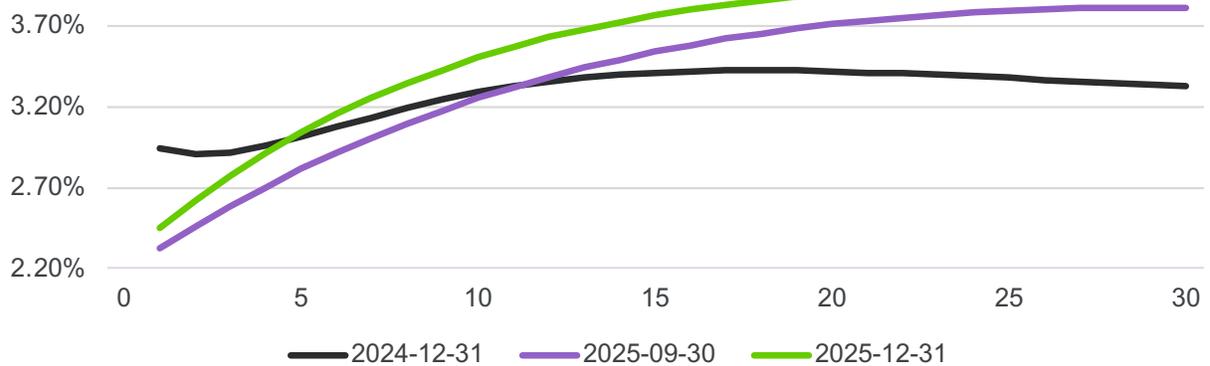
Annualized daily rates for a medium duration plan.



As of year-end, the annuity purchase rate exceeds the accounting discount rate, preserving the attractiveness of annuity purchases from an accounting standpoint.



### Canadian sovereign yield curves.



The Canadian treasury yield curve steepened during the quarter as longer term rates rose more prominently than short-term rates. While short-term rates remained relatively anchored by expectations of the Bank of Canada maintaining the policy rate steady, longer-term rates increased. This steepening was primarily influenced by spillover effects from U.S. fiscal policies, lingering uncertainty regarding inflation directions, and the current state of international trade affairs. Meanwhile, investment-grade credit spreads tightened to multi-year lows, especially for longer-term corporate bonds.

Pension plans that are engaging in interest rate immunization strategies must be aware that narrowing spreads might introduce basis risk for strategies holding corporate bonds to generate extra yield.

# Navigating 2026

## The case for holistic risk management beyond pension risk transfer.

The purchase of annuities, particularly for large pension plans, often make headlines for their success of risk-transfer. Annuities remain important, but they're part of a broader toolkit. This conversation is evolving for 2026 in the midst of economic volatility and the move to implement CAPSA risk management guidelines. The question is not just about how to best remove risk but rather about how to manage pension risk holistically.

## Understanding your risk landscape: longevity as a case study.

Pension plans face multiple interconnected risks: interest rate risk, investment risk, longevity risk, and operational risk, among others. To illustrate the complexity and importance of comprehensive risk management, consider longevity risk.

Longevity plays a critical role in pension plan risk management, significantly impacting funded positions and contribution requirements. It encompasses two key risks: the uncertainty surrounding mortality rates at a particular time



within a specific group, which may deviate from expectations, and the risk of mortality evolving in a manner that differs from initial projections. These long-term risks magnify other pension plan uncertainties. If pensioners live longer, plans pay benefits for longer periods.

Evaluating longevity risk is challenging due to its long-term nature. Unforeseen events like COVID-19 introduced heightened uncertainty, making accurate mortality projections difficult. Currently, for actuarial valuations purposes, pensioner mortality is evaluated using the Canadian Pensioner Mortality Table with improvement scales such as MI-2017 or CPM-B, which capture assumptions about how mortality rates, and therefore life expectancy, are expected to evolve over time. The MI-2024 improvement scale, released in 2024, provides an updated alternative, though adoption for valuation purposes has been rare to-date. Beyond offering revised mortality projections, MI-2024 signals that more substantial longevity improvements may materialize going forward, underscoring the heightened volatility inherent in this assumption.

In 2026, the Canadian Institute of Actuaries is expected to release new updated base mortality tables, complementing its recent work on mortality improvement research. While timing for adoption and impact on plan liabilities remain uncertain, plan sponsors may wish to proactively revisit assumptions and assess potential financial and operational implications.

Longevity is just one risk among many but changes of this nature reinforce why a systematic, data-driven approach to risk management is essential.

## Expanding your risk transfer toolkit.

Beyond traditional full-plan annuity purchases, plan sponsors can access targeted solutions tailored to specific risks. For longevity risk specifically, transfer methods include annuity purchases (which transfer all risks, including rewarded ones) and longevity insurance or swaps (which transfer only unrewarded longevity risk).

Longevity insurance contracts are either indemnity-based (tied to actual plan mortality experience) or index-based (using an agreed-upon mortality index, introducing basis risk). Innovative solutions are emerging, such as longevity exchanges and standardized processes, to streamline evaluation, pricing, and transfer, enabling smaller plans to access solutions traditionally reserved for larger plans.

Similar targeted approaches for other risks allow plan sponsors to customize risk management strategies based on their specific risk budgets and objectives.

## The role of advanced analytics.

While not necessary, nor possible, to eliminate all risks from a pension plan, a systematic approach can help plans effectively identify, measure, manage and monitor their risks.

Sophisticated data analytics tools help elevate plans' approach to analyze mortality experience, post-COVID trends, and demographic trends specific to their plan population. These insights extend beyond mortality and pension valuations to inform broader HR strategies and workforce planning decisions.

Comprehensive asset-liability modeling evaluates dynamics under various market conditions, examining trade-offs between investment strategies and liability hedging, including scenarios with and without longevity risk transfer.

## Meeting expectations of regulators.

Plan administrators can no longer reasonably operate without a formalized risk management framework; CAPSA's risk management guideline emphasizes the importance of documented risk appetite statements, regular risk assessments, and clear structures for risk-related decisions.

Plan administrators should engage and collaborate with their advisors to ensure an adequate risk management framework and monitoring process is set up and/or enhanced to address the requirements of the risk management guideline. TELUS Health works with clients to deliver practical and proportionate solutions through collaborative partnerships, leveraging advanced analytics and platform-enabled insights to help administrators fulfill their fiduciary responsibilities.



## Barriers to action.

While the majority of plan administrators understand the importance of managing risk, persistent barriers to action remain present. What has held plans back from taking action?

- **Lack of risk budgeting:** Without understanding their total risk exposure, administrators can't evaluate trade-offs
- **Misconception about annuities:** Many still view them as expensive or risky, rather than as risk elimination tools
- **Fear of being first:** As the pension landscape evolves and innovates, new risk management tools and techniques develop. Plan administrators often don't want to be a "guinea pig". Partnering with consultants who have deep understanding and tools available to monitor progress in these spaces will help with readiness and education of all available ways to monitor and manage risks.
- **Conscious or unconscious bias:** For example, some stakeholders may automatically tend to focus on asset-side strategies despite growing opportunities to manage the risks on the liability-side. While this may turn out to be the right strategy in many circumstances, we highly recommend using full and up-to-date data inputs and holistic analysis to ensure the decisions are data-driven and robustly justifiable<sup>1</sup>.

<sup>1</sup> [Navigating Future Certainties: A Collaborative Approach to Pension Plan Optimization with TELUS Health and PFaroe DB](#)



At TELUS Health, our expert strategies in pension risk management and data analytics provide plan sponsors with comprehensive insights into their unique pension plan risks.

We are equipped to support plan sponsors with options to develop and execute a risk management framework in a proportionate and collaborative way. We work with our clients to create road maps to identify, quantify, and mitigate their key risks while meeting and maintaining their risk objectives.

Modelling and analyzing of risks such as our mortality and demographic risk analytics go deeper than traditional consulting to model your specific plan's risks using sophisticated scenario analysis.

Our data-driven dashboards and analytics make governance compliance actionable and support in areas beyond pensions, such as strategic HR and broader organizational decisions. In 2026 and beyond, you need tools, dashboards, and the right experts at the table to support you in your risk management journey.

