



The benefits of buyout.

How buyout secures the retirement of millions of British people and invests billions in the UK economy.

Pension Risk Transfer Explained

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The benefits of buyout.

Defined benefit (DB) pension schemes are of vital importance to the nine million people who rely on them for their retirement income. This report is about what happens to those pensions, those people, and the assets backing them.

The starting point of any discussion should always be “what is the purpose of a defined benefit pension scheme?”. The simple answer is that it is to pay the pensions of its members. Trustees decide how that is best achieved, depending on how well funded the scheme is and taking into account other considerations, such as how strong the sponsoring company is. One route for DB pensions is “buyout”, where a specialised insurance company, subject to strict regulation, becomes legally bound to pay the pensions of the scheme’s member. They do this by investing in long-term projects like housing, infrastructure and urban renewal, which provide secure, long-term cashflows. PIC is one of those insurance companies.

Trustees are being offered an increasing number of alternative routes for those schemes, in the name of “choice”. However, what “choice” means is that the management of DB pension scheme assets are spread amongst a wide number of different offerings with varying levels of security and expertise. By definition, any arrangement for paying people’s pensions short of buyout has lower regulatory standards. That means the people who rely on those pensions face a higher risk that they won’t get their full pension.

The alternative routes being promoted also mean less DB pension capital being invested in long-term UK assets, because fragmentation does not lead to the development of expertise. In addition, the ability to carry more risk naturally means an investment strategy focused on global equities – like open defined benefit pension schemes, such as the MP’s own scheme. Most worryingly for the members, new rules and market developments will allow companies to remove money from pension schemes and hand it to shareholders and executives.

We believe that insurance companies buying out DB pension schemes bring great benefits to the members of those schemes, and to the UK economy. That’s why we called this report “The Benefits of Buyout”. We also believe that the alternatives to buyout would reduce those benefits to members and to Britain. This report sets out the options for DB pensions and for the country.



Buyout means benefits for pension scheme members, who get security over their pensions. And it benefits Britain with higher investment in long-term assets.

The Golden Rule of pensions.

The purpose of pensions is to provide people with financial security in later life.

The interests of pension scheme members must always be the highest priority for anyone making decisions about individual schemes or on the policies and rules that affect schemes.

Pension Risk Transfer – also known as “buyout” – is a way of providing complete security for millions of members of defined benefit (“DB”) pension schemes.

This is why many people regard it as the gold standard option for DB schemes.



[Click here to see the report “Pensions Explained” for more on DB.](#)

Pension Risk Transfer – overview.

Pension Risk Transfer (“PRT”) is an arrangement chosen by the trustees of DB pension schemes.

PRT:



Gives workers and pensioners more security about their pension income. The PRT sector now guarantees the pensions of more than two million people.



Allows UK companies to remove big financial liabilities from their balance sheets. PRT allows companies to focus their efforts on their current workforce and strategy.



Creates large pools of capital that is invested in long-term British assets including infrastructure and housing. The PRT sector will invest £200 billion over the next 10 years.



[How does PRT do this? Read on to find out.](#)

Who are defined benefit (“DB”) pension scheme members?

8,770,000

people are members of DB pension schemes



4.07 million

of them are retired and receiving a DB pension



4.05 million

are yet to start receiving their DB pension



Only

700,000

DB scheme members in the private sector continue to build DB pension benefits

More than half of these are in two schemes: the Universities Superannuation Scheme (“USS”), and the Railways Pension Scheme (“Railpen”).



93%

of schemes are closed to new members



74%

are also closed to new benefit accrual

Vulnerability among DB pension scheme members.

The FCA requires that people who are vulnerable are protected from financial harm.

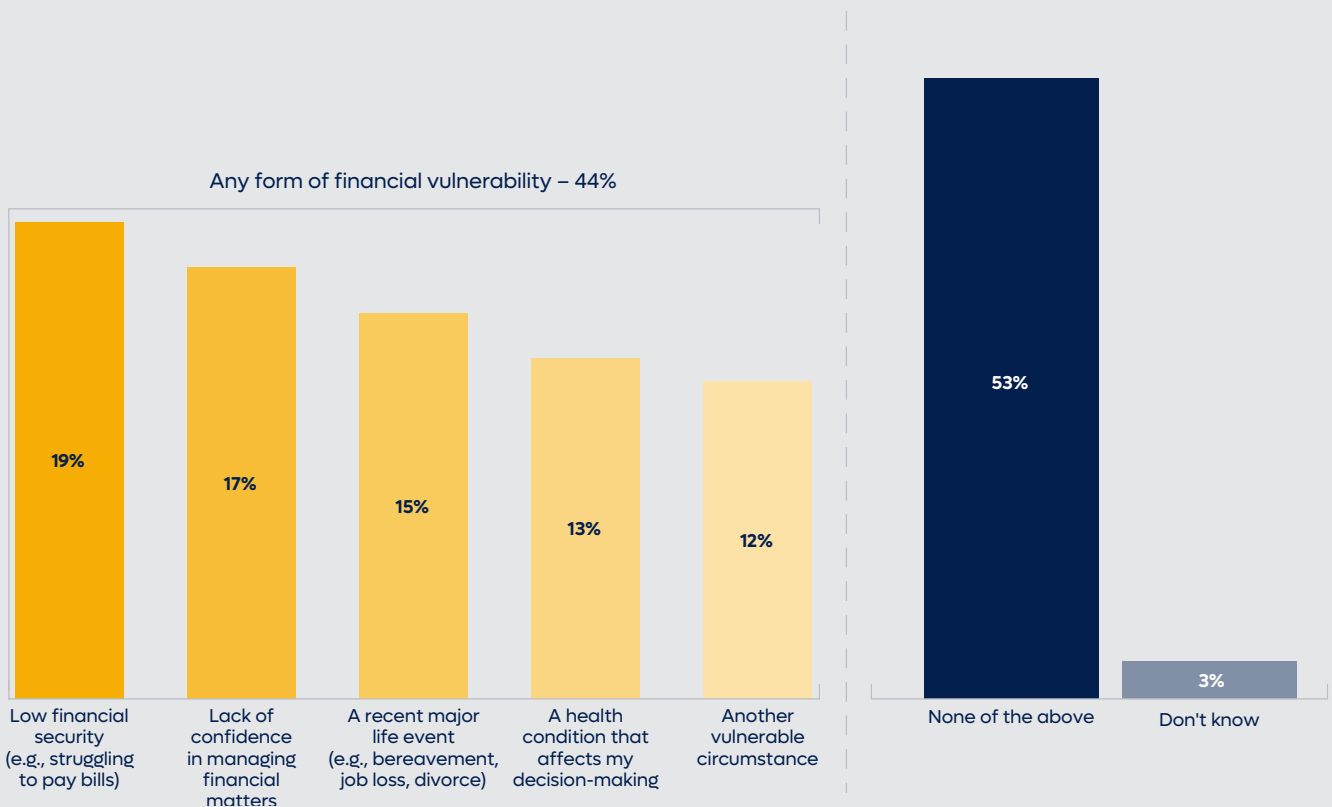


The Financial Conduct Authority says:

“A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care.”

Polling by PIC suggests that 44% of DB pension scheme members are potentially vulnerable.

Q. Which, if any, of the following factors currently affect your ability to manage your finances? (Select all that apply)



The survey was conducted by Censuswide among a sample of 1,000 defined benefit pension scheme members – UK consumers aged 18+. The data was collected between 03.03.2025 – 10.03.2025.

What do DB pension scheme members want?

For DB members, the single most important consideration is security of their pension benefits.

Why is security of benefits important for members?

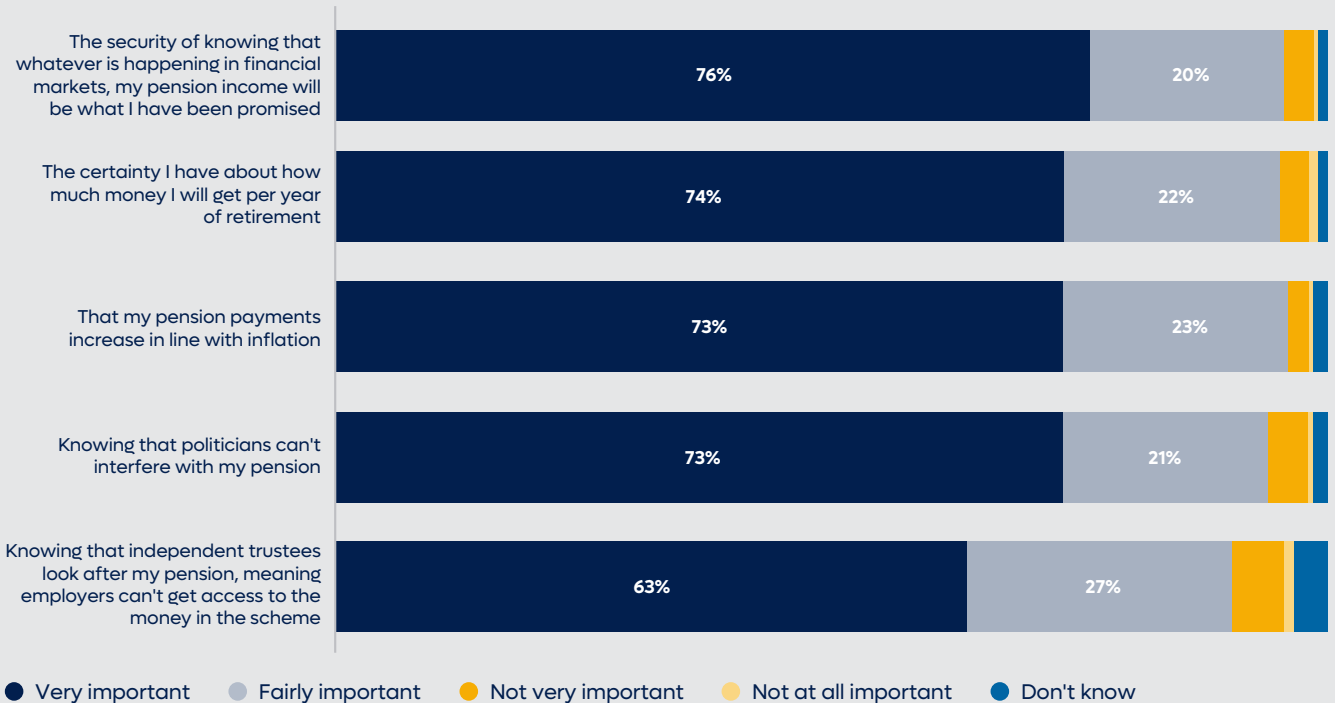
- They have worked hard and saved their own money into these schemes
- The stable and reliable pension income they get from their DB pension offers financial security in retirement
- For most members this DB income will be the largest proportion of their retirement income and will likely determine their quality of life in retirement
- They have no control over the scheme – they have to trust the trustees, and the sponsor

Members' voices – polling.

We polled DB members.

They value certainty and security over their pension incomes very highly. 96% say those things are important to them.

Q. To what extent are the following features of your defined benefit pension important or not important to you?

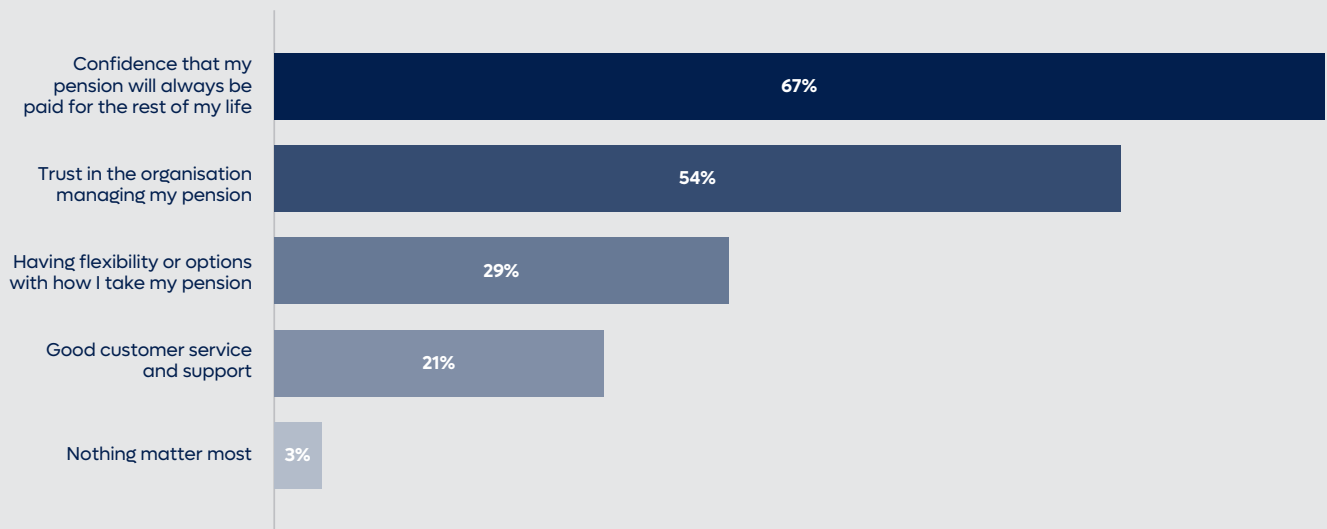


Other surveys confirm that DB members see security of payments as far more important than anything else.

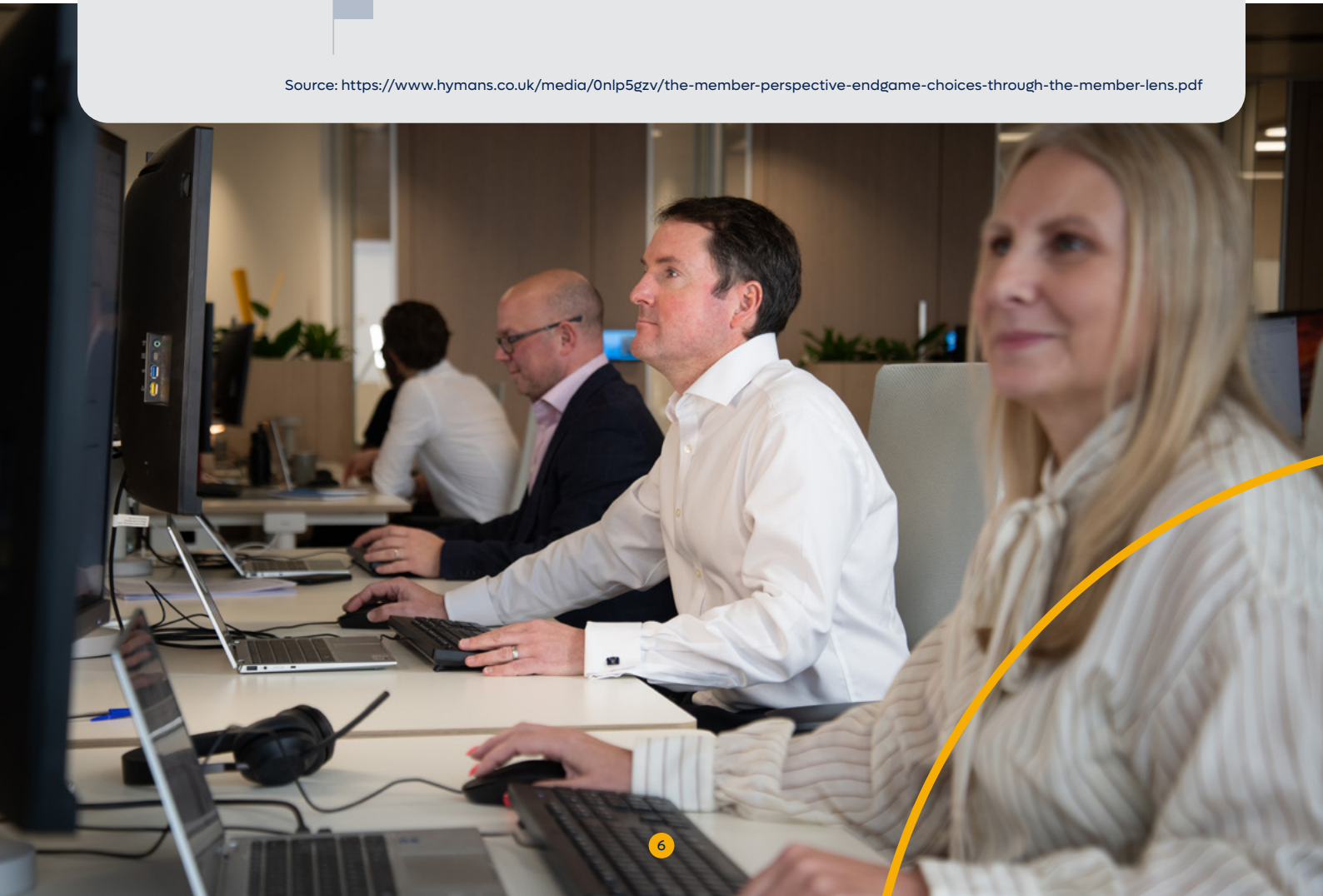
A survey by independent pension consultants Hymans Robertson found that for two-thirds (67%) of respondents, the greatest priority with their DB pension is security. In December 2025, Hymans Robertson said:

“Members want security above all – Members want confidence that their pension will always be paid for life.”

Q. What matters most to you when thinking about a DB pension?

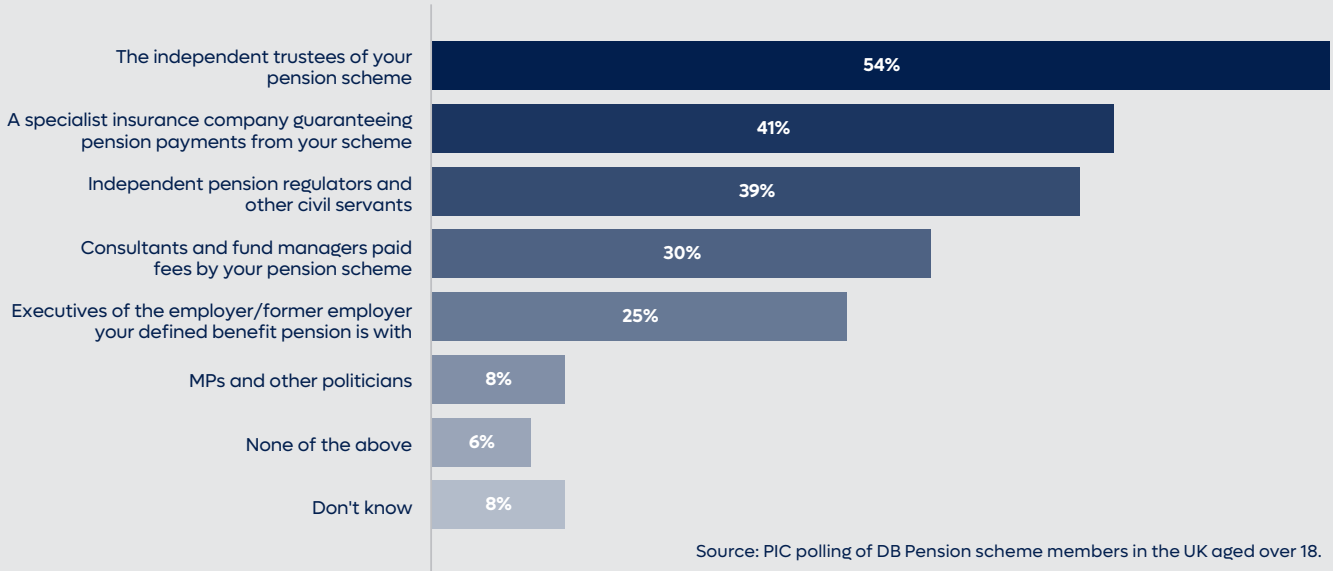


Source: <https://www.hymans.co.uk/media/0nlp5gzv/the-member-perspective-endgame-choices-through-the-member-lens.pdf>



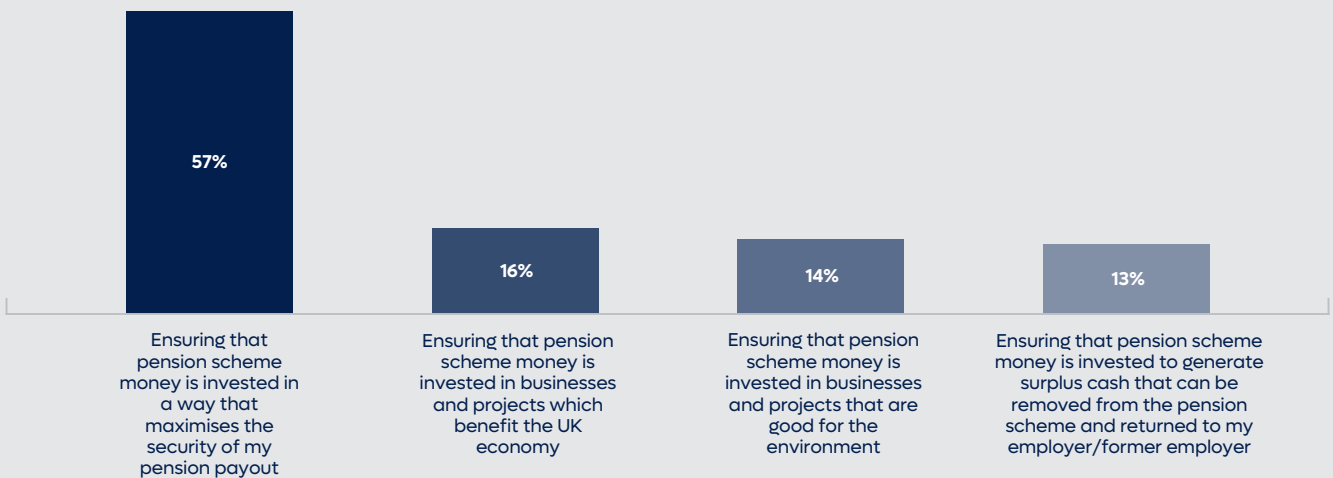
DB pension scheme members trust independent trustees with their pensions. They don't trust politicians.

Q. Which of the following groups, if any, would you trust to make decisions around your defined benefit pension? (Select all that apply)



And they want money in their pensions to be used for their retirement, not for other things.

Q. Which of the following areas would you most like the organisation that manages your defined benefit pension to focus on? Please rank the option that is most important to you as 1 and the option least important as 4.



Members understand the Golden Rule very well – that schemes should prioritise security of pension benefits to provide financial security in later life.

Sponsoring companies explained.

A DB pension scheme is usually sponsored by the company which originally employed the scheme member. Sponsors bear all the risk and have to put extra money in when the scheme underperforms.

The company ultimately underwrites the promise that the member will get their full pension, even when that member no longer has any relationship with the company – either they have moved to a new job, or they have retired.

This decades-long promise can be a big burden on employers. Historically DB schemes have often underperformed (known as being in deficit), forcing employers to put more money in.

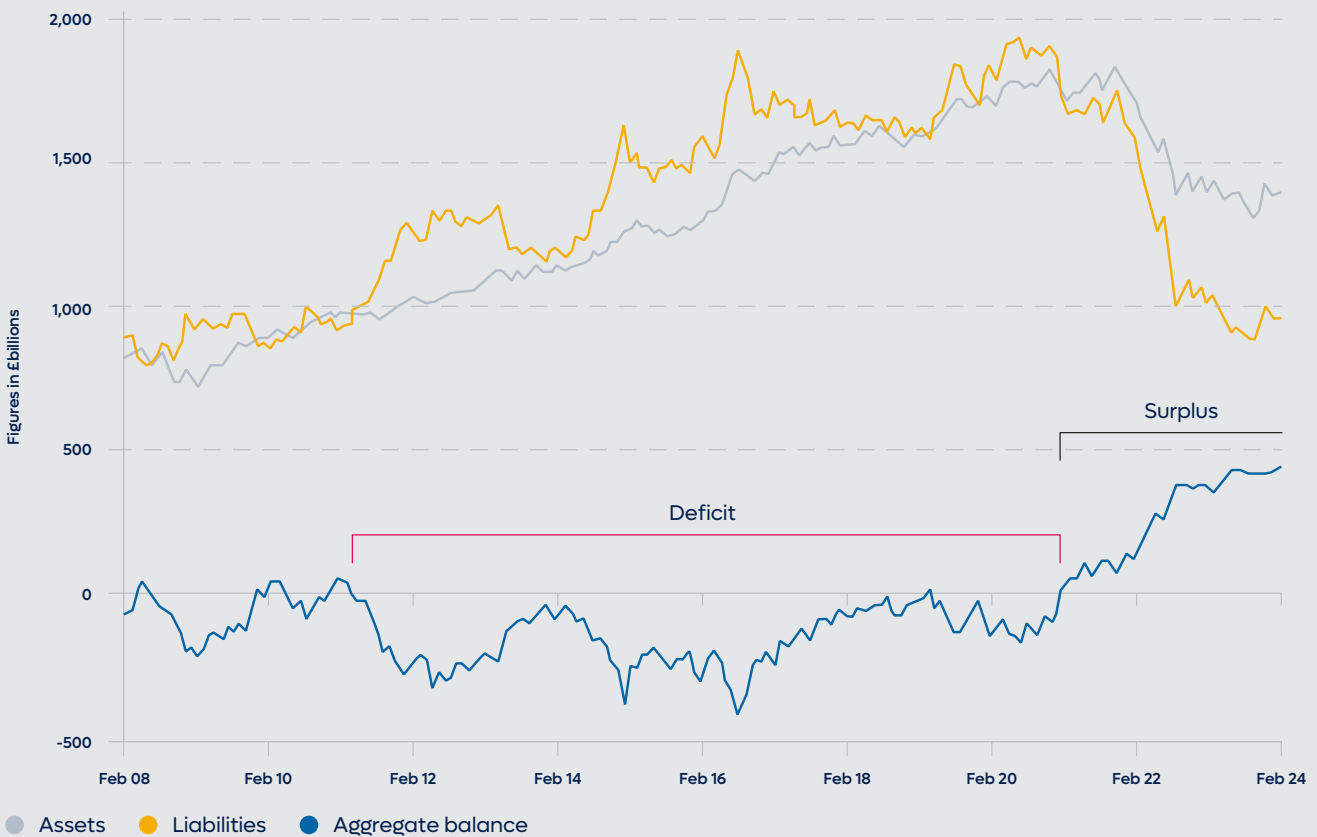
Between 2012 and 2022, sponsors had to pay a total of **£200 billion** in extra contributions into pension schemes, to reduce their financial deficits.

For sponsors, DB pension schemes appear as liabilities on their balance sheets.

When a scheme goes to buyout, sponsors no longer face the risk of having to make extra contributions, and liabilities no longer figure in their accounts.

DB scheme funding fluctuates considerably over time.

United Kingdom: £ billions (s179 basis)¹



Between 2012 and 2022, sponsors had to pay a total of **£200 billion** in extra contributions into pension schemes to reduce their financial deficits.

Source: House of Commons Library, based on PPF 7800 index

¹ For guidance on s179, please visit: <https://www.ppf.co.uk/useful-information/explanation-pension-valuations>

DB scheme trustees – their role and duties.

DB schemes are overseen by **trustees**. They are independent of the sponsoring company and independent of the government. Their job is to look out for members.

HM Government tells trustees that the law requires that:

“Trustees are the legal owners of the pension scheme assets. You have to act in the best interests of the pension scheme members.”¹

The Pension Regulator says:

“As a trustee, you are responsible for the proper running of the scheme – from the collection of contributions, to the investment of assets and payment of benefits. The scheme members look to you to make sure that the scheme is well run and that their benefits are secure.”²



¹ Source: Gov.uk, Responsibilities of a pension trustee: Published September 2014.

² Source: The Pension Regulator, Trustee Guidance: Issued December 2007.

Arguments for other pension scheme options.



Open schemes

- **Ongoing management**

For as long as a scheme is still open to new members and an employer is supporting it, a DB scheme can continue to operate.

These are now quite rare but examples include the Universities Superannuation Scheme scheme for university workers, and Railpen for railway staff.



Closed schemes where the sponsor remains involved

- **Run on**

The schemes assets could be actively managed for a period usually with an aim to increase the surplus which then may be shared with the sponsor. The scheme is expected to buyout at a future point.

- **Run off**

The schemes assets could be actively managed for an extended period of time until the last benefit payment is made. There is usually an aim to increase the surplus which may be shared with the sponsor. The scheme is not expected to buyout at a future point.



Closed schemes where the sponsor is not actively involved

- **Pension Risk Transfer**

Trustees buy insurance policies from PRT firms that guarantee some or all of their pension liabilities. Many schemes, even very large ones, use pension risk transfer to help them manage the risks involved with a very large investment portfolio.

- **Pension Protection Fund**

When a DB scheme's sponsoring employer goes bankrupt, its assets are transferred to the Pension Protection Fund, the industry "lifeboat", which then pays out some of its pension liabilities – though members generally don't get all the money they were promised by the pension scheme. This differs from the Financial Services Compensation Scheme (FSCS) which would guarantee a 100% payment.

- **Superfunds**

New commercial operators who offer to consolidate the assets and liabilities of DB schemes, ending the employer's obligation to fund liabilities but without a guarantee that pensions will be paid. These pensions are backed by a lower level of regulatory capital and thus are less secure. They are also covered by the PPF and not the FSCS so do not receive 100% protection of member benefits.

What are PRT firms, and what do they actually do?

We are life insurers. We sell annuity policies that guarantee the payment of pensions. That means total security for members.

We offer two main ways for trustees to secure some or all of their members' pensions:

1

Buy-in

A scheme purchases an annuity policy that covers some of its liabilities, guaranteeing that those liabilities will be met. The scheme trustees remain responsible for managing the remaining scheme assets and paying pensions.

2

Buyout

A scheme purchases an annuity policy that covers all of its liabilities. The insurer takes on responsibility for paying pensions and the scheme can be wound up, after which the members become policyholders of the insurance company.

This process transfers all risks in a DB scheme away from trustees and sponsoring companies and into the insurance company.

Because PRT firms are insurers, we are subject to higher levels of regulation than pension schemes, so we keep large capital buffers to make sure we can always pay out.

And because PIC's purpose is to pay the pensions of our policyholders, that is what our whole business is built around, including the delivery of excellent customer service.

Thanks to the security of the PRT regulatory regime, no guaranteed annuity has ever defaulted.

Every buyout starts with a buy-in

Gold-standard regulation means peace of mind for PRT policyholders.

As insurance companies, PRT firms are subject to the most rigorous and robust regulation. We are overseen by the Prudential Regulation Authority (“PRA”), part of the Bank of England. The PRA requires insurance companies to maintain very high levels of capital, to ensure that we can always meet our obligations to pay pensions even in the toughest times.

In 2025, the PRA ran a Life Insurance Stress Test (LIST) for PRT firms. This is a war-gaming exercise that simulates worst-case financial scenarios to see how companies would cope and if they would still pay out pensions.

The LIST exercise simulated “1-in-200” scenarios, including some market conditions worse than those experienced during the 2007 global financial crisis.

All PRT insurers in the UK passed the test.



In November 2025, the PRA said:

“The results of the 2025 life insurance stress test (LIST 2025) indicate that **the sector is resilient to a severe financial market stress scenario...**”

“**All firms continue to meet their regulatory capital requirements**, underscoring the sector’s robust starting position and ability to absorb significant shocks of the kind tested in the exercise.”

World-class regulators subjecting PRT insurers to the most demanding scrutiny and testing means that people whose pensions are supported by PRT firms can be sure their pension will always be paid. Sadly that’s not true for other DB pension scheme members.

DB pensions and investing in the UK economy.

Lots of people say they want more pension capital invested in **productive UK assets**, such as housing and infrastructure.

Closed DB schemes generally can't invest in these things. They're too small, they lack the expertise and they don't have the right time horizons because they need the money in the short term to pay the pensions of their members.

PRT firms can and do invest pension capital in productive assets. We can do this because we have the size and expertise needed to manage the risk inherent in these projects.

The process of PRT means total investment in the UK rises.

Around 65% of assets held by PRT firms are invested in the UK. This compares to 55% of total assets held by DB schemes that haven't agreed to PRT yet.

18% total increase in UK investment following PRT

PIC for example employs more than 100 people in our investment team.

PIC has committed **£30 billion** to UK investments. That includes investing **£14 billion** in UK housing and infrastructure, in total.

PIC's investments include:



Renewable energy
(£1.5 billion)



Urban regeneration
(£1.5 billion)

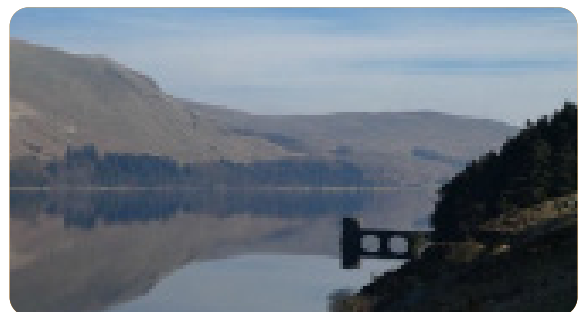


Social housing
(£3.6 billion)



Education sector
(£3 billion)

In 2025, PIC invested **£300 million** in the Haweswater Aqueduct Resilience Programme. The 70 mile pipeline will ensure the long-term transport of high-quality drinking water from the Lake District to Cumbria, Lancashire, and Greater Manchester, securing supply for **2.5 million customers** across the Northwest of England.



PRT firms are already delivering exactly what policymakers say they want pension capital to do.

The options for DB schemes – pros and cons.



Run on



Buyout



Policyholder

- Risk of sponsor failure leading to PPF and reduced payments

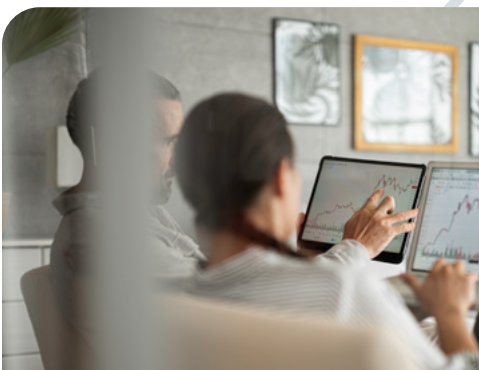
- Guaranteed payment



Sponsor

- Risk of deficit reduction payments
- Liabilities on balance sheet
- Administrative burden

- Pension removed from balance sheet
- Risk of deficit payments removed



Economy

- Scale, timescale and regulation skew DB investments away from productive assets

- Asset pooling and expertise allows scale investment in infrastructure and housing

Key topics explained: Run on – a risk to member benefits.

“Running on” a closed DB pension scheme means taking risks that could fall on members. Schemes’ sponsoring employees can and do fail, leading to scheme failure and transfer to the PPF. The people who suffer from that are **members** – current and future pensioners.

Since 2005, the Pension Protection Fund has taken on more than

1,000 pension schemes

covering the pensions of more than

290,000 people

That’s a vital service, but it comes at a cost to members:

- Members of schemes who haven’t yet retired at the point of transfer to the PPF could potentially **lose a percentage of their benefits**.¹
- PPF pensions generally rise by maximum of 2.5% a year, meaning that when inflation is higher, the value of pensions is **eroded**.²

¹ Source: The Telegraph “I was on a comfortable £66k-a-year pension – then it plummeted to less than £18k” Rob White, September 04 2024

² Source: Pension Protection Fund

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Profit warnings from UK-listed firms with DB schemes reach four-year high

By Callum Conway 10/02/2025

UK-listed companies with defined benefit (DB) pension schemes issued 81 profit warnings in 2024, the highest annual volume since 2020, EY-Parthenon has revealed.

When a scheme runs on, members’ interests are still tied to the fate of the sponsoring company.

In 2024, some 24% of listed companies that sponsor a DB pension scheme issued profit warnings.

Figure 1: Pensions Age “Profit warnings from UK-listed firms with DB schemes reach four-year high” Callum Conway, February 10 2025

Key topics explained: Surplus.

Is there a big financial surplus in DB schemes that someone could extract and use?

Any “surplus” on a DB scheme is notional. It’s the difference between the scheme’s predicted payments and its predicted asset returns. Those long-term predictions are very sensitive to interest rates.

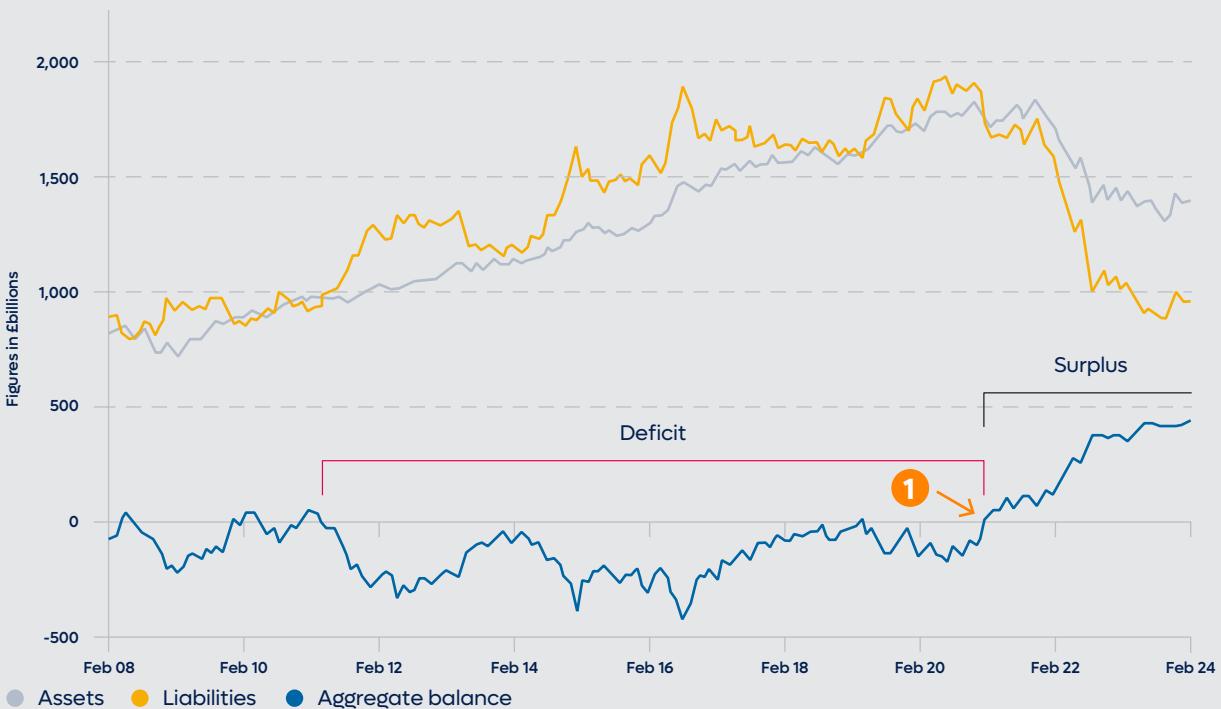


As the Department of Work and Pensions says:

“The position of schemes can change significantly in relatively short periods.”

DB scheme funding fluctuates considerably over time.

United Kingdom: £ billions (s179 basis)¹



Source: House of Commons Library, based on PPF 7800 index

¹ For guidance on s179, please visit: <https://www.ppf.co.uk/useful-information/explanation-pension-valuations>

1 Look again at the chart and see how “surpluses” have only existed for just over two years, after 15+ years of financial underperformance.



What would happen if things changed again?

Surplus extraction.

The Pension Schemes Bill proposes making it easier for sponsors to remove money from pensions schemes.

Some claim that allowing sponsors to extract surplus from schemes would unlock major investment in the UK.

The Government’s own calculations and the work of independent economists shows that this is false.

- The official Department of Work and Pensions Impact Assessment for the Bill shows that it will mean only **£12.7 billion** of surplus extracted over 10 years.
- Independent experts at Oxford Economics calculate that **37.5%** of that would go to employers after tax = **£4.76 billion over a decade**.
- Oxford Economics then estimates that employers will invest **25%** of their share in plant, capital, productive assets.¹

- **25% of £4.76 billion = less than £1.2 billion** of additional business investment over ten years.
- In cash terms, that is **<£120 million** per year, or approximately 0.01% of annual business investment.
- The other **75% – c£3.5 billion** – released to sponsors will be returned to shareholders in dividends.

Many DB pensions are now in surplus because their liability valuation is heavily influenced by the price of government debt – this creates a paradox where DB pensions appear safer because lending to the UK government is perceived by the market as more risky.

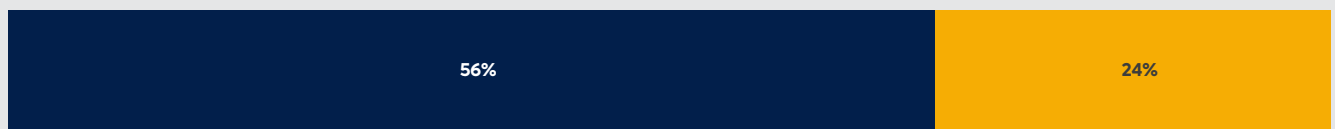
Letting employers remove money from DB pensions would not benefit the UK economy.

Our poll showed that DB members oppose surplus extraction by a wide margin: **56% are opposed.**

DB members oppose surplus extraction by a wide margin.

Following explanation on surplus extraction our poll showed that **56% are opposed.**

Q. If this surplus money was removed from your defined benefit pension scheme and given back to your employer/former employer to invest, which of these statements is closest to your view?



I'd be unhappy with that, because the money in a pension scheme is there to provide pensions, not to be given back to employers to decide how to use it

I'd be happy about that, because employers might use surplus pension money in a way that is good for business and the economy

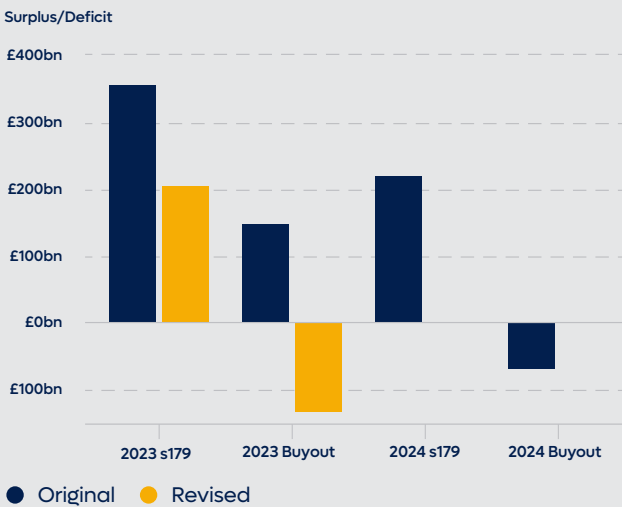
Note that just under 20% selected either 'I don't have a view on this' or 'don't know'.

¹ <https://group.legalandgeneral.com/media/5vvabnne/a-blueprint-for-growth.pdf>

What is a surplus?

Surplus is very hard to measure and there are multiple ways of calculating it. Just ask the Pension Protection Fund which tries to measure DB pension surpluses.

- In 2023, the PPF said DB schemes had a combined surplus of £150 billion.



Source: Purple Book 2024, Purple Book 2023

- In 2024, the PPF said those same schemes had a combined deficit of £133 billion.

Figure 2: Financial Times "UK pensions lifeboat wipes £283bn off defined benefit funding estimates" Mary McDougall, December 05 2024

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UK pensions lifeboat wipes £283bn off defined benefit funding estimates

'Hugely embarrassing' recalculation puts schemes at a deficit of just over £130bn in 2023

When the "surplus" numbers can change so much, is it wise to make plans to spend that money?

PPF view.

In December 2025, the Pension Protection Fund (PPF) confirmed that members are right to worry about surplus extraction. It said that changes encouraging schemes to run on increase the risk of schemes collapsing, increasing the burden on the PPF:



PPF Purple Book 2025:

"there is the possibility that future legislative or regulatory changes could increase the risk to us. For example, legislation that introduces increases to PPF compensation accrued prior to April 1997, or regulatory change which has the effect of encouraging schemes in the DB universe to run on for longer, scale back de-risking, and allow more surplus extraction."

A history lesson from Robert Maxwell.

The rules that make it hard for employers to take money out of pensions were written because of Robert Maxwell and other unscrupulous employers who raided pensions and left workers in poverty. Proposals to allow surplus extraction have left the victims of Maxwell's theft worried that history could repeat itself. The Association of Mirror Pensioners says: "This current Government appears not to have learned from our bitter experience."

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Reeves's pension reforms 'risk repeat of £460m Maxwell scandal'

Mirror campaigners brand Chancellor's plans 'a recipe for disaster'

Zou Ping Chen
Economics Editor

12 November 2025 7:45pm GMT

Related Topics
Private Pensions, Rachel Reeves, The Budget

Rachel Reeves's plans to unlock billions of pounds from private sector pensions risks a repeat of the [Robert Maxwell embezzlement scandal](#), his victims have warned.

The Association of Mirror Pensioners (AMP), which was set up after it emerged that Maxwell had raided £450m from his companies' retirement funds, branded Ms Reeves's plans to relax rules around gold-plated pension schemes "a recipe for disaster".

How much benefit security does each option for sponsors of DB pensions provide?

A focus on “choice” rather than consolidation has effectively created a range of options for sponsors of DB pension schemes. Those options involve different forms of regulatory oversight, different levels of security for members, and the ability to game the system to extract money from the scheme.

The PRT route offers the highest level of security for pensions. Other routes involve more risk.

Route	Regulators involved	Regulation & capital standard	Backstop / what happens if the company or scheme fails
PRT (insurer buy-in / buy-out)	Prudential Regulation Authority	Highest: formal prudential "solvency" regime with high, risk-based capital requirements	Solvency capital requirements mean there is always enough money to pay pensions. Pensions are 100% backed by the Financial Services Compensation Scheme (FSCS).
Superfund (DB consolidator)	The Pensions Regulator, applying "interim" rules	Medium: some governance safeguards and capital buffer requirements, but lower than insurers' solvency capital	PPF backstop (members' pensions will be paid at a lower rate, primarily due to inflation caps). No FSCS protection at all.
Run-on (scheme remains in trust)	The Pensions Regulator – guidance-based oversight	Lower: no requirements to hold capital to ensure solvency; relies mainly on funding plan and "covenant" obliging employer to support the scheme. So, if the sponsor collapses, the scheme goes to the Pension Protection Fund	PPF backstop (members' pensions will be paid at a lower rate, primarily due to inflation caps). No FSCS protection at all.

Arguments for running on and extracting surplus.

Despite the challenges, some people still argue for “surplus extraction”.

Here are some of their claims, and the reality.



CLAIM *Extracting surplus would boost the economy because sponsors would invest the money in infrastructure.*

REALITY Sponsors largely won't invest these funds in infrastructure – they will return value to shareholders. Surplus money extracted from a DB scheme would go from serving members' interests to serving shareholders.

CLAIM *The PRT sector can't support all schemes, so they need an alternative.*

REALITY Market capacity has consistently grown to meet demand. New entrants are joining the PRT market and competition is increasing – trustees who want PRT always have multiple options.

CLAIM *Small schemes are ignored by the PRT sector, so they should be encouraged to run on instead.*

REALITY Not true. PRT firms offer specialist products for smaller schemes. More than 700 small scheme transactions have been completed in the past five years. Some estimates show that the average size of PRT deals is falling as small schemes buy more policies.¹

CLAIM *Run on could lead to productive investment.*

REALITY Insurers invest more in productive assets such as housing and infrastructure because they have the scale to employ specialist in-house team to source and manage these investments.

CLAIM *Run-on helps schemes look after their members.*

REALITY PRT firms have developed high quality, tailored customer service offerings. PIC ensure that all customer enquiries are responded to by a real human being who is based in the UK within 30 seconds – no matter the request. PIC have secured a 98% customer satisfaction score for the last 13 years.

¹ Source: LCP's predictions for the pension risk transfer market in 2025. Life Risk News "UK Pension Risk Transfer Market Sees Six Insurers Each Write Over £5 billion for the First Time" Greg Winterton, March 31 2025

The benefits of buyout.

PRT transfers liabilities and risks to insurers.
PRT then invests in UK housing and infrastructure.

This is good for everyone.



It's a **WIN**
for members



It's a **WIN**
for sponsors



It's a **WIN**
for the economy



Members win

PRT means members get total security for their retirement income and first-class customer service from PRT firms.

"PIC is a company that knows its job and cares about its policyholders, past, present and future."

Christine Summers

Former member of Delta PLC and proud PIC policyholder since 2008



Sponsors win

PRT frees sponsors from the risk of deficit reduction payments and the burden of supporting schemes and their liabilities.

"We were very pleased to be able to help facilitate this transaction. Our contribution neatly aligns shareholder interests with those of scheme members who now all have their pensions insured."

Jackie Callaway

Chief Financial Officer at Coats Group PLC
£1.3 billion buy-in with PIC, September 2024



UK economy wins

Insurers pool DB pension assets to create large, expert long-term investment programmes that back long-term productive assets.

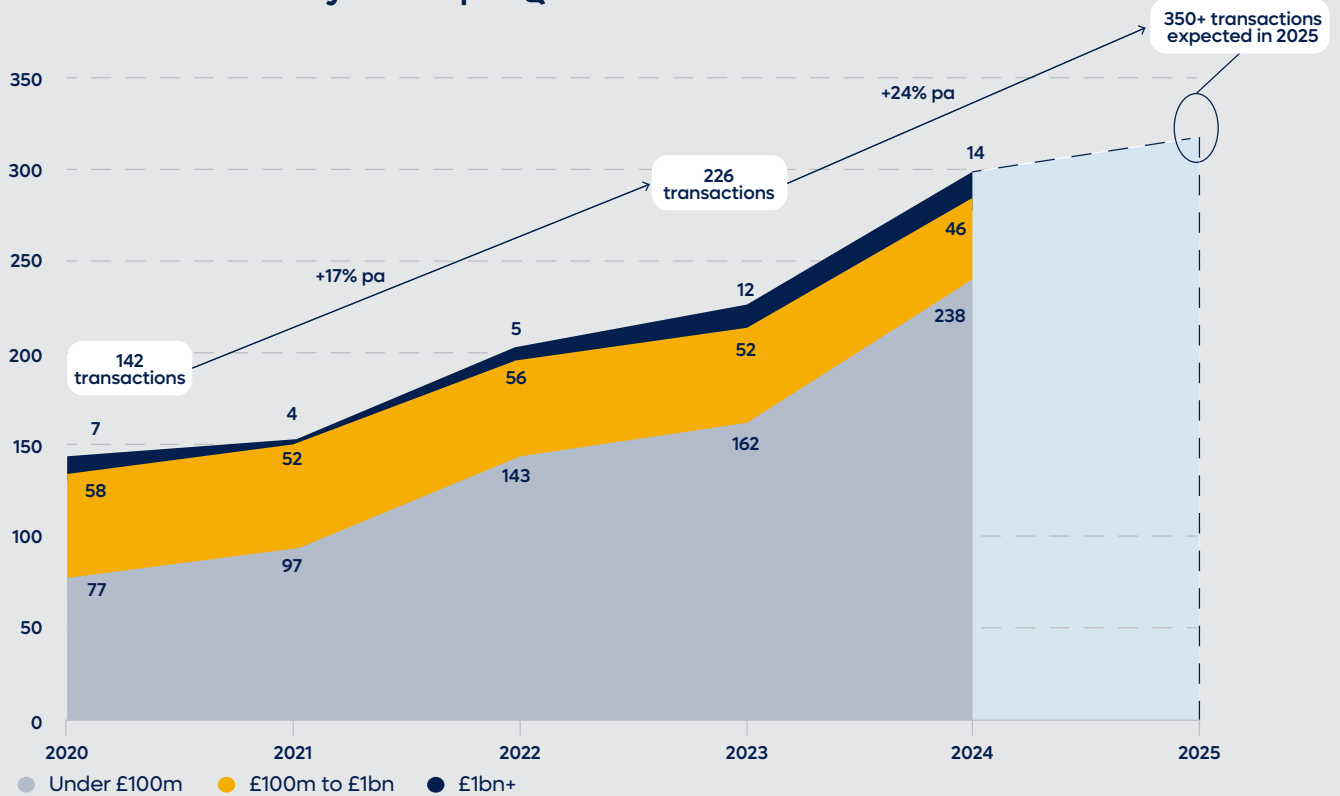
The PRT sector would ideally invest up to £200 billion in long-term UK assets over the next decade.



The future of PRT.

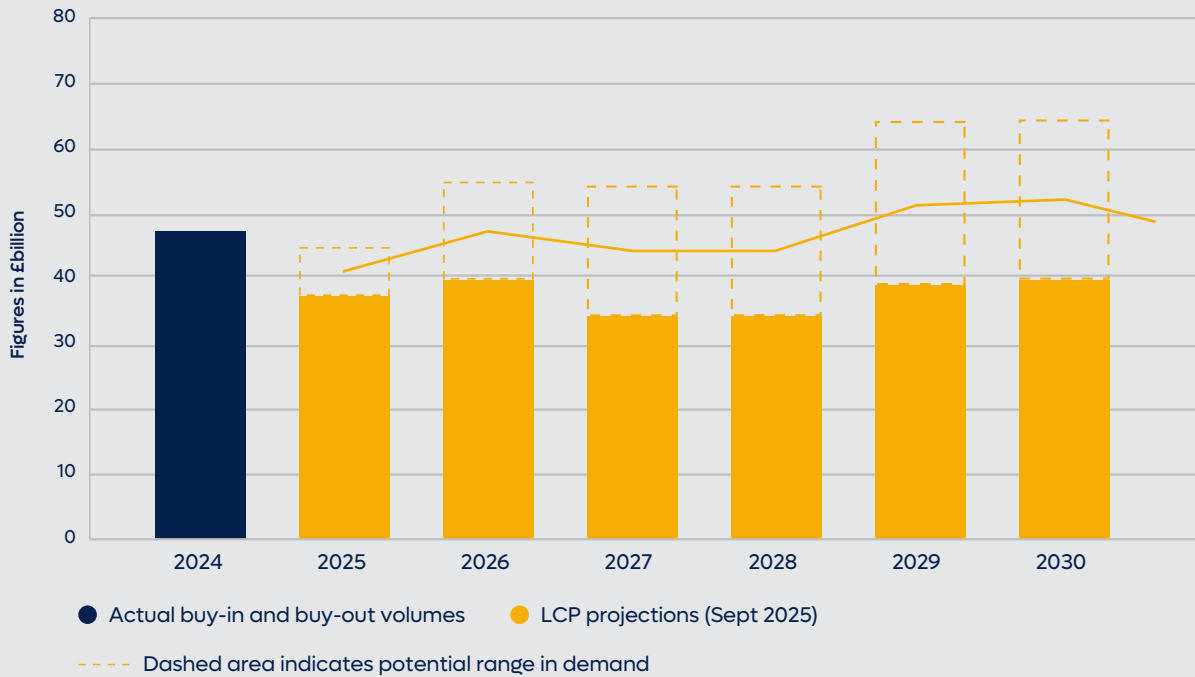
- The PRT sector is growing and will continue to grow, as more and more trustees chose buy-in and buyout policies as the best option for their members.
- More of those policies will be bought by smaller DB schemes as the market offers them more and more options.
- More companies will enter the PRT market, meaning more competition, better deals for trustees and more security for members.

Buy-in transaction numbers since 2020, with significant increases driven by the rapid growth in smaller transactions.



Pension consultants LCP estimate that during 2026, more than 150,000 people are likely to become policyholders with PRT insurers as their pension schemes go to buyout and become insured.

Projected buy-in and buy-out volumes over the next decade



Source: LCP analysis as at 30 September 2025.





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