Pricing bulk annuities to win deals without giving away margin

For heads of bulk annuity pricing, CFOs and commercial directors at UK insurers: how to sharpen a bulk purchase annuity price with better evidence, and how to tell that apart from margin given away.

IN BRIEF

The problem

With 11 insurers competing for more, smaller deals, the pressure to win on price is high, and losing bids tends to be blamed on the pricing team.

Why it happens

A bulk annuity price combines member data, assets, reinsurance, expenses and capital, and a firm that can't see which part made it uncompetitive cuts the margin instead.

What to do

Find the price in better evidence first, treat judgement-based changes as margin, and set the line below which the firm walks away.

01

A busier, tougher market

The bulk purchase annuity (BPA) market is doing more deals for less money. Volumes fell to £38.2bn in 2025 from £47.8bn in 2024, even as the number of transactions rose to a record 367, according to LCP's review published in March 2026. LCP's figures for the first half of 2026, reported in September, show £10.2bn across 135 deals. Eleven insurers were active in 2025, and record deal numbers alongside lower volumes mean more of the market is now small schemes.

That mix puts pressure on price. It also has the regulator's attention. The PRA's 2026 priorities for insurers include discipline in BPA pricing, and its April 2026 consultation on funded reinsurance (CP8/26) proposed a larger allowance for the risk of reinsurer default from 1 July 2027, for arrangements not fully transferred by 30 September 2026.

When a firm loses a bid it wanted, the conversation often turns to the pricing team's caution. That can be the right diagnosis. More often, in my experience, the price is uncompetitive for a specific reason that better information would have found.

02

Where a bulk annuity price comes from

A BPA price is built in layers: the best estimate of the pensions to be paid, the assets that will back them, any reinsurance of the longevity risk, an allowance for expenses,

the capital the business needs and the return required on it. Each layer can move the price, and only some of those movements are free.

Member data. Postcode, pension size, occupation and the details of spouses tell an insurer far more about likely life expectancy than age and sex alone. A firm that prices on generic tables tends to lose schemes whose members are likely to live shorter lives, and to win those whose members are likely to live longer.

Assets. The yield on the assets backing the liability flows directly into the price. Better sourcing of assets eligible for the matching adjustment can be worth as much as any other lever, but each step up in yield brings credit and liquidity risk that the board should see.

Reinsurance. Longevity reinsurance terms and, where used, funded reinsurance shape both price and capital. The PRA's proposals would change the economics of the latter for arrangements not fully transferred by 30 September 2026.

Expenses. Small schemes cost more to transact per pound of premium, so one percentage loading across all sizes can overprice large schemes and underprice small ones. A streamlined process for small schemes is what earns a lower loading.

03

Evidence or margin?

The table shows how four changes to an illustrative pricing basis move the price of a £100m pensioner buy-in. Three come from work the insurer can do. One rests on judgement.

ILLUSTRATIVE EXAMPLE

What moves the price of a £100m pensioner buy-in

Change to the pricing basis	Price	Change
Starting price	£102.0m	–
Asset yield 0.10 percentage points higher	£101.2m	-£0.8m
Base mortality 5% heavier, from better data on the members	£100.1m	-£1.9m
Mortality improvement of 1.25% a year rather than 1.5%	£101.2m	-£0.8m
Expense loading of 1.5% rather than 2%	£101.5m	-£0.5m
All four together	**£98.0m**	**-£4.0m**

Illustrative: level pensions of equal size at each age from 60 to 90, with no increases or spouses' benefits, paid annually in arrears; Gompertz base mortality giving a life expectancy of 21 years at 65; mortality improving at a flat 1.5% a year; discount rate 4.8%; best estimate liability £100m before a 2% expense loading. Capital and profit are left out to isolate the basis.

The three that come from work are sourcing assets, understanding the members and running small schemes efficiently. The fourth moves the price as much as better asset sourcing, but it rests on a view about the future. A firm that trims its

improvement assumption to win deals is taking on longevity risk without being paid for it. That is margin given away under another name.

> FROM EXPERIENCE
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> At Partnership I developed the method for capital-effective pricing of defined benefit buyouts and provided bespoke prices for key buyout schemes. I sat on the Retirement Income Rate Committee alongside executive board members. The largest bulk deals I delivered there, worth hundreds of millions of pounds, were in equity release.
>
> Earlier, at Aviva, I evaluated bulk purchase annuity requests and proposed rates, and I researched socio-economic rating factors for annuity pricing. Both showed me that better information about the members is a cheaper way to sharpen a price than a thinner margin.

04

Setting the walk-away line

A pricing committee that decides each deal from scratch tends to drift towards the deals it most wants to win. Agree the floor in advance: the minimum return on capital, the assumptions that are not negotiable deal by deal, and who can approve an exception.

Review lost bids against that floor each quarter. If the firm keeps losing by small margins on similar schemes, look at the basis. If it loses by large margins, the competition may be pricing risk the firm has chosen not to take.

Questions for the board

01 On the deals we lost this year, how large was the gap, and which part of the basis explains it?

02 What do we know about each scheme's members beyond age and sex, and how much does it move our price?

03 Which assets back new business, how much yield could eligible assets add, and at what risk?

04 How much of our price depends on reinsurance terms, and what happens if the PRA's funded reinsurance proposals become final?

05 Are our expense loadings right for the size of schemes we are now quoting?

06 Where is the line below which we walk away, and who holds it?

Winning bulk annuity deals without giving away margin comes down to knowing which part of the price is evidence and which is judgement. A board that can see that split can back its pricing team and still say no to the wrong deal.

If this is on your table, a 30-minute conversation is usually enough to tell whether I can help.

Talk to Mark

mark@markwoodruff.co.uk · 07391 820971 · markwoodruff.co.uk

ABOUT THE AUTHOR

Mark Woodruff is a Chartered Actuary (FIA) and Chartered Financial Planner (FPFS). He spent 15 years pricing and building products at Aviva, Prudential, Partnership and St. James's Place, then more than seven years founding and running advice firms through to a substantial sale. Through Mark Woodruff Consultancy he works with financial services firms on product, pricing, distribution and governance.

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