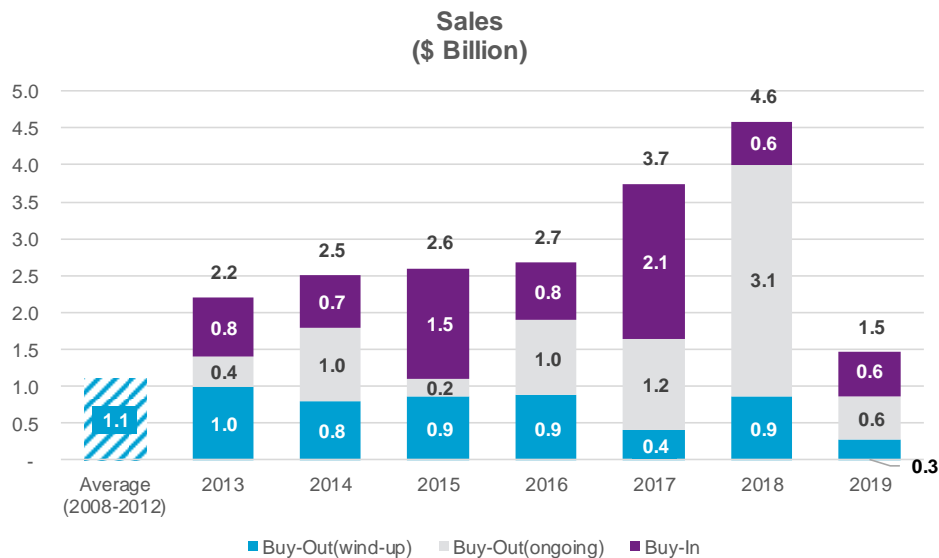


Group Annuity Market Pulse

Second Quarter 2019

Canada

Willis Towers Watson Annuity Purchase Index



Key Observations:

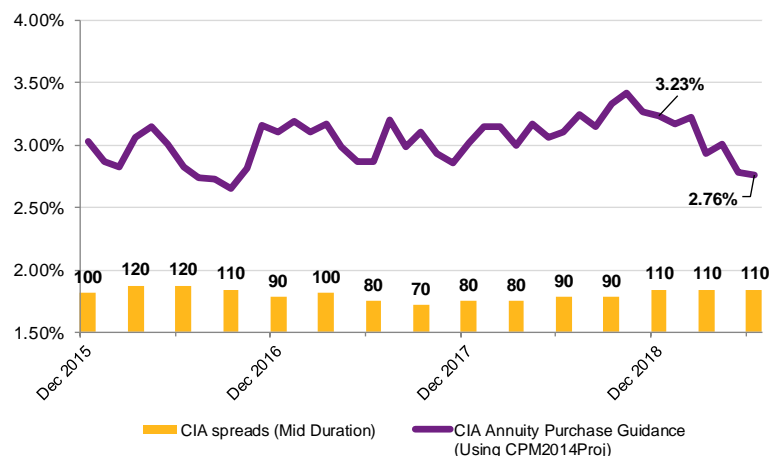
- Sales of \$0.6 billion of group annuities were placed during the second quarter of 2019, bringing the market volume to \$1.5 billion, in line with the prior year volume after two quarters (\$1.7 billion).
- We expect that the volume of sales will increase in the second half of the year, driven by some large transactions coming to market.

CIA Annuity Purchase Guidance

The Canadian Institute of Actuaries ("CIA") annuity purchase discount rate guidance is intended to provide actuaries with guidance regarding market pricing for blocks of business of three different durations at a given date. This allows actuaries to select assumptions for actuarial valuation purposes without the need to request annuity quotes from insurers.

The most recently published CIA annuity purchase discount rate guidance provides for a spread above unadjusted CANSIM V39062 yields of **110 basis points** (using the CPM2014Proj mortality table) for non-indexed pensions with a medium duration, resulting in a discount rate of **2.76% as at June 30, 2019** (down from 3.23% as at December 31, 2018).

CIA Group Annuity Purchase Discount Rate Guidance (for liabilities with a medium duration)



The **47 basis points decrease** in the CIA annuity purchase discount rate since the beginning of the year is fully attributable to the decrease in long-term government of Canada bond yields as the CIA guidance spread for non-indexed pensions with a medium duration of 110 basis points remains unchanged from December 31, 2018.

- Notes:**
- For 2008 to 2012, the breakdown of sales between buy-in and buy-out for terminated plans and buy-out for ongoing plans is not available. Excludes longevity insurance agreements.
 - Source of data: LIMRA, BMO Financial Group, Brookfield Annuity, The Canada Life Assurance Company, Co-operators Life Insurance Company, Desjardins Financial Security, Industrial Alliance, RBC Insurance and Sun Life Financial.
 - Details regarding the most recent Canadian Institute of Actuaries ("CIA") group annuity purchase discount rate guidance can be found at www.cia-ica.ca/publications/guidance.

Market Update

In March 2019, **Sun Life Financial** obtained a financial strength rating upgrade to AA from Standard & Poor's, as documented [here](#).

In April 2019, **Legal & General Reinsurance (L&G)** announced its first buy-in annuity transaction valued at \$200M under their strategic partnership with **Brookfield Annuity**, which has L&G taking a meaningful quota share of the large annuity purchase transaction written by Brookfield Annuity.

In June 2019, **Desjardins** announced that a police investigation revealed that the personal information of ~2.9 million members was disclosed to individuals outside Desjardins without authorization. According to the information they have so far, only Desjardins members who use the banking services are affected by this incident. Desjardins has no reason to believe that policyholders of group annuities and other insurance products who do not use the banking services have been affected.

In July 2019, **Brookfield Annuity** obtained a financial strength rating upgrade of A- from A.M. Best, as documented in their press release [here](#).

Data Privacy and Protection of Confidential Information

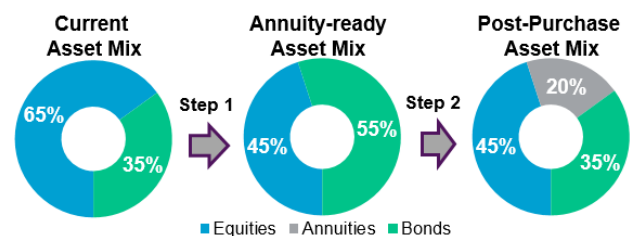
- Data leaks continue to impact organizations globally and further demonstrate the crucial importance of putting in place safeguards and procedures to circumvent any risk of personal information being accessed and misused by unauthorized individuals.
- **Some of the protection measures we use for our clients include:** Data shared limited to the minimum necessary, transferring data using a secure site, putting in place confidentiality and data sharing agreements and conducting due diligence on insurers' privacy policies and data protection measures.

Are Interest Rates Too Low To Buy Annuities?

The first half of 2019 proved to be very volatile, as all major global equity markets generated returns over ~10% while interest rates decreased by ~60–70 bps. Rates continued to drop into the third quarter by another ~20 bps in July and August while equity markets struggled to keep pace with the momentum from earlier this year. Although the aggregate impact on the funded status depends on the plan's asset mix, sponsors looking to purchase annuities may question the timing given the low level of interest rates. To deal with this question, consider the following two best practices.

The first is to focus on **affordability**. Plan sponsors with plans in good financial positions that have met their financial triggers may want to proceed with discipline if it also aligns with their long-term objectives. The opportunity to transact while meeting all financial and non-financial triggers may be short-lived as uncertainty remains around the future levels of interest rates and equity returns.

The second is to adopt a **two-step segmentation process**. Plan sponsors can avoid the interest rate risk exposure at the time of the annuity purchase by segmenting the decision to purchase annuities and the change in asset mix post-purchase. This suggests moving the portion of the assets that will be used to purchase the annuities from equities to bonds at an opportune time, ahead of the annuity purchase transaction. By doing so, the plan is well positioned to capture opportunities in the annuity market without being impacted by the movement in interest rates (assuming matching duration). This strategy can lead to an improved outcome, as choosing the perfect timing to do both steps at the same time may otherwise be challenging.



Want more information?

This document is not intended to constitute or serve as a substitute for legal, accounting, actuarial or other professional advice. For information on how these issues may affect your organization, please contact your Willis Towers Watson consultant, or:

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