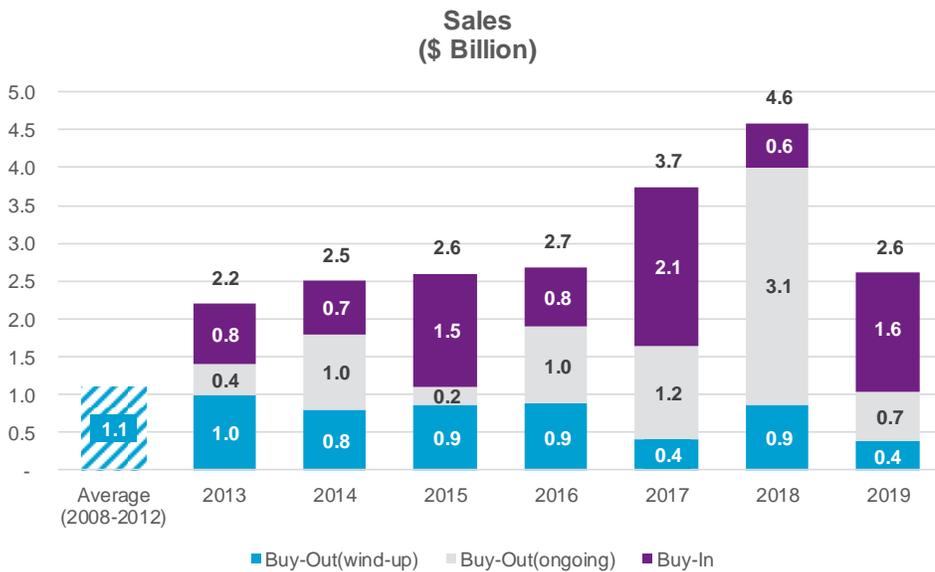


Group Annuity Market Pulse

Third Quarter 2019

Canada

Willis Towers Watson Annuity Purchase Index



Key Observations:

- Sales of \$1.1 billion of group annuities were placed during the third quarter of 2019, bringing the market volume to \$2.6 billion, which is \$0.2B lower than last year's volume after three quarters.
- We expect \$2 to 3 billion during Q4 bringing the total for the year close to \$5 billion.

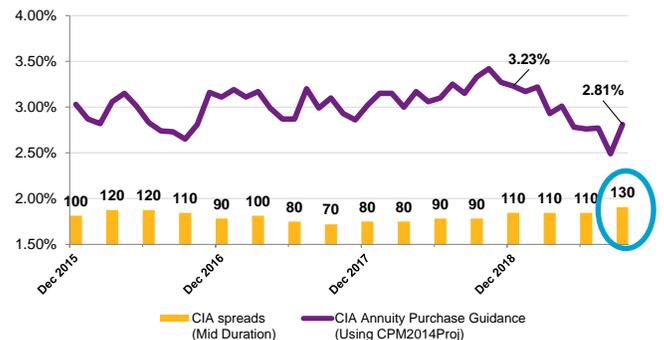
CIA Annuity Purchase Guidance

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 **130 basis points** (using the CPM2014 mortality table) for non-indexed pensions with a medium duration, resulting in a discount rate of **2.81% as at September 30, 2019** (down from 3.23% as at December 31, 2018).

CIA Group Annuity Purchase Discount Rate Guidance

(for liabilities with a medium duration)



- 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.

While the CIA annuity purchase discount rate guidance provides information on pricing conditions for illustrative blocks of business, actual pricing can differ from the CIA guidance due to a number of factors. One important factor is the yields on the assets available to the insurers at the time of the transaction. This is estimated by a combination of the CANSIM V39062 yield and the spread in the CIA annuity purchase discount rate guidance.

As shown in the figure above, a spread of 130 basis points above the unadjusted CANSIM V39062 yields for liabilities with a medium duration represents the largest spread since the end of calendar year 2015. The 20 basis points increase in the spread as of September 30, 2019 is mainly due to the sustained highly competitive environment we have witnessed this year.

We believe that the change to the CIA guidance aligns well with our recent experience for actual transactions. Plan sponsors going to market in the near future may therefore expect annuity pricing closer to the estimate produced using the most recent CIA guidance as compared to the estimates produced using the CIA guidance prior to September 30, 2019. Note also that this change will have an impact on solvency funding positions and on funding requirements in the event of a buy-out with statutory discharge. As always, pre-establishing clear and relevant triggers, qualitative and quantitative, is an important step to a successful transaction.

Market Update

In July 2019, **Stelco Inc.** purchased buy-in annuities for \$885 million, representing most of the market volume during the third quarter (\$1.1 billion). The transaction was split between 4 insurers – Canada Life, Sun Life, BMO Life Insurance and Co-operators Life Insurance. While there are multiple reasons to split a transaction between multiple insurers, overall price reduction is often the driver along with achieving greater Assuris coverage. Using multiple insurers for large transactions is commonplace in Canada whereas in the US and in the UK most large transactions are often placed with a single insurer. Until we see insurers increasing their appetite and competitiveness for large transactions, we foresee the Canadian trend of using multiple insurers for large transactions to continue.

Effective in 2020, SSQ Insurance, a large Quebec-based Life Insurance Company, is entering the group annuity market in Canada. This will be a comeback for SSQ Insurance as they had previously participated in the group annuity market before they put a moratorium on sales in 2003. SSQ Insurance has the required licensing to operate in all jurisdictions. They will first focus on smaller transactions and will be offering buy-in and buy-out group annuity policies. This is positive news for Canadian plan sponsors as an additional provider will result in increased capacity to respond to growing demand.

Status Update on Statutory Discharge

Ontario - Effective October 15, 2019, amendments to the Ontario pension legislation became effective, expanding the ability of a pension plan administrator to obtain a statutory discharge for surviving spouses of deceased retirees for whom an annuity has been purchased.

Summary per Legislation

Province/Territory	Status
B-C	In-Force
Federal	Imminent
Quebec	In-Force
Ontario	In-Force
Nova Scotia	Imminent



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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