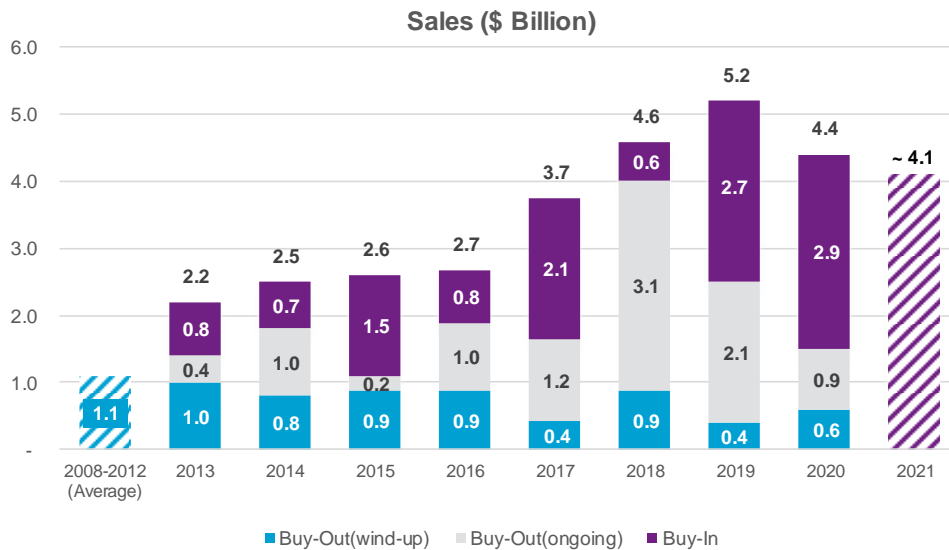


# Group Annuity Market Pulse

## Third Quarter 2021

Canada

### Willis Towers Watson Annuity Purchase Index <sup>1,2</sup>



#### Key Observations:

- Estimated sales of ~\$3.0 billion of group annuities were placed during the third quarter of 2021, bringing the 2021 market volume to an estimated \$4.1 billion, compared to the prior year volume of \$2.7 billion after three quarters.
- The fourth quarter of 2021 is expected to be very busy, with many large transactions coming to market totalling over \$3.0 billion of annuity purchase.
- 2021 is on the way to become another record-breaking year!

### CIA Annuity Purchase Guidance <sup>3</sup>

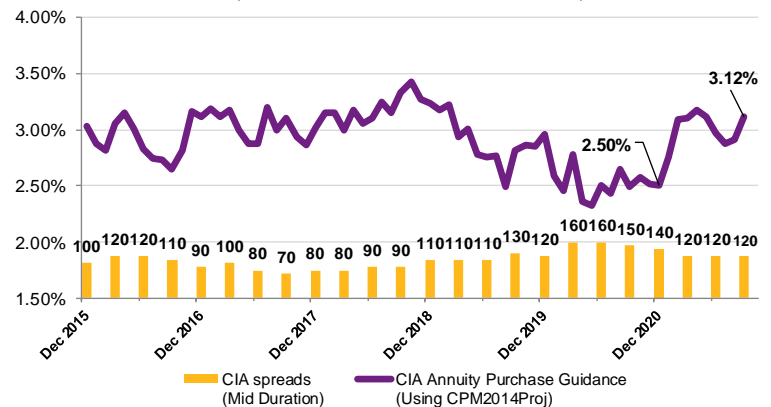
The Canadian Institute of Actuaries (“CIA”) annuity purchase discount rate guidance (“CIA guidance”) supports actuaries in selecting actuarial valuation assumptions, without having to request annuity quotes from insurers, by providing market pricing for blocks of business of three different durations at a given date.

The most recently published CIA guidance indicates annuity pricing at unadjusted long Government of Canada (GoC) marketable bond yields (CANSIM V39062) plus a spread of **120 bps** (using the CPM2014Proj mortality table) for non-indexed pensions with a medium duration, resulting in a discount rate of **3.12% as at September 29, 2021** (up from 2.50% as at December 31, 2020).

The **62 bps increase** in the CIA guidance since the beginning of the year can be attributable to the increase in GoC bond yields (82 bps) partially offset by the 20 bps decrease in the CIA guidance spread for non-indexed pensions with a medium duration.

**Notes:**  
 1. 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.  
 2. Source of data: LIMRA, Beneva, 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.  
 3. Details regarding the most recent CIA guidance can be found at [www.cia-ica.ca/publications/guidance](http://www.cia-ica.ca/publications/guidance).

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



## Market insight for 2021... and how to start 2022 on the right foot!

The estimated sales of ~\$3.0 billion of group annuities placed during the third quarter of 2021 represent the largest quarter in the history of Canadian group annuity purchases. As anticipated in our previous edition of the market pulse, while the insurers have been increasing their risk capacity to keep up with increasing demand, the participation rates from insurers on a given transaction has decreased on average as calendar year 2021 progressed, mainly due to staffing capacity.

We expect the market to continue to grow in the near future given the well-funded status of most Canadian pension plans. Below, we list a few tips on how to achieve the best outcome in a market with high demand but variable supply:

**Transact when others are not** – There is a tenacious belief that transacting in the fourth quarter helps plan sponsors obtain a lower price as insurers compete to meet their annual quotas. This may not be the case in 2021. The second half of the year is becoming busier every year, limiting insurers' resources to accommodate all transactions coming to market. Also, not all insurers have a fiscal year coincident with the calendar year (e.g., some insurers set their counters to zero as of November 1<sup>st</sup>). Most importantly, we have noticed that plan sponsors who transact earlier in the year benefit from higher participation rates, which optimizes the process. While not guaranteeing a lower price, having more insurers participating for a given transaction provides greater flexibility to elect a preferred insurer from a fiduciary perspective, and increases the likelihood of a better price. Lastly, early transactors have an additional option: if not all triggers are met, they can decline the bid and come back to market later in the year, usually with an accelerated process.

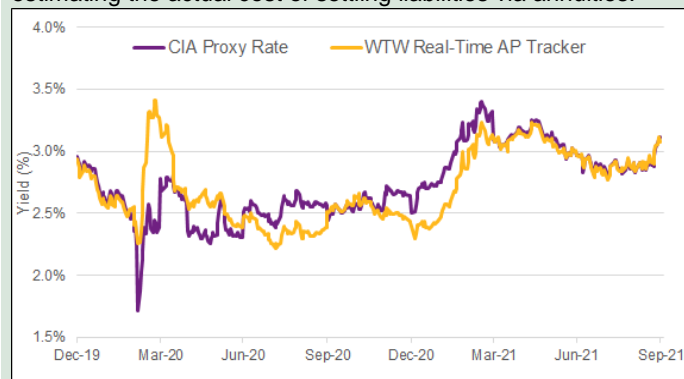
**Buy-in as a short-term tactical solution** – Group annuity purchase transactions are dependent on multiple factors, many of which cannot be controlled by the plan sponsor, thereby making it challenging to transact on a specific date. In these situations, a buy-in policy can become an efficient short-term tactical solution. A plan sponsor can take advantage of favourable market conditions and annuity pricing early by transacting with a buy-in policy, with the option to convert to a buy-out, at no cost, once all conditions are met. Under such an arrangement, the plan sponsor transfers all financial risks to the insurer on the transaction date, and only retain administrative tasks until conversion to buy-out. Furthermore, a buy-in policy does not require regulatory approval or any specific member communication, and does not trigger one-time financial impacts such as special contributions or settlement accounting.

**Execution readiness** – In a market with increasing demand, plan sponsors who can demonstrate that they are ready to transact will be able to capitalize on timing opportunities, and also attract the attention of insurers. Execution readiness includes providing clean and complete data, analyzing the mortality profile of the group to purchase, ensuring internal governance readiness, having clear transaction triggers and being responsive throughout the process.

### Track the price of annuities in real-time using our WTW Real-Time Annuity Tracker

The **WTW Real-Time Annuity Tracker** allows plan sponsors to track the cost of annuities (shown as the yellow yield in the chart) and assess the true competitiveness of quotes received from insurers by reflecting the evolution of credit spreads in real-time. In addition, the WTW Real-Time Annuity Tracker reflects the mortality profile of specific cohorts based on socio-economic factors obtained from an analysis of the members' data and postal codes using the **WTW Postal Code Mortality Tool**.

The WTW Real-Time Annuity Tracker suggests that the current spreads in the CIA Guidance provides for a reasonable proxy for estimating the actual cost of settling liabilities via annuities.



### 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:

#### Marco Dickner

Leader, Retirement Risk Management  
514 982 2097  
marco.dickner@willistowerswatson.com

#### Charbel Abi-Assal

Leader, Group Annuity Purchase Team  
514 982 2078  
charbel.abi-assal@willistowerswatson.com

#### Bruno Legris

Strategist, Retirement Risk Management  
514 982 2171  
bruno.legris@willistowerswatson.com

#### Vladimir Rnjak

Strategist, Retirement Risk Management  
416 960 2740  
vladimir.rnjak@willistowerswatson.com

## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at [willistowerswatson.com](http://willistowerswatson.com).