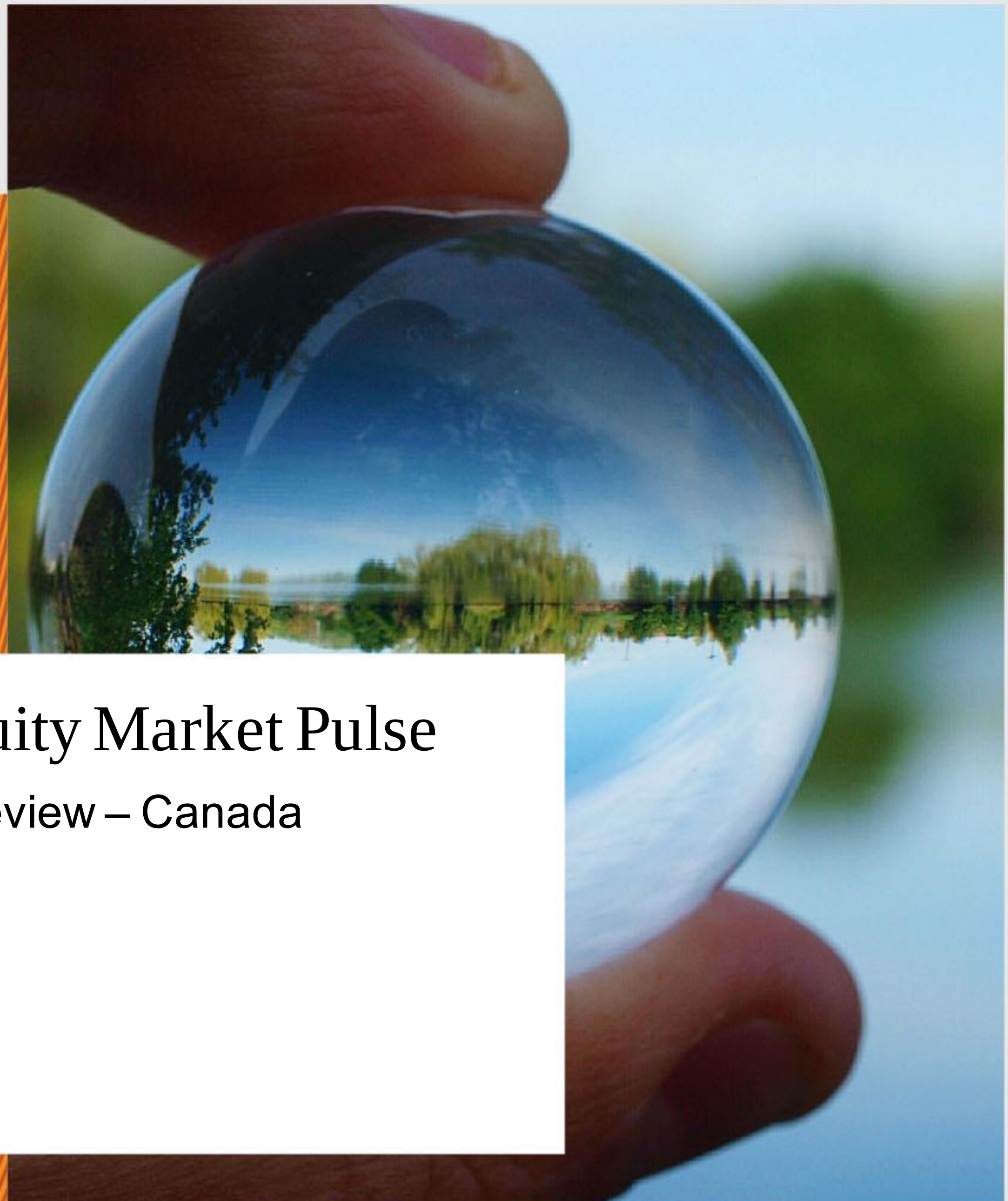


# Group Annuity Market Pulse

## 2021 Annual Review – Canada

# Welcome

Welcome to the 9th annual edition of our ***WTW Group Annuity Market Pulse*** bulletin, where we share our insights on 2021. Calendar year 2021 - what a year it was for the group annuity market! The sales volume exceeded the previous annual record by ~50%, fuelled by the strong financial position of pension plans contributing to back-to-back record quarters of sales volume to finish the year. The excitement will continue into 2022 as we expect another busy year!

On the following pages, we will provide an overview of current market players and group annuity sales volume. We will then summarize the key highlights of 2021 in Canada and other key global markets, followed by our observations on the annuity market and current hot topics.

Since 2013, the WTW group annuity team has been offering extensive expertise and experience in Canadian group annuities to provide the best outcomes for our clients. We are proud to have provided advice for over 350 pension plans across the country in assessing whether a group annuity purchase was the right solution. We have innovative tools and experience advising on all sizes of transactions, from the microtransactions (less than $1 million) to jumbo ones, including the largest two transactions completed in Canada during 2020 and 2021.

We would be pleased to discuss this topic with you in more depth and explore risk transfer opportunities for your pension plans.

## WTW Canadian Group Annuity Purchase Team Success Measures

**30%**
WTW advised on a third of total volume transactions in Canada during 2021

**350+**
Advisor for over 350 pension plans in developing a group annuity purchase strategy

**$11B+**
of liabilities transferred through group annuity purchases since 2013

Ongoing discussions with insurers to be aware of **opportunities**

Assurance of **best practices** and use of **innovative tools**

### Innovation

**2014:** $500M pension risk restructuring using a self-insurance **captive solution**

**2015:** First **bridge buy-in** solution

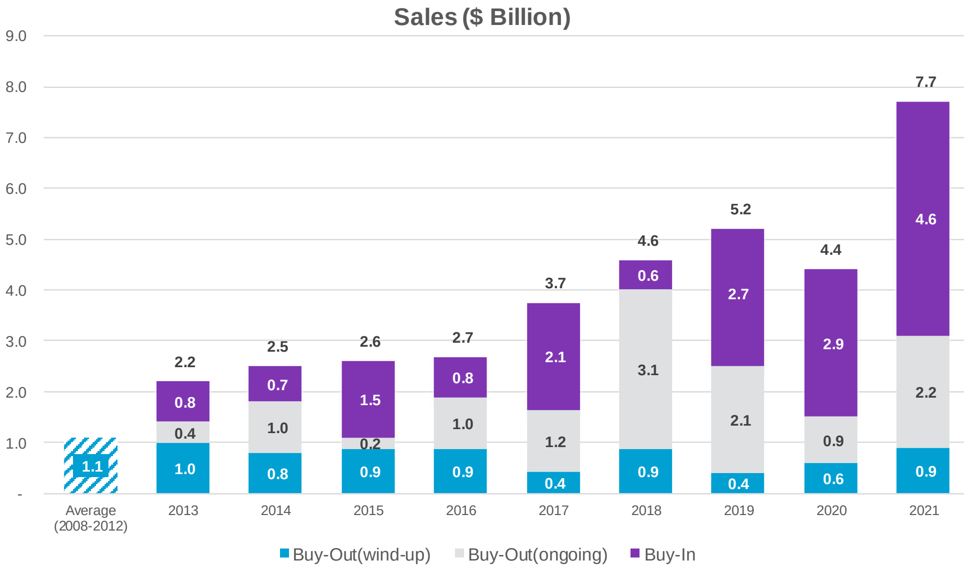
**2017:** First annuity buy-in deal for **active members** covering future benefit accruals

**2020:** **Largest annuity transaction** in Canadian market history ($1.8B) and launch of the **WTW Real-Time Annuity Pricing Tracker**

**2021:** **Largest Canadian annuity transaction** in 2021 and **innovative solution for indexed annuities** with experience gain recapture

# WTW Annuity Purchase Index

## Calendar year 2021 closed with a whopping $7.7 billion of group annuities sales, driven by jumbo transactions, including the largest 2021 Canadian annuity transaction advised by WTW!




### Key Observations:

- Over $3 billion of group annuities were placed during each of the last two quarters of 2021.
- While supply has kept pace with demand, insurers were selective due to staffing constraints leading to lower participation rates on some transactions.
- Given the well-funded position of pension plans, we expect the market to continue to be busy in 2022.

**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.
- Sources of data: LIMRA, Assumption Life, Beneva, BMO Financial Group, Brookfield Annuity, The Canada Life Assurance Company, Co-operators Life Insurance Company, Desjardins Financial Security, iA Financial Group, RBC Insurance and Sun Life Financial.

**WTW advised on 30% of transactions (in dollars) during 2021**

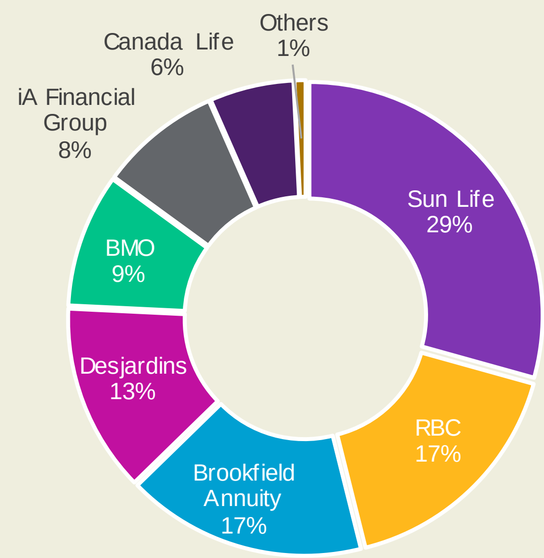
### Who are the players?

**Assumption Life**
**Beneva***
**BMO**
**Brookfield Annuity**
**Canada Life**
**Co-operators**
**Desjardins**
**Industrial Alliance**
**RBC**
**Sun Life**

7 insurers recorded a volume of sales greater than $400 million in 2021, contributing to a healthy and competitive landscape while keeping pace with the growing demand

*** Decided to withdraw from the group annuity business as of January 1, 2022.**

### 2021 Sales Breakdown

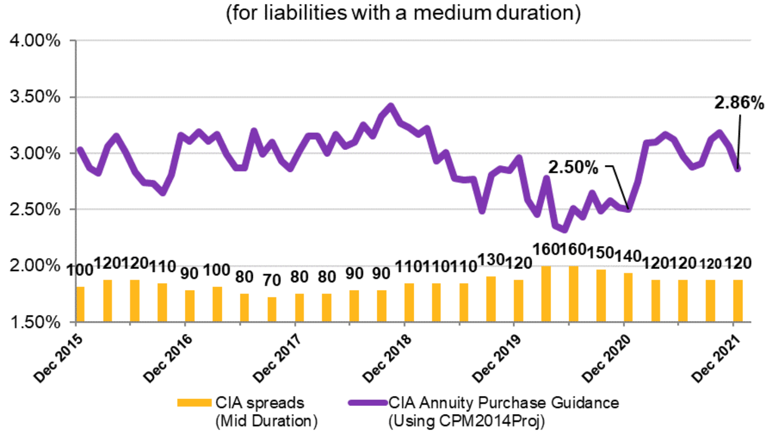


# A Look at Group Annuity Pricing

## CIA Annuity Purchase Guidance

- 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 basis points** (using the CPM2014Proj mortality table) for non-indexed pensions with a medium duration, resulting in a discount rate of **2.86% as at December 31, 2021** (up from 2.50% as at December 31, 2020).
- The **36 basis points increase** in the CIA guidance in 2021 can be attributable to the increase in GoC bond yields (56 bps), partially offset by the 20 bps decrease in the CIA guidance spread for non-indexed pensions with a medium duration.
- Rates have since further increased during 2022 by 49 basis points as at February 18, 2022.

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




During 2021, absolute cost of purchasing annuities decreased while relative cost of purchasing annuities increased.

For plan sponsors swapping bonds for annuities, 2020 relative pricing was more favourable.

For plan sponsors swapping equities for annuities, 2021 absolute pricing was more favourable.

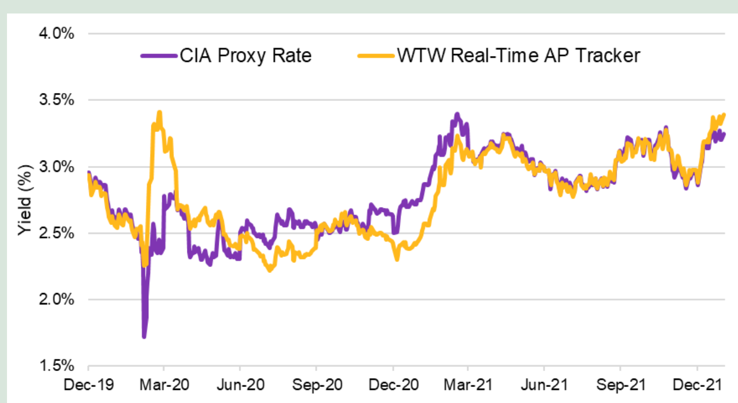
## Were annuities expensive in 2021?

- Price of annuities can be looked at from two different angles – in **absolute terms** or in **relative terms**.
- The **absolute level of annuity cost** is determined by the implied gross rate offered by insurers and it is illustrated by the purple line in the above graph.
- The **relative level of annuity cost** is determined by the level of spread offered by insurers in excess of long-term risk-free rates and is illustrated by the gold bars in the above graph.

### 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 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.



# What's Going on Elsewhere?

There has also been a lot of activity in other key group annuity markets around the world.

## United States

Activity remained very high during 2021 with total volume sales of ~USD $40 billion, a substantial increase compared to last few years. Most transactions continue to be retiree buy-outs for ongoing plans, but transactions for large plan terminations are expected over the coming years, which will further increase the market volume. The outlook for 2022 remains competitive and pricing remains favourable, but some insurers are becoming a little selective in periods of high activity. Increased innovation for large transactions, such as buy-ins and advanced commitment arrangements, are picking up momentum and likely to grow in popularity over the coming years.

- ✓ Total 2021 activity at **USD $40B**
- ✓ Since 2018, the US annual volume of activity has been over **USD $25B**
- ✓ Majority of 2021 transactions were for ongoing plans
- ✓ Total of **18 insurance companies**, with **10** new insurance companies offering capacity since 2014

## United Kingdom

2021 was a year of two halves in the bulk annuity market: a quieter first half of the year followed up by one of the busiest six months observed in the market. One upside of the slower start to the year, however, was that it was beneficial in helping small and mid-sized deals gain traction, with the average size of deals around £100 million, significantly less than the £200m+ average deal sizes seen in recent years. Meanwhile, the longevity swap market saw continuing innovation. While 2021 was initially slow in the bulk annuity market, the same cannot be said of the longevity swap market, which began with a bang with a significant innovation – the first non-pensioner longevity swap ever completed by a pension scheme with WTW acting as the advisor. For more information on the UK, read the De-Risking Survey Report.

- ✓ Total 2021 activity estimated at **£43bn,** with WTW advising on 44% of that volume
- ✓ **£30bn** settled through a buy-in or buy-out arrangement
- ✓ **£13bn** settled through a longevity swap
- ✓ WTW advised on the **largest bulk annuity and longevity swaps** for both 2020 and 2021
- ✓ Total of **8 insurance companies** offering capacity

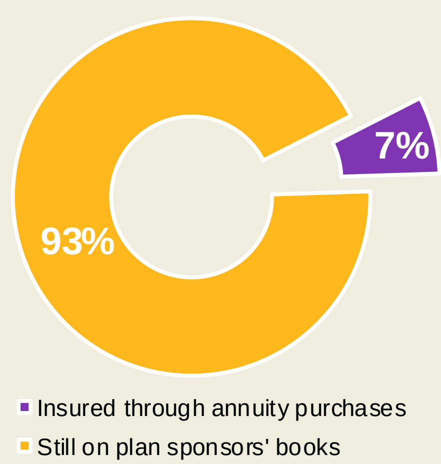
### Prevalence of annuity purchases in Canada?

Although we have recently observed increasing volumes of annuity purchase transactions, approaching $40B in the last decade, we have only started to scratch the surface of Canadian pension liabilities in the private sector.

As a matter of fact, we estimate that only ~7% of private enterprise defined benefit liabilities have been insured through annuity purchases through the end of 2021. So far, insurers' capacity has kept pace with plan sponsors' demand.

As we turn our attention to 2022 and beyond, we believe the proportion of annuitized liability will continue to slowly but steadily grow as the Canadian group annuity market evolves.

**Canadian DB Liabilities (Private Sector)**



# Market/Legislative Updates, Hot Topics and More!

| Topic | Observations |
|---|---|
| **Update on Market Players** | ▪ **Beneva** (the coming together of SSQ and La Capitale) decided to withdraw their participation from new group annuity business as of January 1st, 2022 in order to focus on other business opportunities. Beneva previously targeted small transactions.<br>▪ On the other hand, **Assumption Life** is coming back to market as of January 1st, 2022! They will target transactions below $20 million.<br>▪ The **Co-operators** restructured their legal entities and will be losing their ability to offer double Assuris coverage for new business. Existing buy-out policies are not impacted. |
| **Regulatory Updates** | ▪ Pension legislation continued to evolve with more jurisdictions in the process of allowing for a **statutory discharge** of the liabilities covered by a buy-out annuity policy:<br>  ▪ 2021 - **Bill 71** for members governed by New Brunswick.<br>  ▪ 2021 - **Consultation paper** for members governed by Saskatchewan.<br>  ▪ 2019 - **Bill C-97** for members governed by the federal legislation.<br>▪ A statutory discharge is already available for members in British Columbia, Nova Scotia, Ontario and Quebec. |
| **What's driving the market?** | ▪ **Affordability**: Good equity returns over the last few years combined with the recent increase in interest rates have put many pension plans in Canada in fully funded positions, with the ability to purchase annuities at no additional cash contribution. This will continue to fuel the market during 2022.<br>▪ **Plan termination**: We have witnessed many plan sponsors trying to terminate their closed and frozen pension plans as they become fully funded, particularly where they previously eliminated future accruals or do not have a large population still accruing defined benefits. While larger pension plans have attracted good participation rates from insurers, smaller pension plans or pension plans with a high proportion of deferred members witnessed a lower participation rate. Refer to our **Group Annuity Market Pulse – Third Quarter 2021** for insights on how to navigate a busy market to achieve the best outcome. |
| **Other hot topics** | ▪ **Termination vs. hibernation**: As DB pension plans reach full funding, should plan sponsors focus on eliminating the DB liability as soon as possible? Or could they start extracting value from their DB plans instead? This is an important question that all sponsors should address prior to purchasing annuities, given the irrevocable nature of such a transaction. DB pension plans were often seen as bearing unfavourable asymmetric risk, requiring additional funding when there were deficits, but blocking access to surplus when they emerged. However, the recent changes in funding rules in most jurisdictions combined with the improvement in funded positions resulted in DB pension plans now offering advantageous asymmetric risk, which could generate significant savings (DB and DC contribution holidays) and surplus reimbursements. In partnership with investment managers, innovative solutions have been developed to optimize the financial benefits of hibernating DB plans in a highly controlled risk environment.<br>▪ **Inflation…the new risk on the block**: Inflation poses additional costs for pension plans sensitive to inflation-linked assumptions such as CPI-linked indexed annuities. Purchasing indexed annuities has been historically less prevalent (~10% of the sales volume) due to lower prevalence of indexed pensions and the cost of purchasing indexed annuities. Despite the relatively expensive cost of indexed annuities as defined by the CIA guidance, expressed as spread versus long-term risk-free real return government bonds, transactions can be achieved with a pricing below the CIA guidance for larger well-structured transactions, especially with the emergence of global reinsurers. Innovative investment solutions also exist to mitigate the additional cost of high inflation for plan sponsors in hibernation mode. |

## 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 WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.