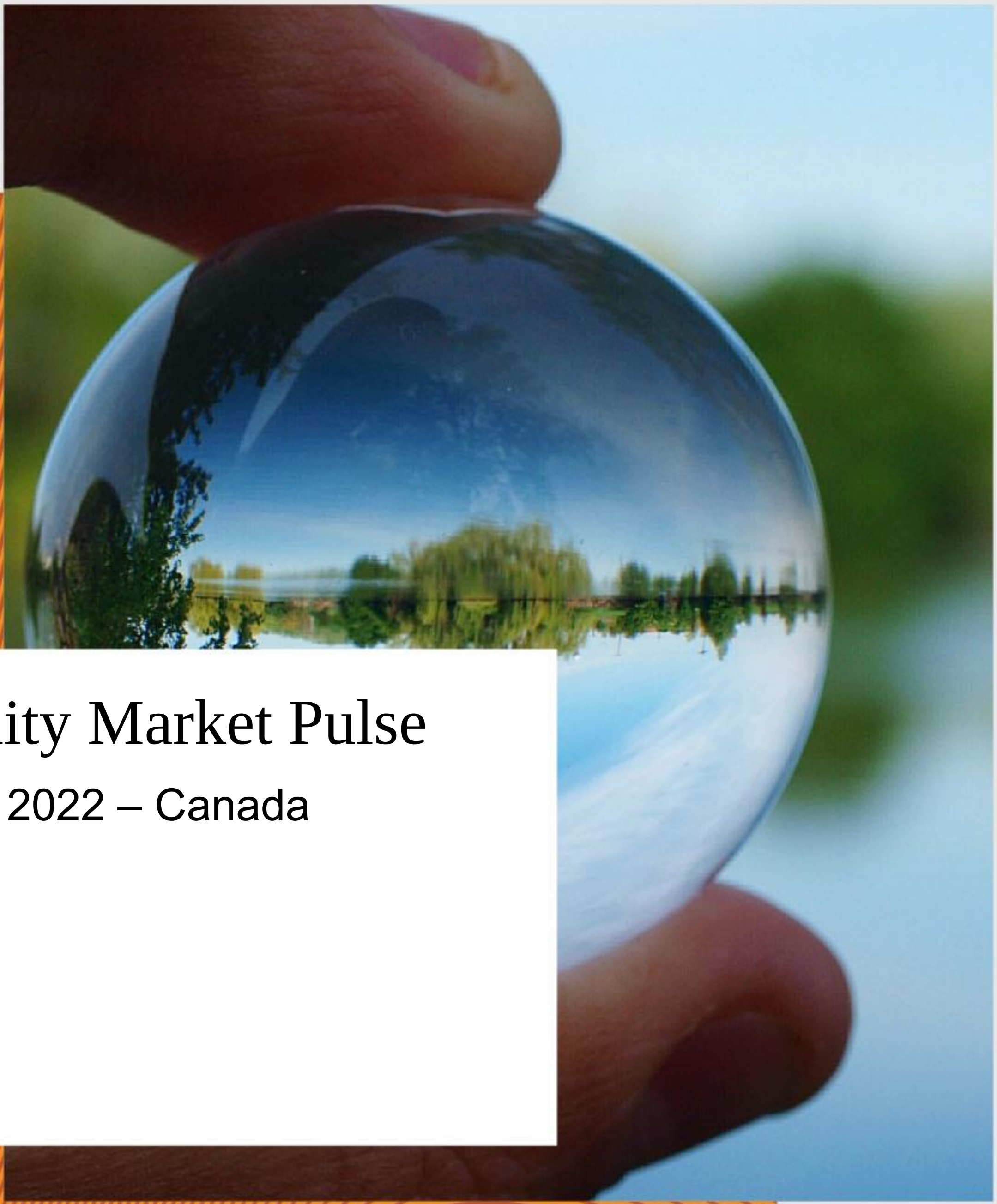
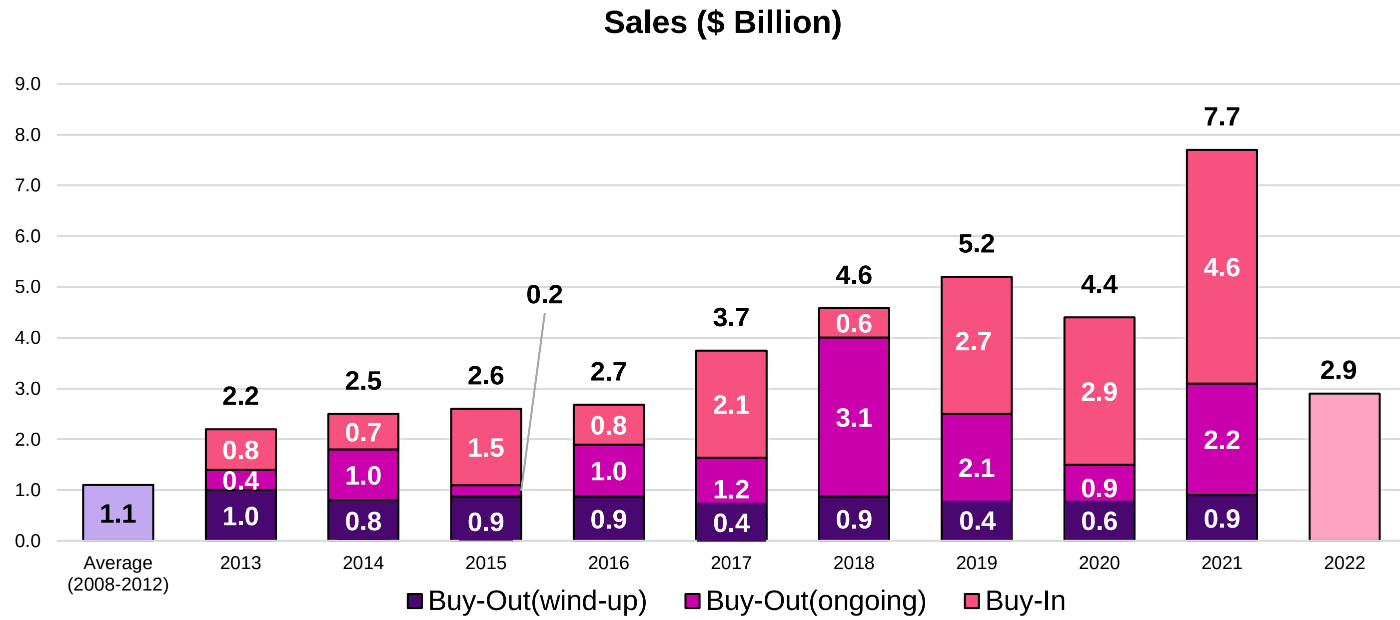


Group Annuity Market Pulse

Second Quarter 2022 – Canada

wtwco.com

WTW Annuity Purchase Index [1,2]

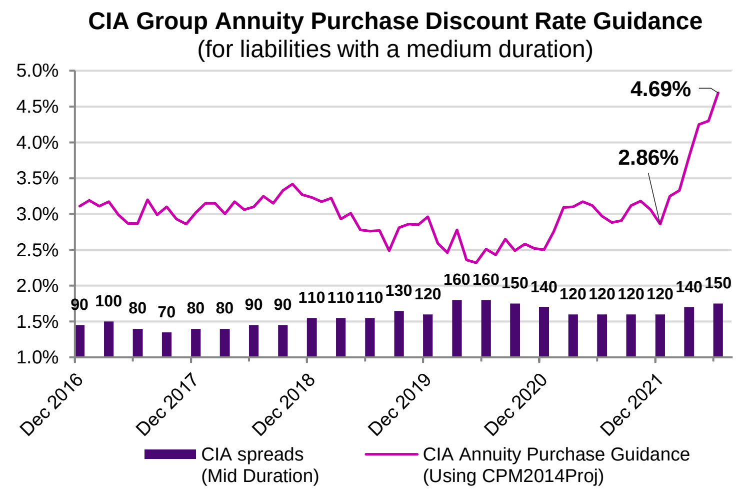


Key Observations:

- On May 31st, **Stelco purchased $1.3B of buy-in annuities**, the largest transfer with a single insurer (~$1.2B with Brookfield) and the second largest single day transaction after the **GM transaction** announced in 2021.
- We estimate that over $2.6 billion of group annuities were placed during the second quarter of 2022, contributing to the largest volume in the first half of a year in Canadian history.
- We expect a very busy second half of the year, with multiple transactions above $500M already confirmed.

CIA Annuity Purchase Guidance[3]

- 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 **150 basis points** (using the CPM2014Proj mortality table) for non-indexed pensions with a medium duration, resulting in a discount rate of **4.69% as at June 30, 2022** (up from 2.86% as at December 31, 2021).



- The **183 basis points increase** in the CIA guidance in 2022 can be attributable to the increase in GoC bond yields (153 bps) and an increase of 30 bps in the CIA guidance spread for non-indexed pensions with a medium duration.
- Rates have since decreased during July 2022 by 34 basis points as at July 26, 2022.

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, Assumption Life, 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.

Market insight

Update on annuity market and insurers appetite

We observed a higher than average volume of transactions in the first half of 2022, driven primarily by the Stelco transaction of $1.3B of buy-in annuities. Although Brookfield Annuity was awarded most of this transaction, they confirmed they have no capacity limit for the balance of the year. This is another testimony of the growing capacity in the Canadian annuity market. Furthermore, the market volatility has not impacted the insurers' appetite to underwrite new group annuity business. We expect a very busy second half filled with many transactions including multiple $500M+ deals. Consistent with last year, we expect insurers to be more selective for the second half of the year, which may lead to a lower participation rate for smaller deals, or ones with higher proportion of deferred members. **Being transaction ready will be key!**

Are annuities an attractive strategy for plan sponsors in 2022?

Affordability is still good as the average pension plan remains well-funded due to the significant increase in interest rates despite witnessing losses in the bond market and major equity markets around the world since the beginning of the year. This offers another opportunity for plan sponsors to review their financing strategy. As plans are well funded, the ability for many plan sponsors to purchase annuities without a special cash influx will contribute to an increase in interest for annuities.

The **absolute level** of annuity cost is determined by the implied discount rate offered by insurers and it is illustrated by the pink line in the above graph. This measure is relevant for plan sponsors swapping equities for annuities. During 2022, absolute cost of purchasing annuities decreased to a level not seen in many years.

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 purple bars in the above graph. This measure is relevant for plan sponsors swapping bonds for annuities. The current spread offered by insurers is 40 bps points above historical average since 2015. This translates to a ~4% reduction in annuity premiums for a sample group of retirees with a liability duration of 10 years.

The **implicit yield** offered by insurers tracks very closely to the Corporate AA yields used by plan sponsors to measure accounting liabilities. The spread between accounting liabilities and annuity pricing is in line with the smallest gap we observed during the last decade.

Regulatory updates

On June 2, 2022, Alberta released a consultation paper seeking feedback on possible funding reforms including the possibility of allowing a liability discharge for annuity purchases. Alberta joins other jurisdictions who are in the process of or have already implemented provisions for liability discharge for annuity purchases:

- **Already in-force**: British Columbia, Nova Scotia, Ontario and Quebec.
- **Pending or imminent**: Alberta, Federal, New Brunswick, Saskatchewan

Several proposed changes to the federal Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act are contained in **Bill C-228.** In general, Bill C-228 would give the full windup deficit the same high priority that is currently reserved for overdue normal cost and employee contributions. If the bill passes, it may have a negative impact on a company's ability to borrow and the cost of that borrowing. The Bill does contain a 5-year phase-in period so that the increased priority on insolvency would not apply to existing pension plans until five years after the Bill comes into effect. This could provide another valid reason for plan sponsors to consider annuities for their registered DB pension plan in order to reduce their exposure.

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 WTW consultant, or:

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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.