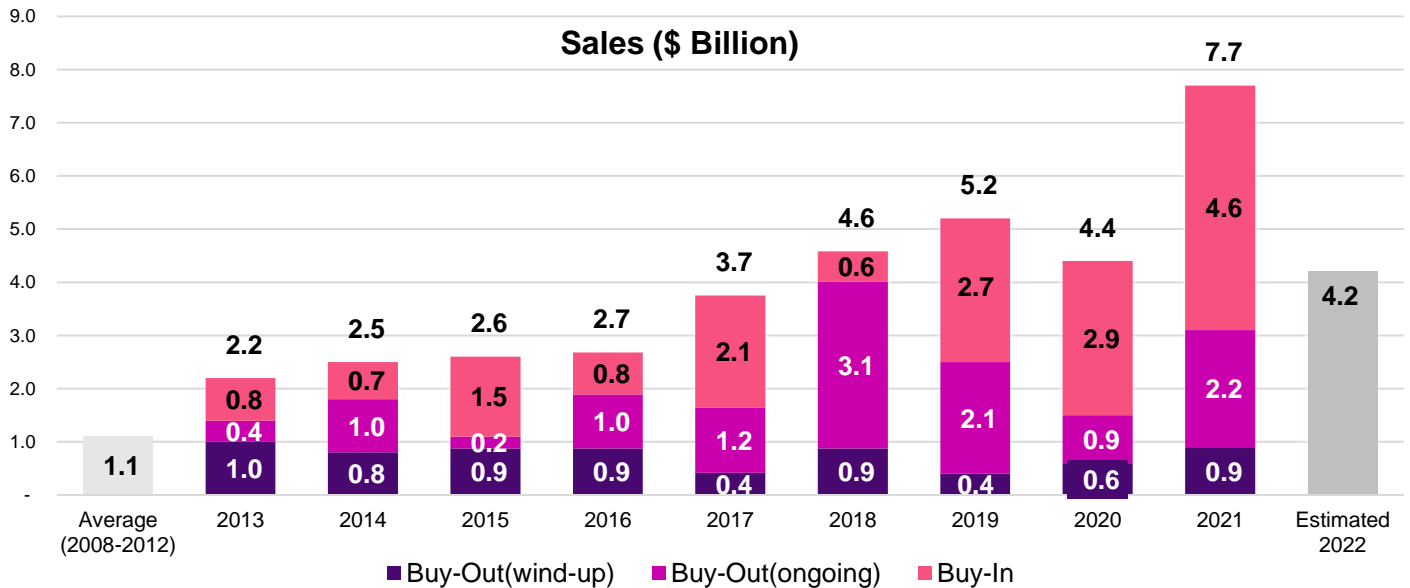


Group Annuity Market Pulse

Third Quarter 2022 – Canada

WTW Annuity Purchase Index ^{1,2}

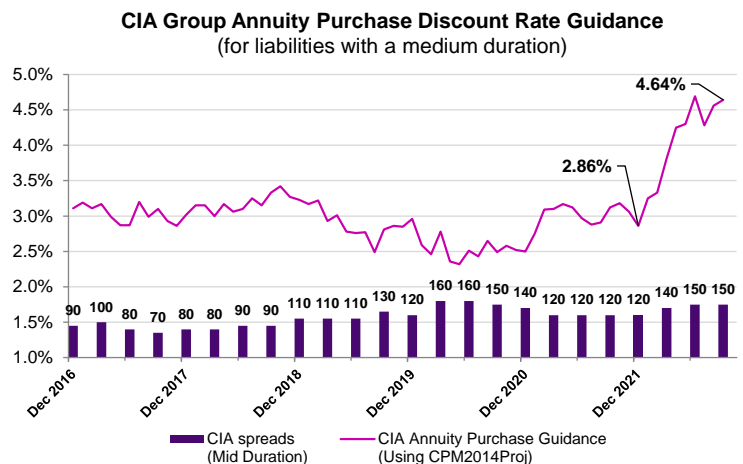


Key Observations:

- We estimate that ~\$1.2 billion of group annuities were placed during the third quarter of 2022, contributing to year-to-date (YTD) total sales of ~\$4.2 billion. We expect a very busy fourth quarter, with multiple transactions above \$500M already confirmed.
- On September 7th, [IBM offloaded \\$16 billion of the company's U.S. pension plan obligations](#). It is the largest U.S. annuity transaction in a decade and the second largest in U.S. history (behind the \$29 billion GM transaction in 2012).

CIA Annuity Purchase Guidance

- The Canadian Institute of Actuaries (“CIA”) annuity purchase discount rate guidance (“CIA guidance”)³ 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 **4.64% as at September 30, 2022** (up from 2.86% as at December 31, 2021).
- The **178 basis points increase** in the CIA guidance in 2022 can be attributable to the increase in GoC bond yields (148 bps) and an increase of 30 bps in the CIA guidance spread for non-indexed pensions with a medium duration.
- Rates have since increased during October 2022 by 29 basis points as at October 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. Here are the details about the most recent [CIA guidance material](#).

Market insight

The third quarter closed off with estimated sales of ~\$1.2 billion of group annuities, bringing the total YTD sales to ~\$4.2 billion. The pipeline of transactions for the last quarter suggests that the market will surpass the total volume of sales reached in 2021 despite annuities being valued lower than last year due to the increase in interest rates. The outlook remains very healthy for the Canadian annuity market as pension plans have remained well funded on average in 2022. Recent market volatility has also reminded plan sponsors of the financial risks embedded in a DB plan, further contributing to the increase in pension risk transfer demand. Furthermore, uncertainty in the global economy is leading to increasing costs of corporate debt relative to government debt (e.g., corporate bonds compared to Canadian federal bonds), commonly referred to as “credit spreads”. Insurers invest in corporate or private debt when purchasing assets to hedge their group annuity liability, which translates into higher yields offered by insurers relative to federal bonds or in other words, lower premiums. In fact, most of our transactions during the third quarter have resulted in premiums below the estimates determined using the CIA guidance.

On the insurers’ side, we are witnessing a steady increase in capacity, allowing the market to keep up with the increasing demand. While we do not expect capacity issues to close off the year, some insurers may be more selective due to staffing limitations and targeting opportunities they believe they have a better chance at winning. Transaction readiness, such as an early diagnostic of the underlying data, continues to be critical to allow plan sponsors to be nimble in what is expected to be a busy market for the foreseeable future. There has also been a lot of activity in other key group annuity markets around the world.

United States

- ✓ On track to exceed the 2021 total annual sales of \$38 billion
- ✓ Blockbuster \$16 billion annuity transaction for IBM covering 100,000 retirees and beneficiaries
- ✓ Uptick in buy-in transactions and plan terminations also covering deferred vested members
- ✓ Outlook for competition and pricing remains favourable

United Kingdom

- ✓ Total YTD activity estimated at ~£20 billion, including ~£13.5 billion of bulk annuities
- ✓ Outlook for competition and pricing remains favourable
- ✓ Increase in interest rates causing turbulence in the UK Gilt market affecting pension plans with derivatives and leverage
- ✓ Increase focus on transaction readiness

Regulatory updates

New Brunswick introduced regulations allowing a liability discharge for annuity purchases effective October 1, 2022. New Brunswick joins other jurisdictions who are in the process of or have already implemented provisions for liability discharge for annuity purchases.

The Office of the Superintendent of Financial Institutions (OSFI) released a draft Instruction Guide on Buy-in Annuity Products for federally regulated pension plans, seeking comments on their proposed approach to value and administer buy-in policies. A buy-in policy allows the plan sponsors to transfer all financial risks to the selected insurer while maintaining the administrative responsibilities towards its plan members, an investment solution that has no impact to plan members. Buy-in annuities have gained popularity over the last five years, and we expect more jurisdictions to introduce similar guidance.



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](https://www.wtwco.com).