

CANADIAN ANNUITY NEWSLETTER

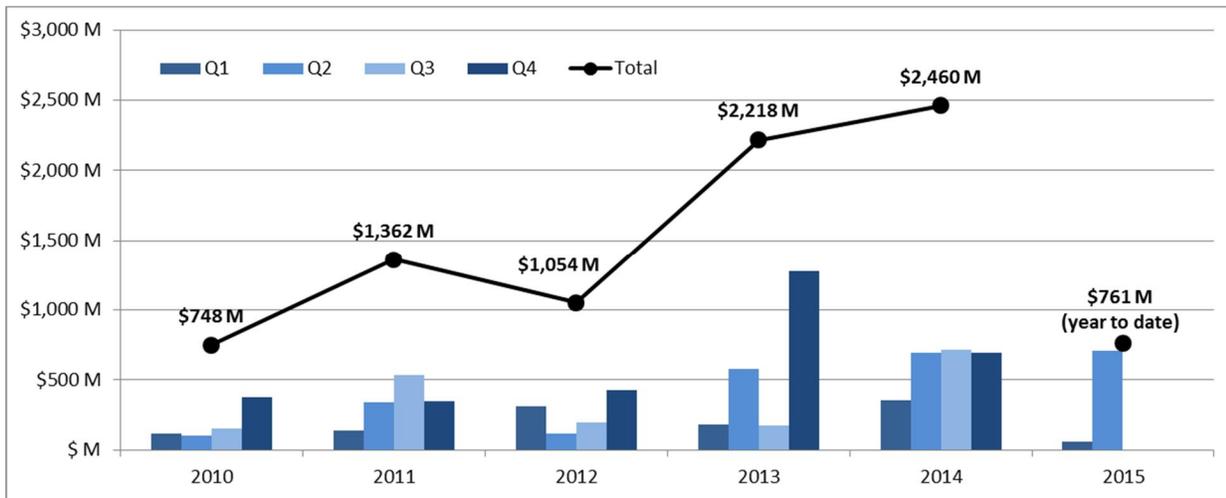
September 1 2015

CANADIAN ANNUITY NEWSLETTER (for Q2 2015)

Overview

Second quarter activity in the Canadian group annuity market picked up quite significantly after a slow start to the year. After placing approximately \$56M in Q1, \$705M in annuities were secured from April through the end of June.

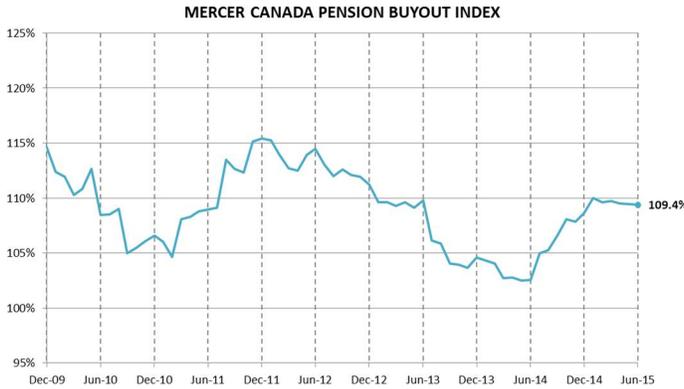
The following chart summarizes the activity in the Canadian group annuity market from 2010 to the end of the second quarter of 2015. The black dots represent the total business placed each year. The bars represent the volume placed each quarter. Note that the change in the Q1 volume compared to the previous newsletter is to account for transactions involving RBC Insurance which were excluded from official LIMRA stats in the first quarter but have been included as of Q2 2015.



Sources: LIMRA and Mercer

Annuity Pricing

The Mercer Canada Pension Buyout Index tracks the estimated cost of annuities relative to accounting liabilities for a typical group of non-indexed pensioners. As at June 30, 2015, the estimated cost of annuities was approximately 9.4% greater than the respective accounting liability for the same group.



For additional information about the Mercer Canada Pension Buyout Index, please contact your Mercer consultant.

Of course, the pricing of annuities relative to accounting liabilities is only one of the measures that could be taken into account when considering an annuity purchase. Although the Canadian Institute of Actuaries (CIA) annuity proxy is very useful when determining a solvency liability at a date that is in the past, it is

less useful as an estimate of current annuity pricing. Actual annuity pricing is volatile and can be influenced by a multitude of factors such as changes in the general economics of supply and demand in the Canadian annuity market, the demographics of the group, the size of the transaction and the characteristics of the liability itself (indexation, amount of deferred annuities, form of payment, etc.). Annuity transactions should be structured so as to optimize them (for example by tranching the portfolio in order to minimize price, etc.).

Mercer Annuity Placements – What are we seeing?

One measure that clients and consultants often look at is how the pricing of an annuity compares to the CIA's annuity proxy. Since the updates to the proxy in 2014, most quotes have tended to place at prices very close to the annuity proxy, and in some cases at even more favorable prices. So far in 2015, most of the annuity transactions that we were involved in closed at prices slightly better than the annuity proxy. However, with the market activity starting to pick up, it will be interesting to see whether this persists. It should also be noted that the proxy is simply an estimate of the cost of an annuity for a hypothetical retiree group at a particular point in time. Differences between the actual cost and this theoretical cost do not provide a complete picture as to whether a potential deal is attractive or not and should only be considered as part of a more holistic approach.

Information about historical annuity purchases placed by Mercer, including analysis of spreads relative to the annuity proxy, spreads relative to the government bond yields, size of purchases, and duration of purchases are available to our clients. Speak to your Mercer consultant for more information.

The Mercer Pension Risk Exchange is coming to Canada!

In June, the Mercer Pension Risk Exchange was rolled out in the US. The Exchange is a dynamic platform where insurers and plans considering an annuity purchase can interact and share information. After a UK release planned for Q4 2015, the Exchange is then set to be launched in Canada.

The Mercer Pension Risk Exchange will offer several significant improvements to the current group annuity purchase process such as regular indicative quotes, improved closing probability and reduced lag time between bid requests and binding quotes. Your Mercer consultant and Mercer's annuity specialists would be happy to present a demonstration of the Mercer Pension Risk Exchange to you if you are interested in learning more.

Expectations for the rest of 2015

After a slow start to the first few months of the year, many insurers backtracked on their initial predictions of a 2015 volume of group annuity purchases in Canada that would set a record for the third consecutive year. However, second quarter activity has picked up considerably. Most insurers now believe that a new record year could in fact be achieved, depending on the closing rate of some of the larger potential transactions in their pipeline. As we move into the second half of the year, it will be important to monitor the activity in the market to gauge the appetite of insurers to take on annuities.

For more information, contact your Mercer consultant or the following Mercer specialists:

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