Group annuity purchases in Canada in 2024

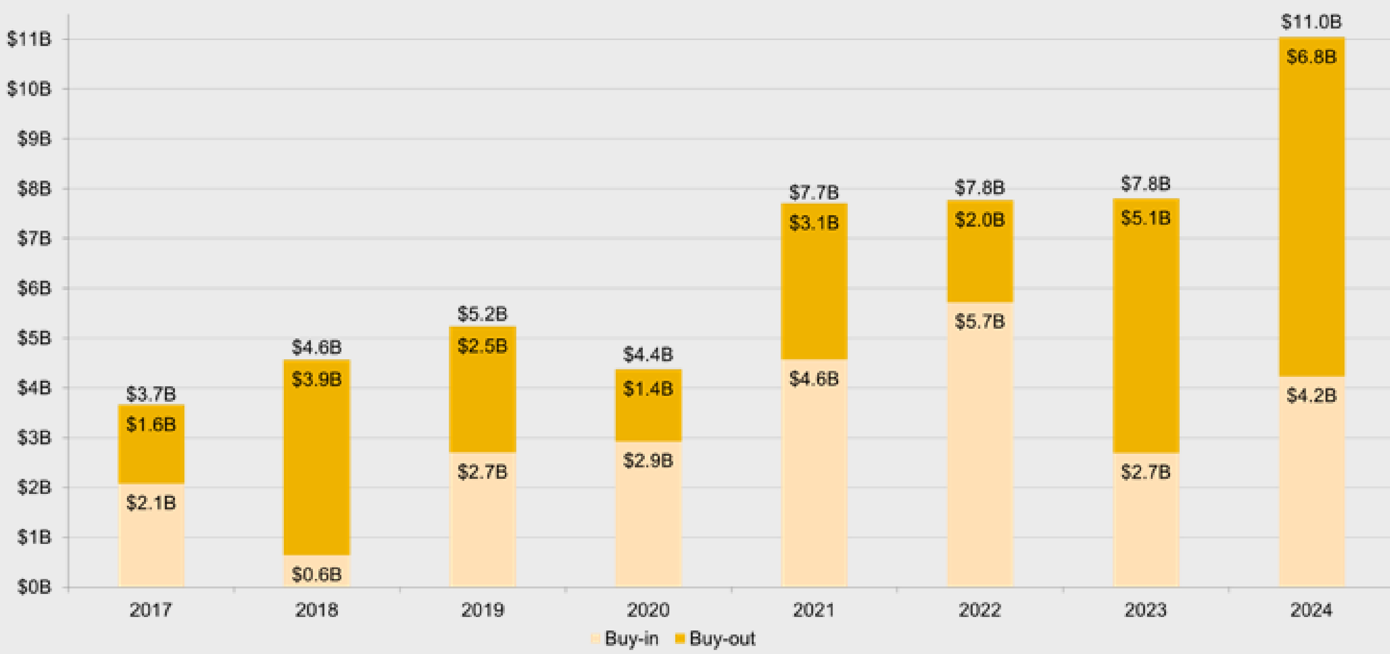
A record shattered

March 2025

In summary

- In 2024, the Canadian group annuity market reached a new high with transactions totalling $11B, an **increase of 42%** compared to the average of the previous three years. The year was marked by both an increase in the number of transactions and the very large size of some transactions.
- As illustrated by the *Normandin Beaudry Pension Plan Financial Position Index as at December 31, 2024,* the financial positions of pension plans improved in 2024. Many organizations continue to purchase annuities to crystallize gains and sometimes even improve the financial position of their plans.
- Despite increased volatility and narrowed credit spreads, the pricing offered by insurers remained attractive for Canadian pension plans.
- With the market's enthusiasm, some smaller plans sometimes encountered difficulties finding an insurer to partner with, particularly during the second half of the year. The number of transactions concluded on a "one-on-one" basis with an insurer continued to increase in 2024. This strategy can be particularly interesting for smaller transactions that would otherwise attract less interest from insurers.
- Insurers continued to offer favourable pricing for indexed annuities des pite the Government of Canada's decision to stop issuing real return bonds in 2022. The Canadian market also saw its largest indexed annuity transaction in 2024 (transaction of over $1B).

DATA ON THE CANADIAN GROUP ANNUITY MARKET

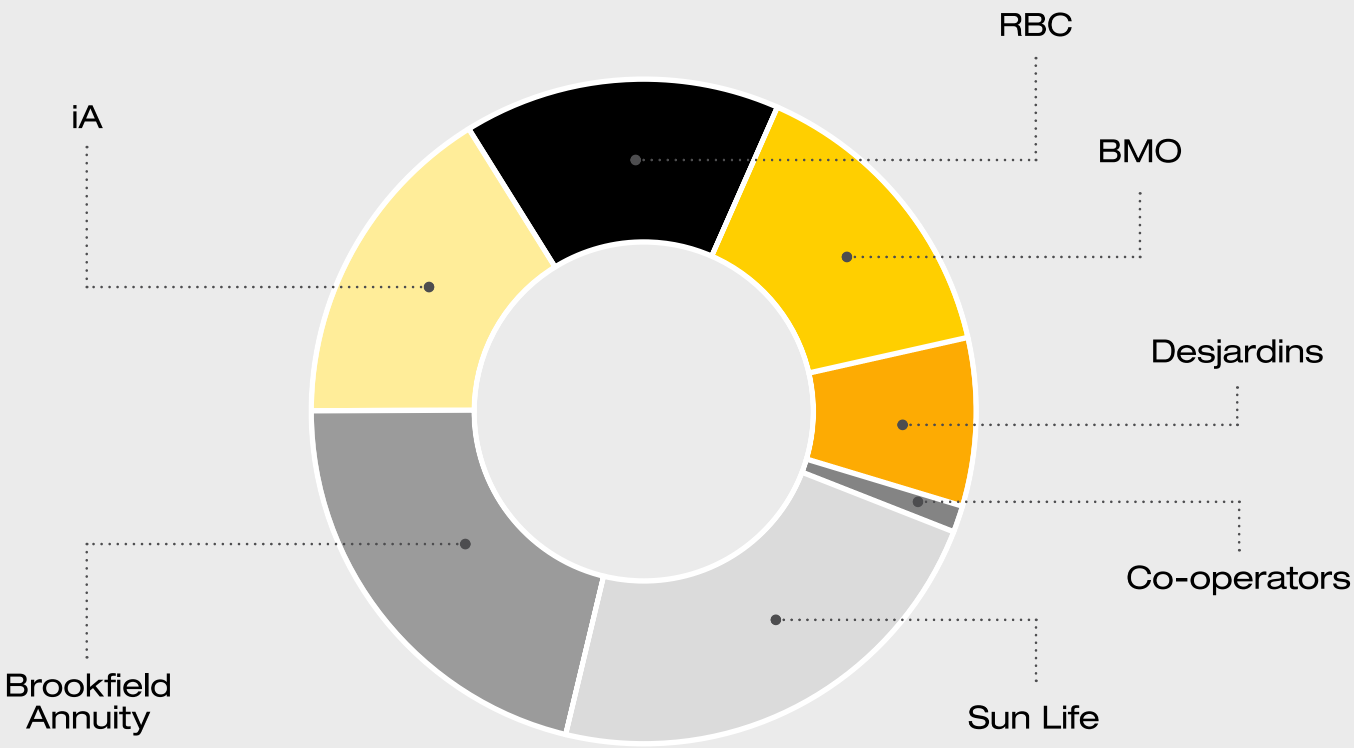


Source: Life Insurance and Marketing Research Association (LIMRA)

Insurers

Seven major insurers share most of the transactions, and here is an overview of their market shares for 2024:

Seven major insurers share most of the transactions



Source: Information provided by insurers.

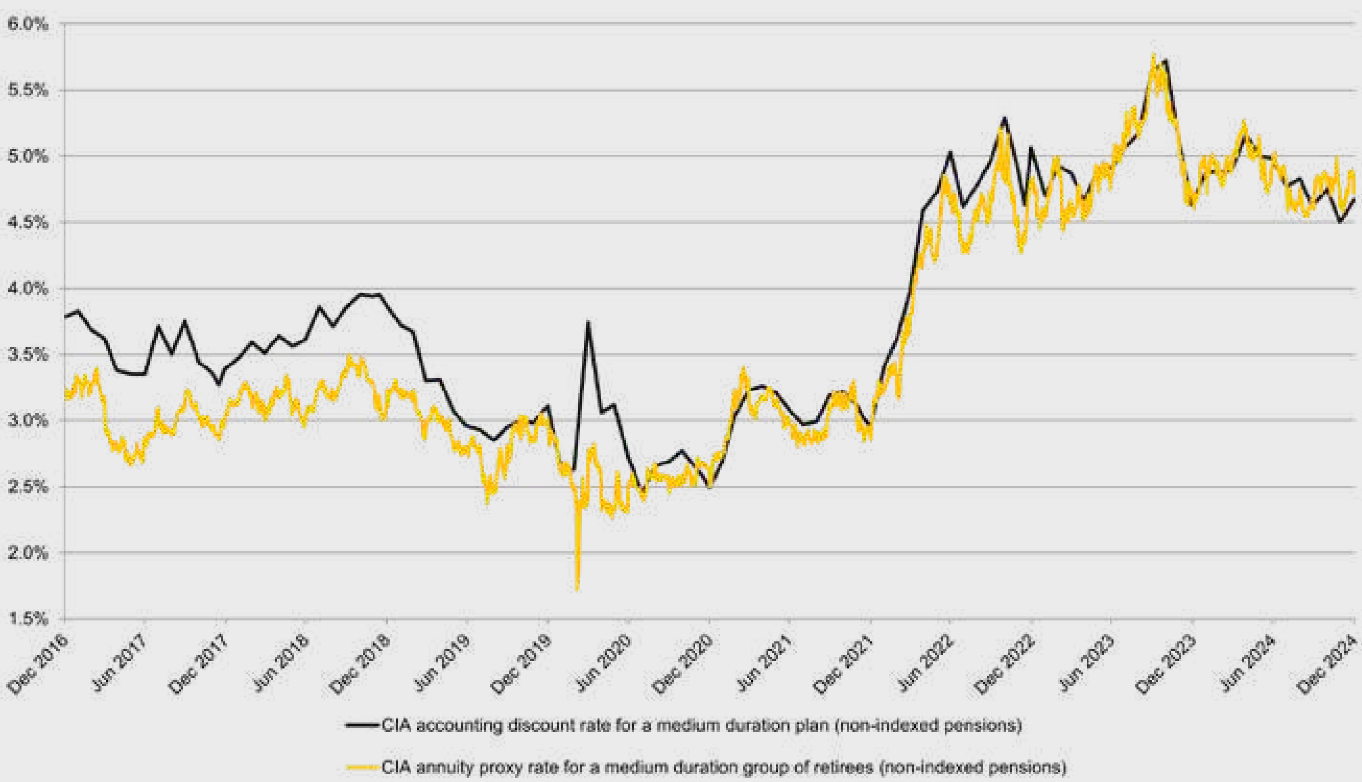
It should be noted that as of March 1, 2025, Brookfield Annuity Company changed its name to Blumont Annuity Company.

Interest rates

In 2024, major central banks began a cycle of monetary easing in response to the slowdown in inflation growth. Despite several economic uncertainties in Canada, credit spreads reached historically low levels, mainly due to the strength of the U.S. economy and a level of bond issuance that remained below the record levels recorded between 2020 and 2022. Even with low credit spreads, the collective annuity market remained competitive according to the Canadian Institute of Actuaries (CIA) proxy and the recent transactions we have observed. At the end of 2024, the implicit annuity purchase rate was estimated at 4.7% according to the CIA proxy (see graph below).

Many organizations were able to transfer their pension plan risks to an insurer at an attractive cost and sometimes managed to do so by freeing up some margins reflected in their funding valuations. The accounting impacts were also limited in most cases given the similarity observed between the discount rates used for accounting valuations and the annuity purchase rates.

CIA ACCOUNTING DISCOUNT RATE AND CIA ANNUITY PROXY RATE



Source: Canadian Institute of Actuaries

The importance of a premium adjustment mechanism in a volatile environement

The volatility of interest rates that can occur during a day of annuity purchase transactions can create significant uncertainty regarding pricing for both insurers and decision-makers. A premium adjustment mechanism can greatly reduce the volatility of the quotes submitted by insurers and can even improve their competitiveness.

Such a mechanism provides for an adjustment of the premium based on the variation of interest rates observed during the period between the acceptance of the insurer's quote and the liquidation of the assets used to pay the premium. This mechanism is generally used for the portion of assets invested in fixed-income securities that will be liquidated to pay the premium. By creating a correlation between the premium and the value of these assets, the financial situation of the pension plan is further protected. The interest rate risk is also reduced for the insurer for the assets that will be used to match its new liabilities, allowing the insurer to reduce some margins for volatility, which could result in more advantageous pricing.

Another strategy to consider is in-kind transfers, particularly when the pension plan holds assets that the insurer finds attractive. For example, some plans have chosen to transfer real return bonds to insurers to improve pricing for indexed annuity purchases. However, in-kind transfers are more complex than cash premium payments and are generally only considered for large transactions.

Every transaction is unique

At Normandin Beaudry, the mission of our annuity purchase experts is to provide our clients with personalized risk transfer support. Our robust and proven processes focus on customizing triggers and decision-making tools for each transaction. We use custom dashboards that help the organizations we support make informed decisions.

Every annuity purchase transaction is unique, and the success criteria vary from one organization to another. The structure of the transaction is generally determined based on several factors, such as:

- the demographic profile of the group;
- the liquidity and the level of matching of the investments used to pay the premium;
- the exposure to inflation risk;
- the financial situation of the plan;
- the legislative framework and funding rules specific to the plan;
- the accounting standards applicable to the organization.

Communicating with annuitants is also an important step in the annuity purchase process, especially in the case of buy-out transactions. These transactions require particular attention in order to convey important messages appropriately and to properly support annuitants in the change of pension payer. Applicable legislation may also prescribe disclosures that can sometimes be more technical in nature and could make these communications harder to understand. These disclosures must be integrated into communications with care so that annuitants fully understand their implications.

Industry news

PUBLICATION OF A NEW MORTALITY IMPROVEMENT SCALE

In April 2024, the CIA published a new mortality improvement scale, reflecting a greater improvement in life expectancy compared to the CPM-B scale (the one published previously). At the same time, the CIA is working on updating mortality tables that are generally used for actuarial valuations. Although the combined impacts of applying both the new improvement scale and the tables that will be published remain uncertain, it is possible that liabilities will increase, which could influence risk management strategies.

Mortality assumptions are an essential element of group annuity pricing. Insurers generally rely on their own data and models to establish their pricing, while using the information provided about the annuitants such as date of birth, gender, postal code, salary, and occupation before retirement. Despite using internally developed models, it is possible that some insurers will adjust them based on the results of mortality analyses conducted by the CIA.

The evolution of mortality tables and mortality improvement scales remains an important element to monitor in assessing the relevance of risk transfer solutions proposed by insurers.

Questions or looking to purchase annuities for your pension plan?

CONTACT OUR SPECIALISTS!

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CAPSA Guideline No. 10

In September 2024, the Canadian Association of Pension Supervisory Authorities (CAPSA) published Guideline No. 10, emphasizing risk management for all pension plan administrators in Canada. This guideline aims to help administrators establish a robust and tailored risk management framework, enabling them to fulfil their fiduciary obligations. Additionally, it encourages administrators to regularly assess the risks their plans are exposed to and implement effective tools to manage them.

The purchase of group annuities fits perfectly within a proactive risk management approach. By transferring longevity, interest rate, and investment return risks to an insurer, this strategy can enable an organization to protect the interests of plan members by securing a portion of its obligations and stabilizing the plan's financial position. Integrating a well-planned annuity purchase strategy, combined with implementing best practices from Guideline No. 10, can be a prudent approach to enhancing the financial resilience and governance of a pension plan.

For more information on this topic, you can consult our *NB bulletin.*

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