Pension risk transfer.

2024 Q3 review.

October 2024

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TELUS Health

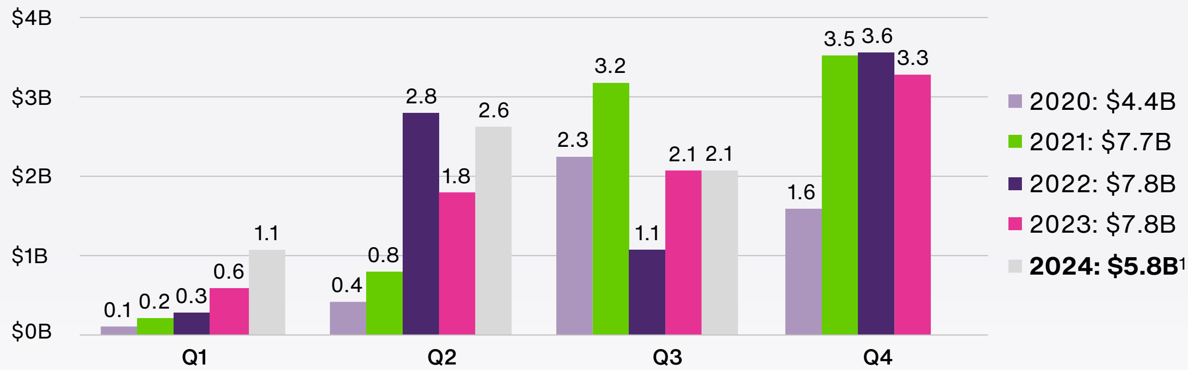
Annuity purchase market outlook.

Market activity

Amidst the backdrop of lowering interest rate levels, the third quarter of 2024 was defined by sustained momentum in the annuity purchase market. This period was buoyed by a few significant transactions, complemented by a consistent stream of smaller transactions in various forms. Many insurers continue to show a strong appetite and offer competitive pricing on a broad spectrum of deals, while some, nearing their capacity limits, adopt a more selective approach in allocating their efforts.

As we approach the final quarter of 2024, the Canadian annuity purchase market is poised for a robust year-end finish. With approximately $5.8 billion in annuities already transacted in the first three quarters, the market is running on all cylinders. Alongside nearing full pipelines for most insurers until year-end, several jumbo quotes are anticipated to close in the coming months, coinciding with a downward trajectory in interest rates. This convergence of factors indicates that the market is well-positioned not only to meet but potentially exceed the projected annual targets.

Transaction volume



1. Q3 2024 volume of $2.1B is an estimate based on discussions with insurers.

Interestingly, there has been a strong concentration of market share towards a few insurers since the beginning of the year. While this trend is not unfamiliar to the market, it hadn't materialized to this extent since 2022. We expect this development to be advantageous for plan sponsors going to market during Q4 2024. Indeed, some insurers, still seeking to meet their capacity targets, will likely be motivated to offer competitive bids.

Other remarks

Economic update

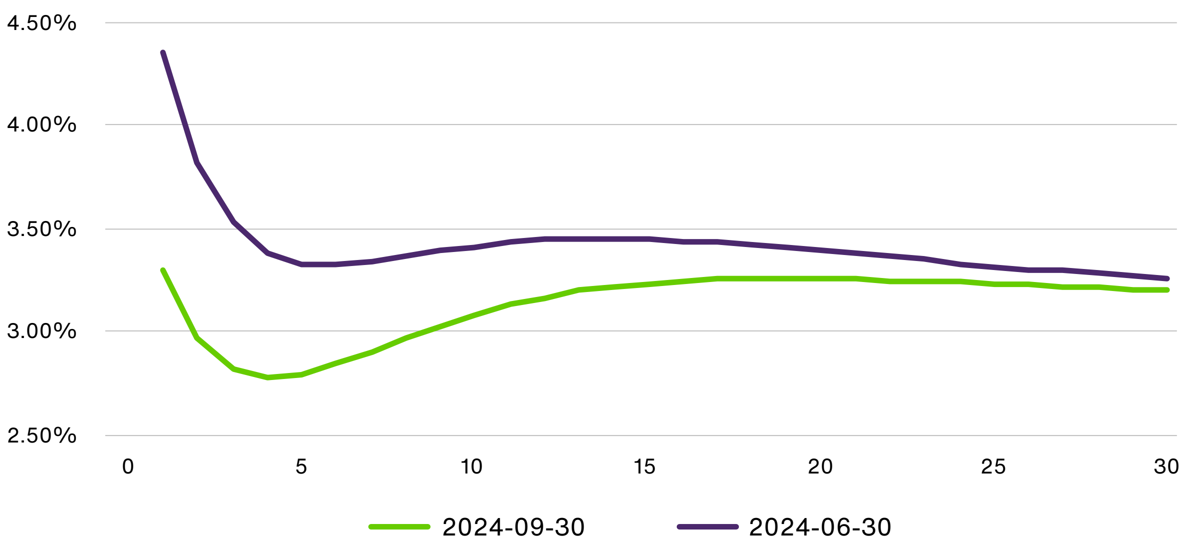
Building on last quarter's momentum, the Bank of Canada lowered its policy rates by 25 basis points on two occasions during the quarter—once in late July and once in early September. Additionally, the Federal Reserve in the United States cut rates by 50 basis points in mid-September.

Following these announcements, the sovereign yield curve, which is currently inverted, has begun to experience a unique "twist." Specifically, short-term yields are dropping significantly more than long-term rates, nudging the curve towards de-inversion. **While this dynamic shift provides insightful market signals, it also presents unique challenges for pension plans, particularly in the realm of solvency liability valuations.**

One complicating factor is that the CIA-prescribed assumption is only published once per quarter. The calculation of the annuity purchase rate depends on long-term treasury rates and an adjustment based on the duration of the plan's solvency liabilities. When utilized between these guidance dates, the assumption considers only parallel shifts in the yield curve, without accounting for yield curve steepening or flattening and credit spread movements.

This means that plan sponsors relying on solvency liabilities as a benchmark for annuity pricing must be cognizant of these complexities. To effectively incorporate these market movements into their de-risking strategy, it is crucial to seek professional advice from their consultant.

Canadian sovereign yield curves.

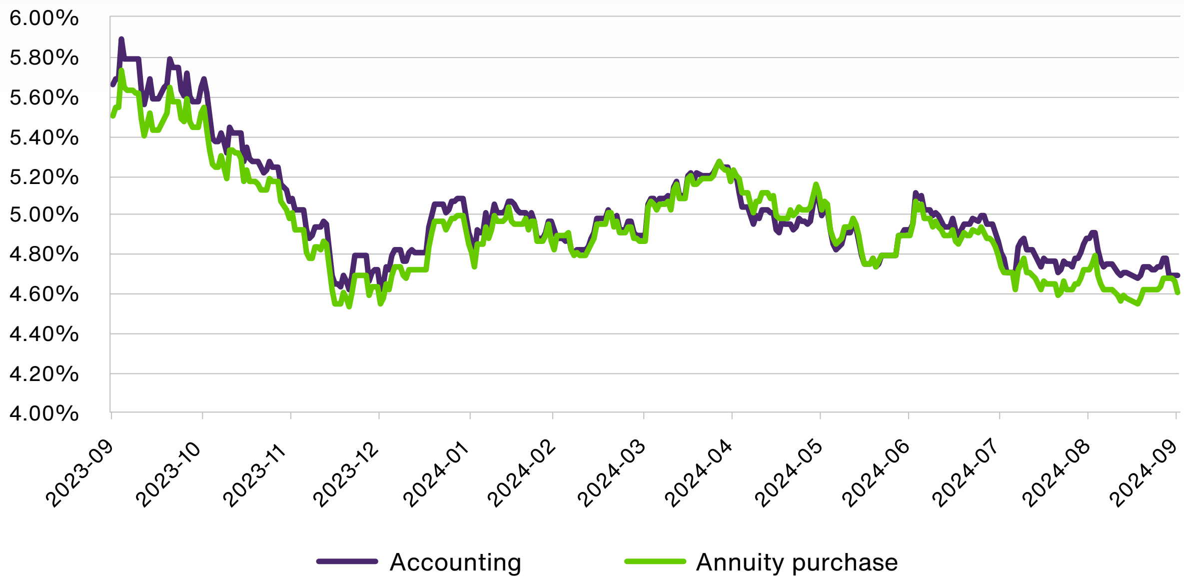


TELUS Health

As of September 30, 2024, both the annual accounting rate and the annuity purchase rate experienced declines compared to the previous quarter. For a medium duration plan, the accounting rate decreased by approximately 20 bps, settling at 4.7%. Simultaneously, the annuity purchase rate experienced a larger decline of approximately 30 bps, landing at 4.6%. This shift has widened the gap between the two rates to 10 bps—up from a nearly null gap at the end of the second quarter.

Despite the drop in both rates and the widening spread between them, these rates continue to offer an attractive opportunity for risk transfer from an accounting perspective, consistent with trends observed in recent quarters. Sponsors looking to de-risk their pension plans through annuity purchases can still find favorable conditions, as the convergence of market factors continues to align with strategic pension risk transfer goals.

Annualized daily rates for an average duration plan.



1. Accounting discount rate derived from the TELUS Health AA Corporate Bond curve.
2. Annuity purchase rate based on most recently available CIA guidance and market conditions at September 30, 2024 for a medium duration annuity purchase (10 years).

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