

Mercer Global Pension Buyout Index

Q1 2022

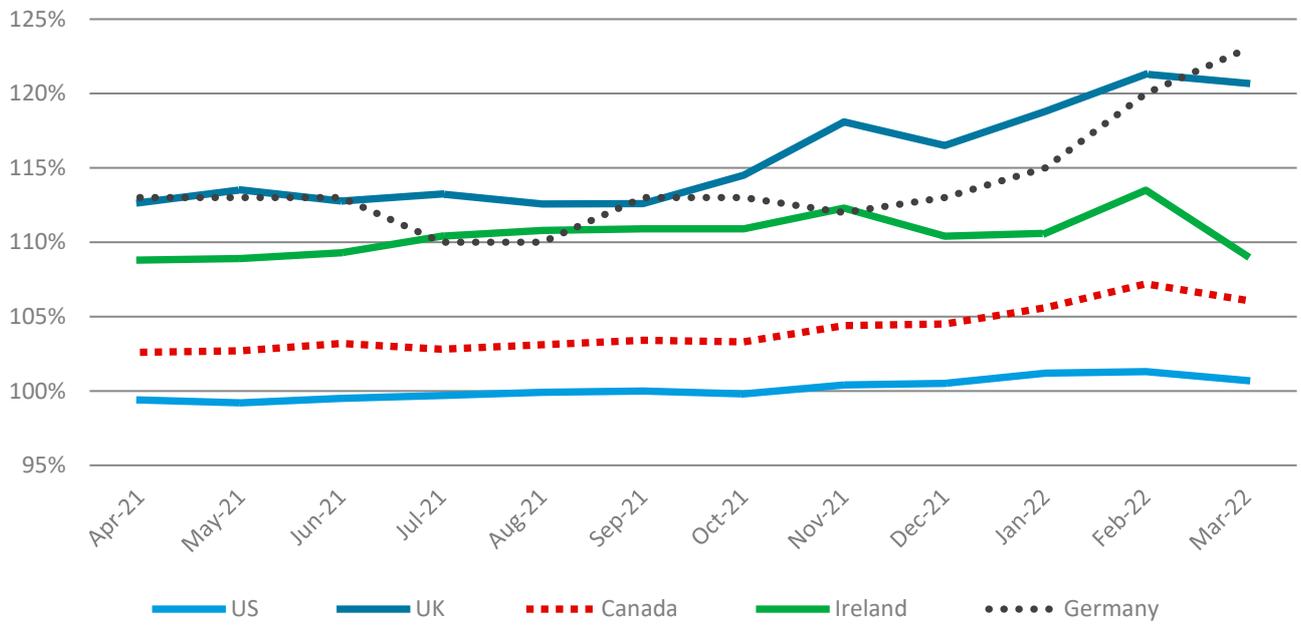


Executive Summary

Mercer Global Pension Buyout Index monitors the general trend in the pricing of bulk pension annuity transactions in the US, UK, Canada, Ireland and Germany.

Pension risk transfer transactions increasingly involve an international element – for example, the sponsoring employer might be seeking to externalize pension risk in multiple countries. Pricing is subject to movements in global financial markets and domestic requirements for insurer reserving. However, country-specific pricing often trends in different directions due to domestic influences, leading to windows of opportunity in one country relative to another.

The chart shows estimated annuity prices from insurers as a percentage of accounting liability in the five countries monitored, for existing retirees in a sample defined benefit pension plan. This is based on up-to-date pricing information provided regularly by insurers in each country.



For example, where a line is at the 110% level, Mercer estimates the average price of a pension annuity transaction for current retirees to be broadly 10% higher than the equivalent accounting liabilities. The notional 'Global' Index may be determined by taking the average price of pension annuity transactions, as a percentage of accounting liability, across the five countries and drawing upon information such as country market size. The notional 'Global' Index increased from 107.6% at 31 December 2021 to 110.0% at 31 March 2022.

The regional indices in Germany and UK increased significantly over Q1 2022, with a slight increase in Canada. The US Index remained relatively flat throughout Q2, with the Ireland Index decreasing slightly over the quarter despite a sharp rise in February.

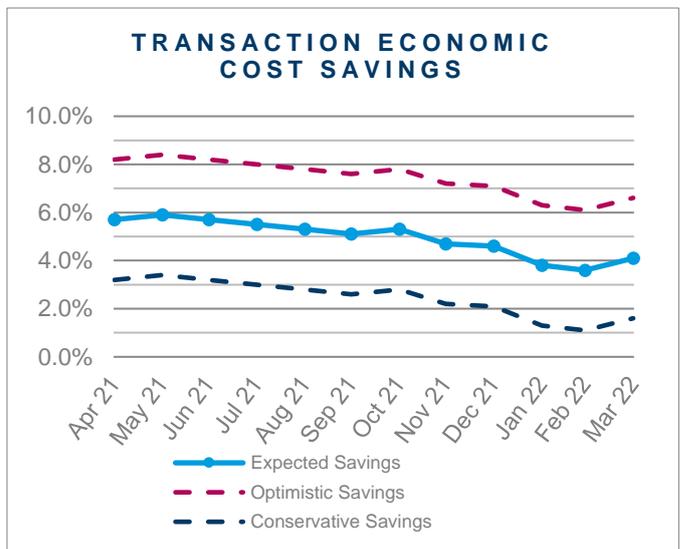
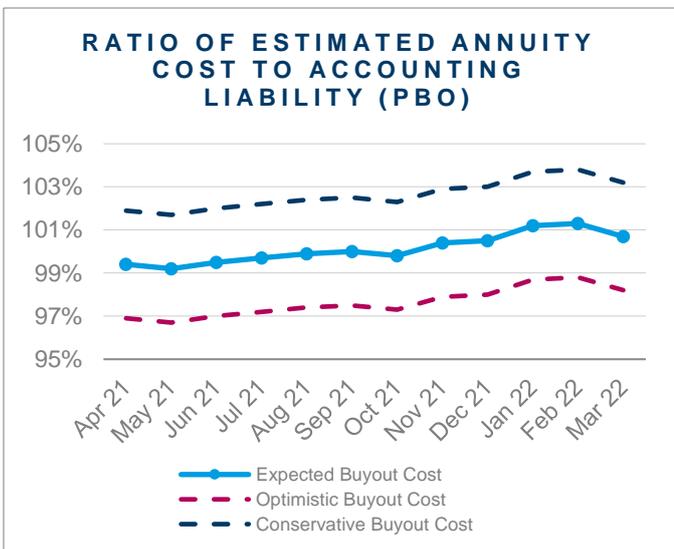
Pension liability has been measured according to local standards. As an example, the cost of insuring pension liabilities in the UK is higher than in the US (relative to accounting liabilities) partly because UK pension liabilities are commonly indexed for inflation and partly due to generous attaching spouses' pensions, both of which increase the liability duration. Insurers also charge an additional premium to take on inflation risk.

Mercer appreciates the assistance of numerous insurers, who provide pricing data every month to allow this report to provide a good indication of the trend in each country.

The information contained in this report is not based on information specific to your circumstances and approximations have been used. Past experience is no guarantee of future pricing and experience may vary for your plan.

United States

The cost of a buyout had been decreasing a number of years ago relative to PBO accounting liabilities; however this relationship has remained relatively stable over the last couple of years. Price transparency allows for greater information from which a plan sponsor can act. The chart on the left shows the relative price to PBO using pricing received from insurers. The chart on the right shows the potential economic savings a buyout generates, reflecting accounting liability and plan maintenance costs less the cost of a buyout.



At the end of March 2022, if the hypothetical buyout index accounting liability in respect of plan pensioners only was US\$100 million, the buyout cost would be roughly the same.

Retaining these pensioners in the plan would incur future maintenance costs of \$4.1 million. This includes future PBGC premiums, administrative costs, and investment costs. As such, a plan sponsor could potentially save a total of \$4.1 million by executing this transaction in the baseline expected scenario.

United States Market News

- Buyout index liability discount rate increased by 106 basis points over the quarter.
- Buyout index annuity discount rate increased by 104 basis points, causing the hypothetical annuity price to decrease by slightly less than the accounting liability decreased over the quarter.
- Market volume has remained high to begin 2022, led by two transactions above \$1 Billion each. Additionally, multiple transactions in the \$500M to \$1B range has first quarter estimated volume in excess of \$5 Billion, making it the highest Q1 on record.
- Continued high levels of market transaction volume have driven ongoing expansion of the insurer market with two new entrants to the market in 2020 another in 2021 and at least one more in 2022. This additional competition has been a positive for plan sponsors looking to transact.

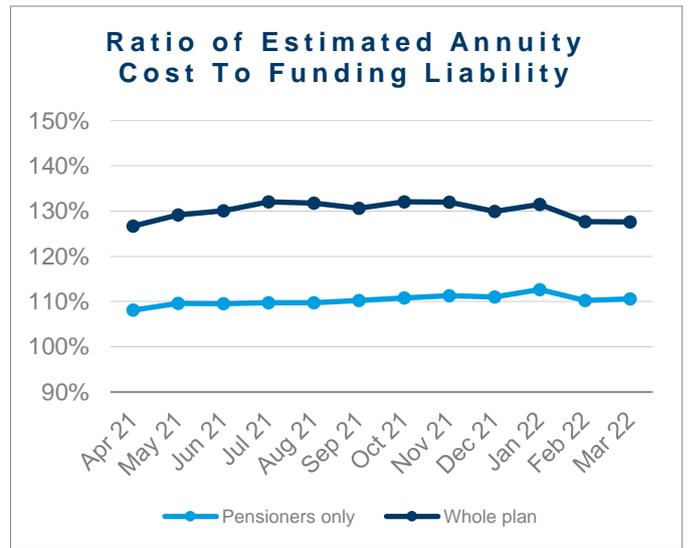
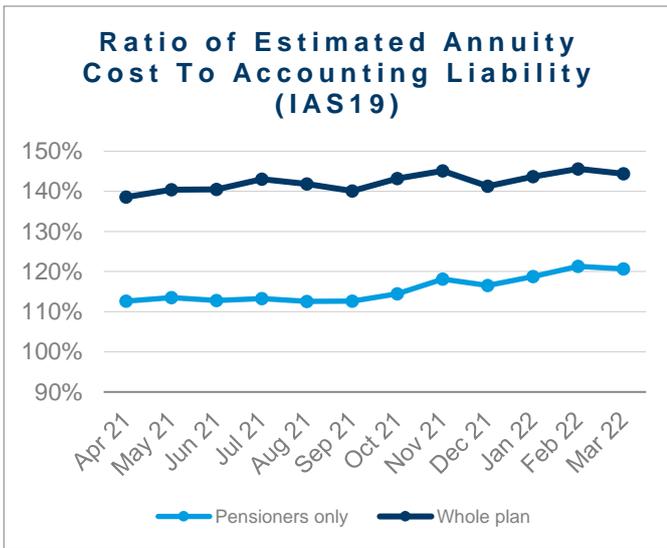
NOTES

The charts are based on a set of liabilities with 750 participants, pension benefit obligations of US\$100 million, cash flow duration of approximately 9 years, and discounted using the Mercer Yield Curve.

The figures in the charts should be used as an indication of the market pricing for annuity placements; actual pricing received will depend on plan-specific factors such as plan provisions, size, and age of the population. At a single point in time pricing between insurers varies materially which may lead to a difference in cost of up to 10%. It is important to note that the insurers who provide pricing do not reflect mortality sensitivity in their illustrative rates, or benchmark to a standard table.

United Kingdom

The charts track the cost of a buyout and buy-in of a representative pension plan against accounting and typical funding liabilities. The plan has pensioner and non-pensioner liabilities, with a weighting towards pensioners. Pensioner and non-pensioner members receive a mixture of flat and increasing pensions in payment, commensurate with an “average” UK pension plan.



At the end of March 2022, if the plan had accounting liabilities in respect of all members of £100 million, the buyout cost would be broadly £44 million higher.

If the accounting liability in respect of plan pensioners only was £100 million, the buy-in cost of pensioners would be broadly £21 million higher.

At the end of March 2022, if the plan had typical funding liabilities (technical provisions) in respect of all members of £100 million, the buyout cost would be broadly £28 million higher.

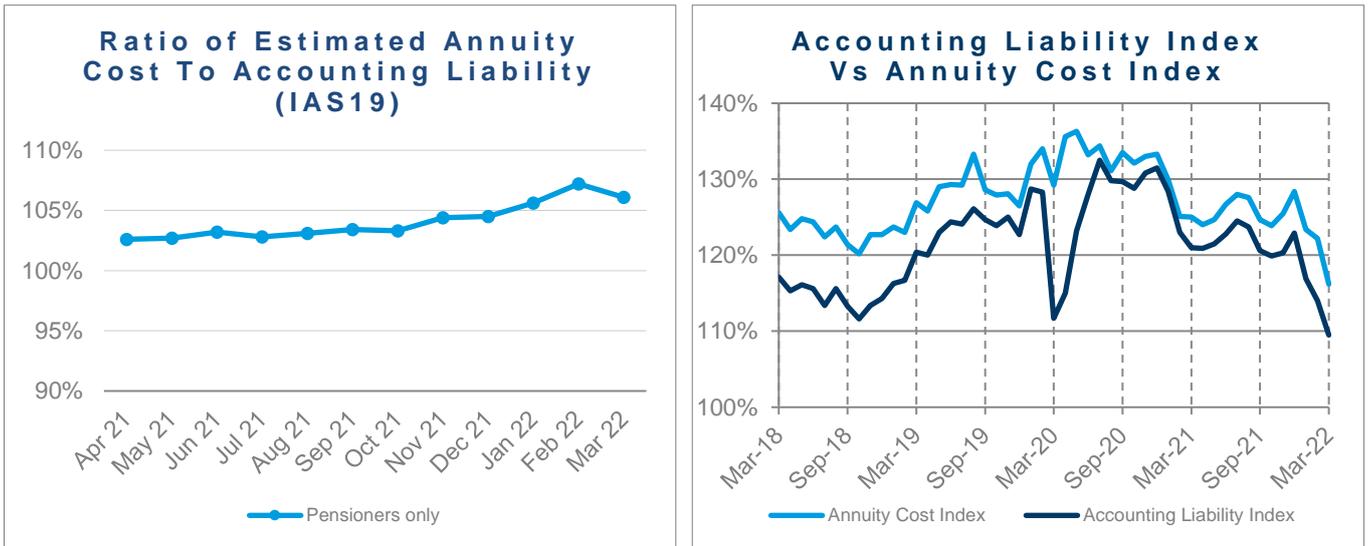
If the typical funding liability in respect of plan pensioners only was £100 million, the buy-in cost of pensioners would be broadly £11 million higher.

United Kingdom Market News

Total premium volumes for 2021 were c£28.6bn, compared to c£32bn in 2020 and c£43bn in 2019 (the largest annual volume to date). The year was characterized by a fairly slow first six months, before activity picked up significantly in the second half of the year, dominated by deals for small to medium-sized plans. Despite the ongoing global pandemic, bulk annuity risk transfer remains firmly on the agenda for UK pension schemes, with demand expected to continue growing over the coming years.

Canada

The charts track the movement in the cost of a group annuity as a percentage of the associated accounting liabilities for a representative sample group of retirees.



During the first quarter of 2022, the Index increased by 1.6% to 106.1%. This implies that, at the end of Q1 2022, the cost of settling obligations through the purchase of annuities was 6.1% higher than the corresponding accounting liability.

It is also important to consider the absolute cost of settling plan obligations. This can be best accomplished by looking at the movement of each component of the index in isolation. To do so, we look at the yields of long-term government bonds, which drive annuity pricing, and compare them to the yields on AA corporate bonds, which are used to calculate accounting liabilities.

Annuity Cost Index

Yields on long-term federal bonds, assumed to back annuity purchases, increased by approximately 75 bps throughout the quarter. Despite being partially offset by a 20 bps increase in annuity pricing over those same 3 months. The net result was an overall decrease in estimated annuity costs of 9.5%.

Accounting Liability Index

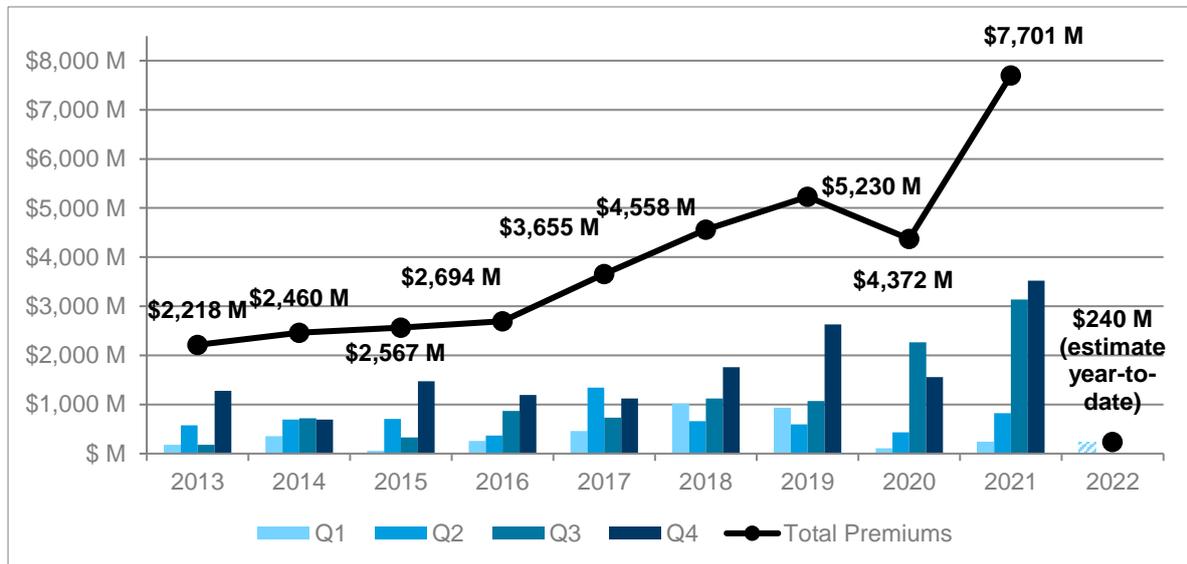
Credit spreads in long-term corporate bonds, assumed to back accounting liabilities, increased by approximately 19 bps in the first quarter of 2022. Combined with the significant rise in long-term rates, accounting liabilities fall by about 11.0%.

Canadian Global Pension Buyout Index

The increase in rates affected annuity costs less than accounting liabilities. As estimated annuity costs decreased less than accounting liabilities in the quarter, the Index rose from 104.5% to 106.1%.

Canada Market News

The first quarter of 2022 was relatively slow, with about \$250M of annuity premiums secured. Regardless, a robust annuity market is expected for the rest of 2022, with the total volume expected to match or even exceed 2021.



NOTES

The Index is based on an estimate of settling non-indexed pension obligations through the purchase of annuities and an accounting discount rate based on a proprietary model developed by Mercer to assist our clients with selection of the discount rates used for the purpose of corporate financial reporting. It is provided for a sample group of non-indexed retired members and is only intended to illustrate general trends. The actual premium can vary significantly for individual plans based on a number of factors that may include:

- The plan’s benefit structure and timing of its anticipated benefit payments.
- The demographic profile of the plan’s participants.
- Market conditions prevailing at the time benefits are distributed and annuities purchased.
- Insurer appetite and capacity for a transaction.
- Which employees, if any, receive and accept an offer to take a lump sum instead of an annuity.

Ireland

Bond yields continued to rise over Q1 2022 with Corporate bond yields up c.90bps during Q1 2022 and Core Eurozone Government bond yields up over c.70 bps over the quarter.

The rising corporate and government bond yields over Q1 2022 have resulted in a further fall in the value of scheme's bonds assets and a reduction in their accounting liabilities relative to their position year-end. This, combined with increased insurer appetite, has led to:

1. Annuity premiums becoming increasingly more attractive relative to core Eurozone Government bonds (held as assets by most Irish Pension Schemes) with annuity costs now c. 8% lower than the funding liability for a scheme holding core Eurozone Government bonds.
2. The gap between accounting liability and annuity prices narrowing, with annuity costs now c. 9% higher than the corresponding accounting liability (DBO).

Opportunity

Over Q1, corporate bond yields have risen substantially and credit spreads have continued to increase. Annuity costs continue to get more attractive relative to core Eurozone Government bonds. Therefore, for schemes holding such bonds to match pensioner liabilities there is an opportunity to exchange their core Eurozone Government Bonds for an annuity policy. This would improve cashflow matching and add a longevity hedge, while still realizing a funding gain.

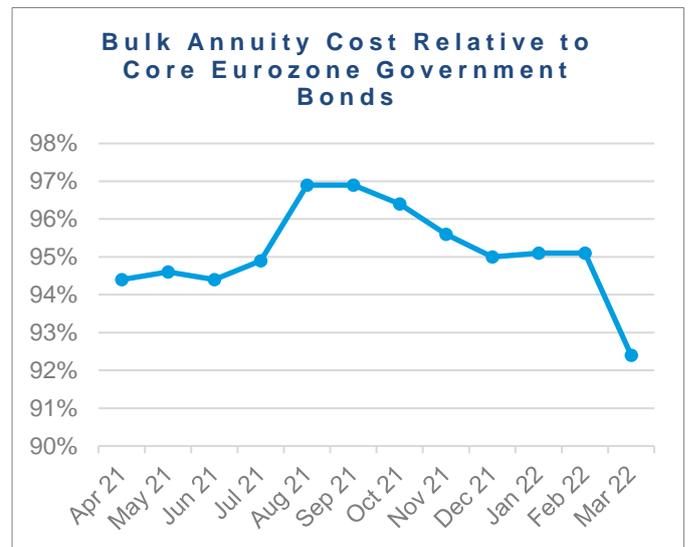
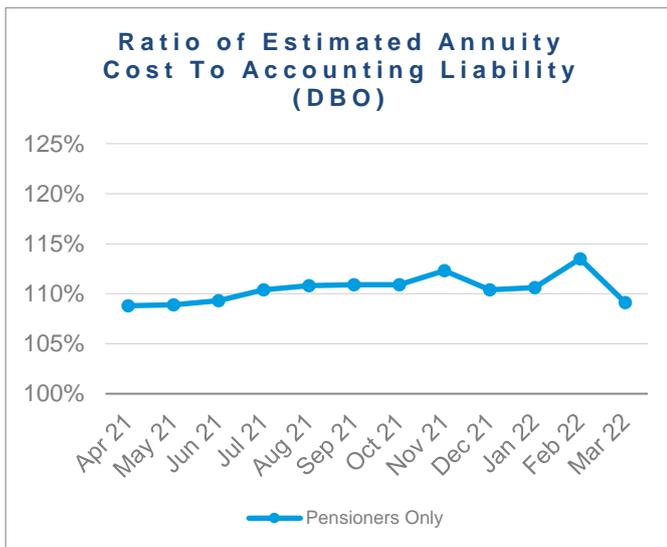
For any schemes that are under hedged (e.g. assets have a lower exposure to interest rates than the pensioner liabilities) the increase in interest rates over Q1 may have improved funding levels, which could put them in a better position relative to the end of 2021.

While it is not possible to predict the future direction of interest rates, or of credit spreads, these movements and their impact on the affordability of a bulk annuity transaction underlying the importance of being able to identify market opportunities to transact and being prepared to transact quickly when these opportunities do appear.

Bulk Annuity Index

The two charts below track the cost of a buyout or buy-in annuity policy for a representative pension plan against

1. The equivalent accounting liabilities shown on a company's balance sheet
2. The equivalent cost of funding those benefits through the scheme by investing in core Eurozone Government bonds.



At 31 March 2022, if the sample pension scheme had accounting liabilities in respect of pensioners of €100 million, the cost of a traditional annuity would be broadly €9.1 million higher.

At 31 March 2021, if a Pension scheme held €100 million of Core Eurozone Government bonds in respect of pensioners, the cost of a bulk annuity would be broadly €7.6 million lower, generating a funding saving for the scheme.

Ireland Market News

The life assurance companies active in the Irish market use a mix of core and semi-core Eurozone Government bonds as well as corporate bonds and other income generating assets to price annuity policies. Movements in these underlying assets over time can increase or decrease the attractiveness of a bulk annuity transaction for a Scheme or Sponsor relative to the assets held by the Scheme or the accounting liability booked by the Sponsor.

The cost of an annuity policy will also be influenced by the level of activity in the market and hence the ability to generate competitive tension between insurers.

The timing of a transaction will be one of the most important decisions that Trustees and scheme sponsors need to make, this has been reinforced by the volatility in annuity pricing experiencing over the last two years.

Activity in the bulk annuity market in Ireland had picked up over the last 2-3 years. This has been driven mainly by schemes that have made good progress towards de-risking their investment strategy and are starting to consider bulk annuity transactions as the next stage in this de-risking journey. These schemes have viewed pensioner buy-ins as an attractive investment opportunity, allowing them to take advantage of attractive annuity pricing without an associated negative P&L impact for their sponsor.

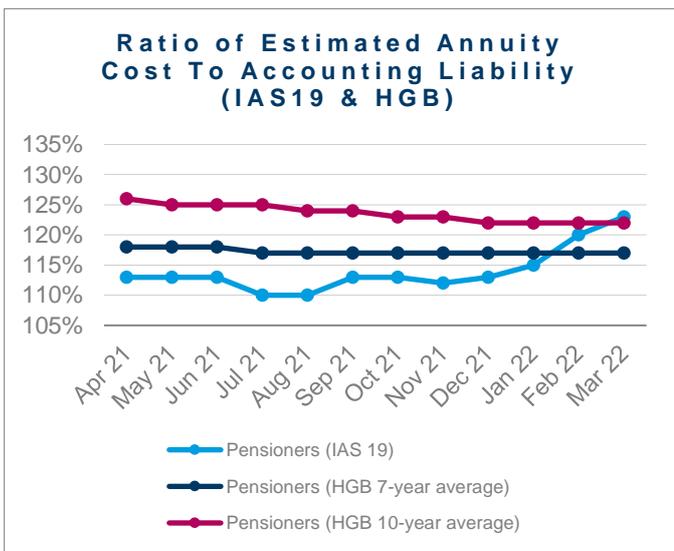
Market activity dropped significantly during 2021 due to unfavorable market conditions. However, this has resulted in increased insurer appetite through Q1 2022 with improvements in pricing as insurers reduce their margins, which combined with a return to more favorable market conditions, has resulted in bulk annuities becoming increasingly attractive for many Irish pension schemes.

NOTES

The index is provided for a sample mature pensioner population and is indicative only. The benefits secured (and valued as an accounting liability or using AAA Eurozone interest rates) are flat pensions, with no increases in payment. The price differential identified above will also be affected by the nature of the assumptions adopted for the accounting disclosures and benefit projections in particular pensioner longevity as well as the nature of the scheme's benefits and membership, and insurer commercial pricing decisions.

Germany

In Germany, a true buy-out of liabilities is not generally possible as the purchase price is treated as taxable income for the beneficiaries except in the case of the wind-up of the sponsoring company. Here we focus on so-called reinsurance, where the future promised pension payments are insured. The insurance contract is based on an insurance tariff with 0.9 % guaranteed interest rate. This interest rate will decrease in the near future. The German pension reinsurance market is based on with-profits policies. It is usually not possible to insure future indexation – in general, it is assumed that the with-profits bonuses will broadly compensate for the required level of future indexation, but exact indexation matching is not possible. The accounting liabilities in the table below reference a sample retiree population and are shown on an IFRS basis and the old and new German GAAP (“HGB”) basis. The new German GAAP uses a 10-year average of the discount rate (previously a 7-year average was used)



At the end of March 2022, if the plan’s accounting liabilities under local German GAAP (HGB) in respect of pensioners were €100 million, the buyout cost would be broadly € 22 million higher (compared with € 22 million higher at end of December 2021). Under the previous HGB basis, using the 7-year average rate, the buyout cost would be broadly € 17 million higher at end of March 2022 (compared with €17 million higher at end of December 2021).

If the plan accounting liabilities under international accounting standards (IFRS) in respect of pensioners were €100 million, the buyout cost in March 2022 would be broadly €23 million higher (compared with €13 million higher at end of December 2021).

Germany Market Opportunities

- There is no minimum funding requirement in Germany, and many retirement obligations remain unfunded. Increasingly we do see companies funding their retirement benefit obligations, but there are no tax incentives in case of an external funding.
- In addition many companies in Germany already closed or close their existing DB plans and implement a DC oriented plan. In this context companies often use insurance contracts or investment funds to fund these new liabilities and often link the resulting benefit (as far as possible in Germany) to the investment return.
- Nevertheless we see an 80% reduction in the insolvency protection premium in case that benefits are funded using a “Pensionsfonds”.

- For the DAX30 constituents, the funding level disclosed in the published accounts was decreased from 66% in 2019 to 61% in 2020 (Plan Assets of €252 billion compared to Liabilities of €410 billion).
- Reinsurance is commonly used for salary sacrifice plans, which offer a tax-incentivised method of saving for retirement with higher limits on contributions than other methods available as a private individual.
- In the insurance market there is a strong trend to lower the guarantees. Insurance companies currently still grant the paid-in contributions for existing contracts at the start of retirement; the guarantee level for new contracts will be reduced in the future. This offers the opportunity to invest more profitably and thus ultimately still offer an attractive retirement pension.

NOTES

The illustrations are based on values used by German life insurers, public information and a representative sample of a retiree population. Due to the applied approximation method the Index is not suitable for any company - and plan-specific pricing.

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MERCER PENSION RISK EXCHANGE™

A GROUNDBREAKING APPROACH TO PENSION RISK MANAGEMENT

Many defined benefit plans are now closed to new employees, but these plans still represent significant obligations for the company to manage alongside its on-going business. In addition to the company specific situation, economic factors are also driving up the demand for annuity transactions; however, the annuity marketplace can be hampered by long execution timelines and lack of price transparency. A plan sponsor requires robust information on the financial position of the company's pension plan, needs an understanding for how key financial metrics are developing over time, and values customized pricing information. This information must be accurate, up-to-date, and easily accessible.

CURRENT BULK ANNUITY MARKET CHALLENGES



UNPREDICTABLE MARKET

Each deal is unique and attracts different insurers. Deal pricing can vary dramatically



PRICE VOLATILITY

Pricing fluctuates over time but is not visible to plan sponsors.



LACK OF PRICING TRANSPARENCY

Obtaining a price can be difficult and time consuming. Plan sponsors often don't know the price at which they should execute an annuity transaction.

MERCER PENSION RISK EXCHANGE™

WHAT IS IT?



Access to regular pricing from insurers in order to assess the true market price of a deal.



Helps sponsors execute a deal in a more competitive price environment and in a shorter time frame than is currently possible.



Allows plan sponsors to prepare data and documents in advance, enabling them to proceed quickly when the time is right.



Online and mobile-optimized solution that gives sponsors and trustees access to valuable information anytime and anywhere.

WHAT IS IT FOR?



PLAN TERMINATIONS



BUYOUTS



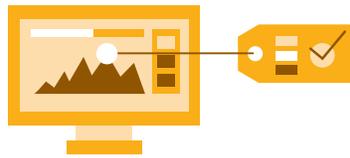
BUY-INS

HOW DOES IT WORK?



READINESS

Mercer's systematic and disciplined approach finalizes all data and documents well in advance of the transaction, enabling swift execution. We advise on target price levels and plan metrics that should be monitored, and we establish triggers upon which to act.



DYNAMIC MONITORING

Our pricing platform allows insurers to submit regular bids for specific plans. This enables sponsors to continuously monitor their unique price and specific plan metrics and to execute when market conditions are optimal.



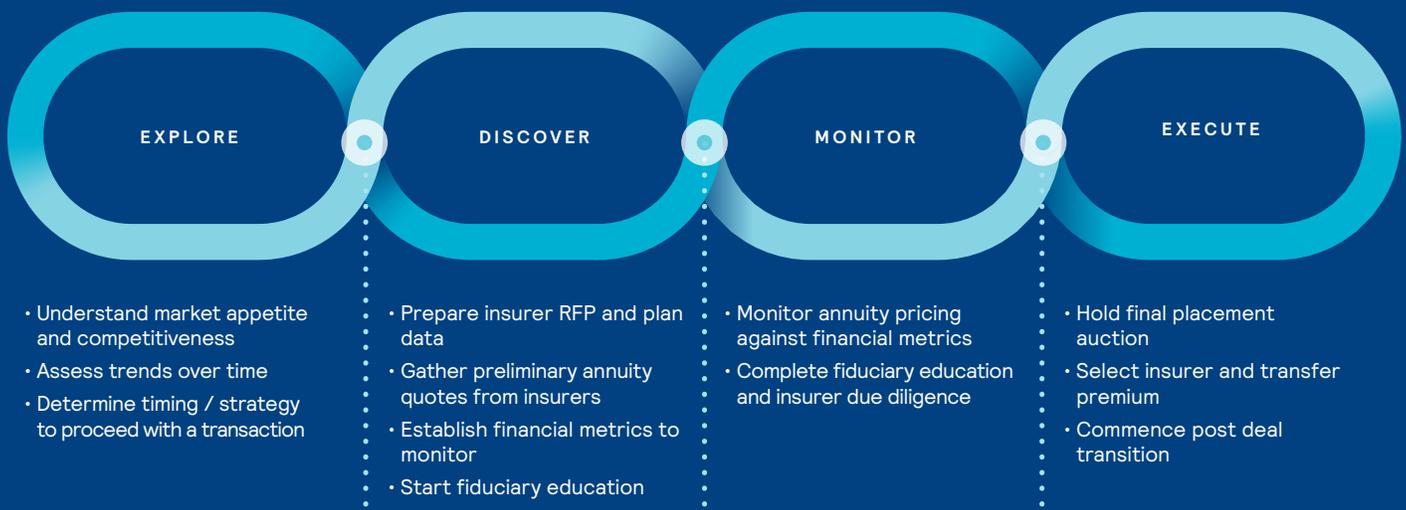
EXECUTION SUPPORT

Provides fiduciary training and insurer due diligence to support the final auction, insurer selection, and transition of responsibilities to the insurer, all while enhancing participant security.

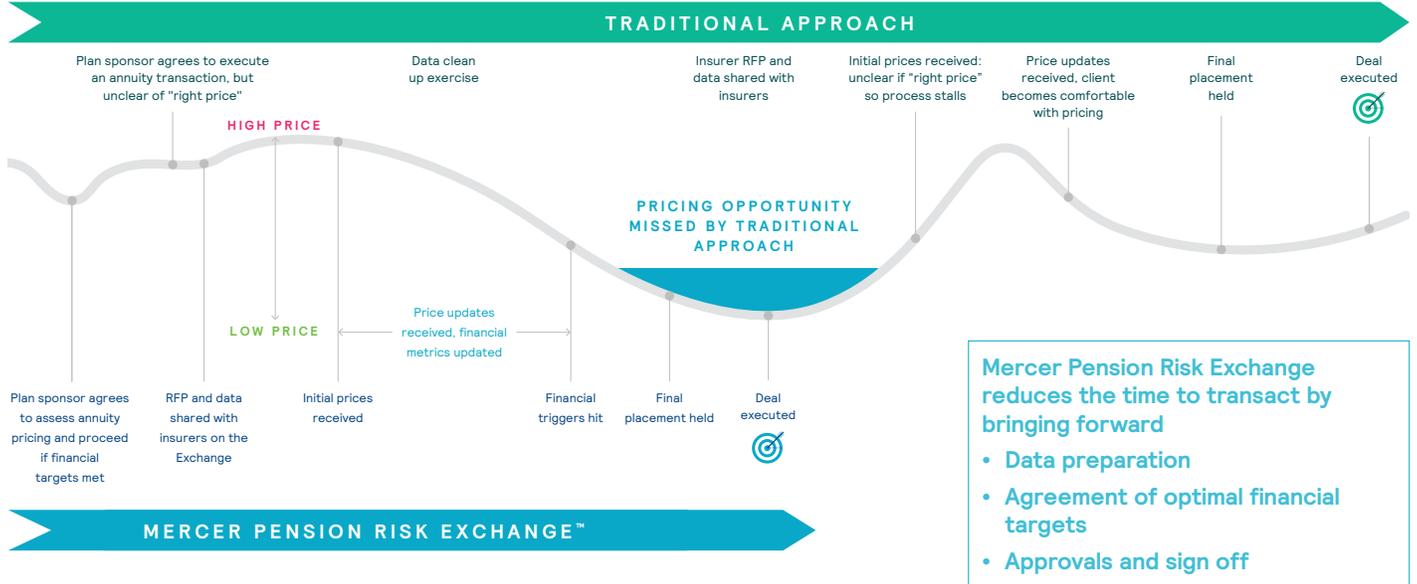
MERCER PENSION RISK EXCHANGE™ SUPPORTS YOU THROUGH EACH STEP OF THE ANNUITY PLACEMENT PROCESS

MERCER PENSION RISK EXCHANGE PROCESS

There are four components of the process. We work with clients to understand the services that are most applicable to their current situation, and timeline to execute a transaction. Our approach provides increasing financial certainty as a client moves through the purchase process.



TIMELINE



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