

Pension Indices by LifeWorks

May 31, 2021



Editorial Team

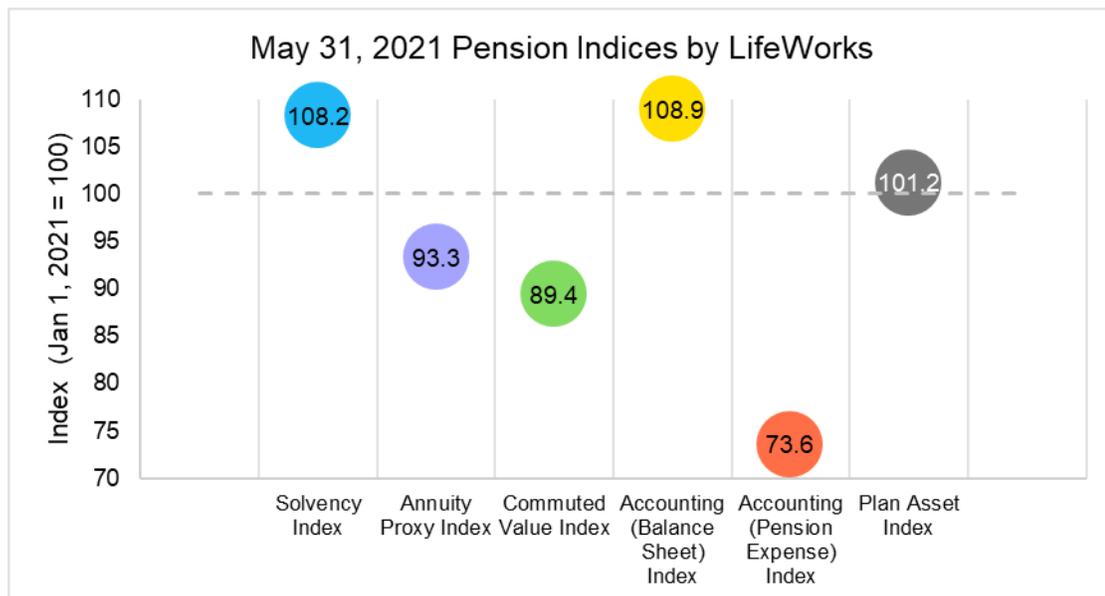
Marc Drolet, FCIA, FSA, CFA
Principal, Investment & Risk
(514) 293-1571
marc.drolet@lifeworks.com

Murray Wright, FFA, ACIA
Principal, Retirement Solutions
(604) 649-0409
murray.wright@lifeworks.com

The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that are yet to come for plan sponsors and administrators to help with the monitoring and management of their pension plans.

Highlights:

- The funded position for an average pension plan improved slightly over the month of May, on both a solvency and accounting basis.
- Asset returns for an average plan were slightly above 1% in May and year to date.
- Canadian equity markets had a good month with a return for the TSX of 3.4% in May.
- Real return bond yields decreased by 0.19% in May, while non-indexed long term Government of Canada bond yields decreased by only 0.05%, implying an increase in market expectations of inflation in the long term.
- The accounting pension expense index continues to indicate a significant fall in pension expense compared to the start of the year.



Canadian equities performed well in May 2021, with the TSX hitting record highs as the recovery in the global economy boosted the outlook for energy and resource based stocks. Returns for US and Global equities were less impressive with the S&P 500 falling by 1.1% over the month in Canadian dollar terms.

The significant increase in bond yields that has occurred year to date reversed slightly in May. The yield curve fell slightly at most terms with provincial and corporate credit spreads remaining stable during the month.

Consumer prices rose by 3.4% in April which is the highest reading for Canadian inflation since May 2011. Market expectations for long term inflation also increased as illustrated by the difference in yields between non-indexed long term bonds and real return bonds, which hit highs not seen since March 2015.

“The market is now on ‘inflation watch’ with higher inflation being recorded in the US and Canada”, says Marc Drolet, Principal in LifeWorks’ Investment & Risk team. “The April reading in Canada was largely driven by increases in gasoline prices compared to April 2020 and so while this particular effect should be temporary, the potential for persistent higher inflation remains as the global economy starts to open up, employment levels

continue to improve and central banks begin unwinding monetary stimulus. Pension plan sponsors should consider their exposure to inflation risk holistically, by considering the impact different scenarios may have on plan assets, plan liabilities and sponsor affordability levels. Higher inflation may lead to opportunities as well as threats and so plan sponsors should be prepared to take advantage of opportunities when they arise.”

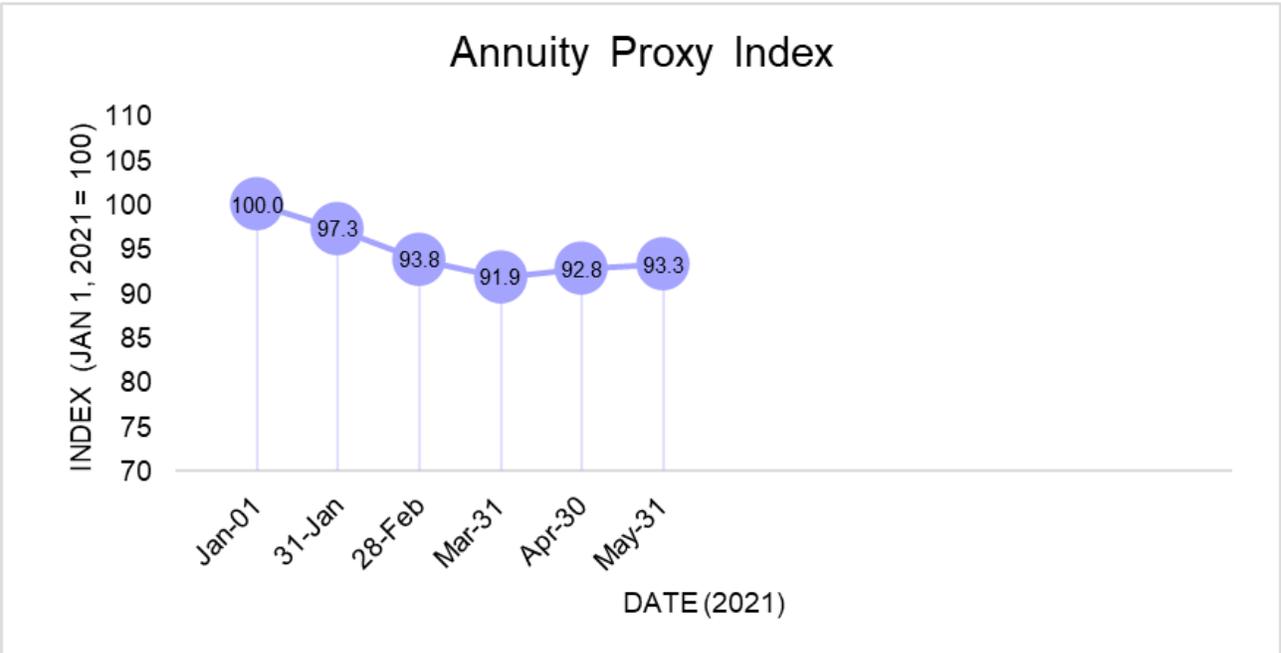
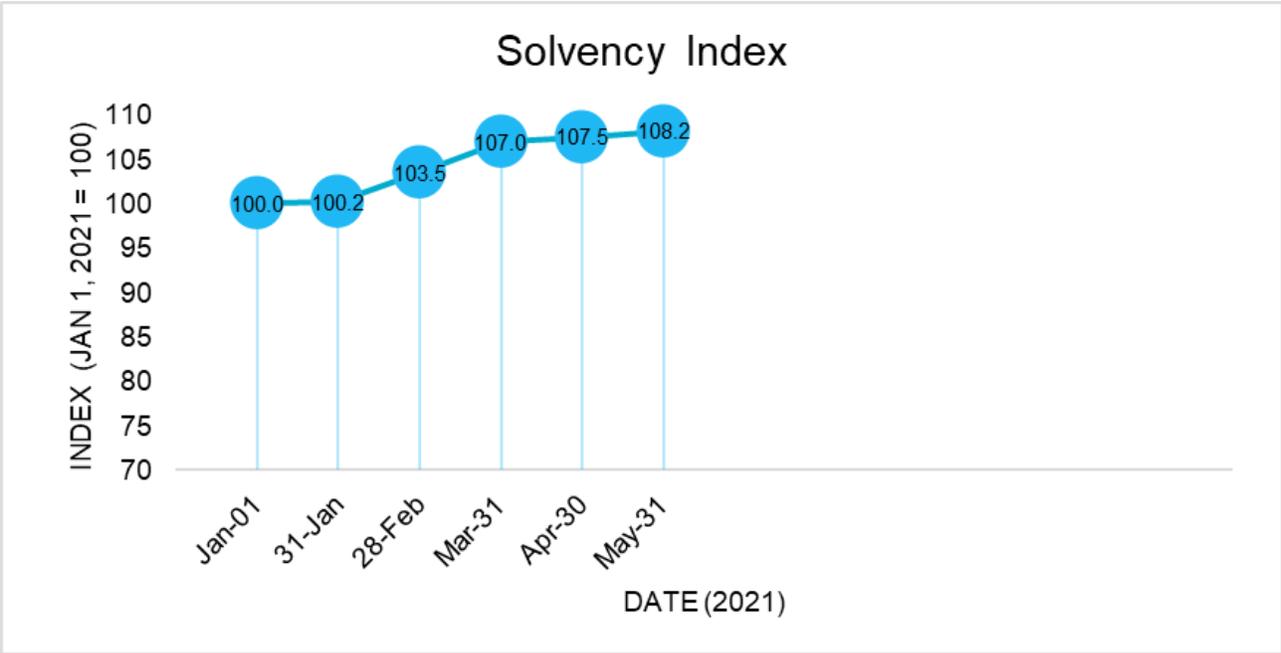
The graphs below show the month-to-month evolution of each index.

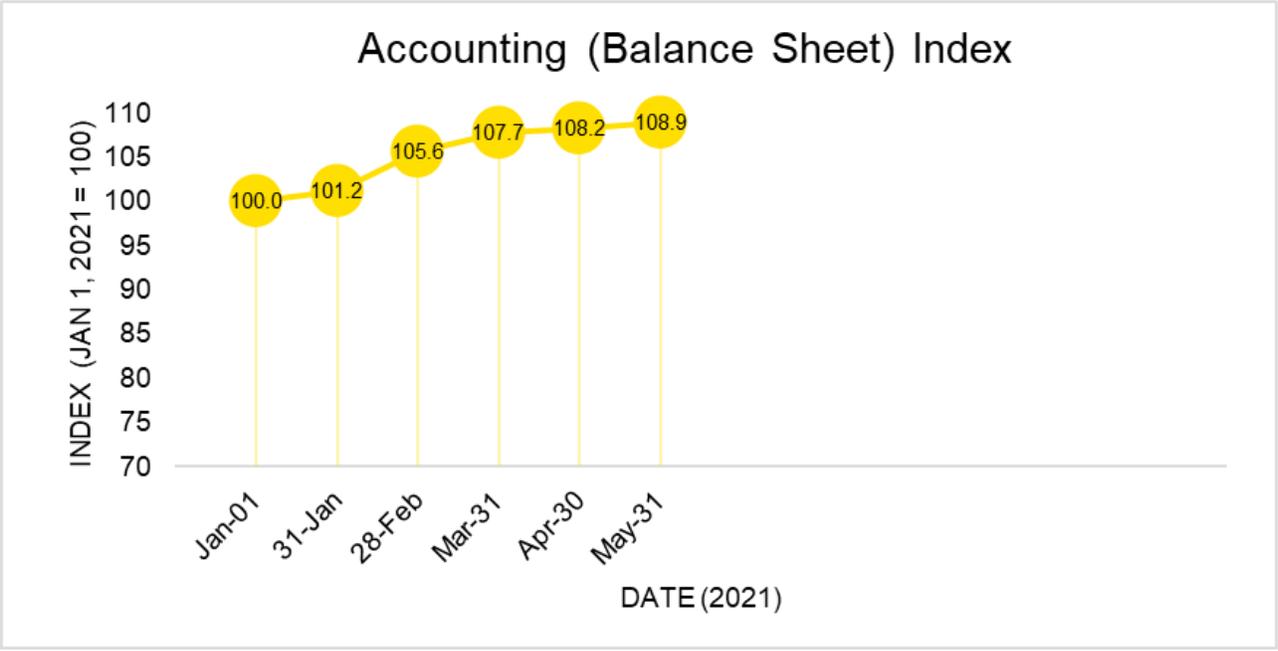
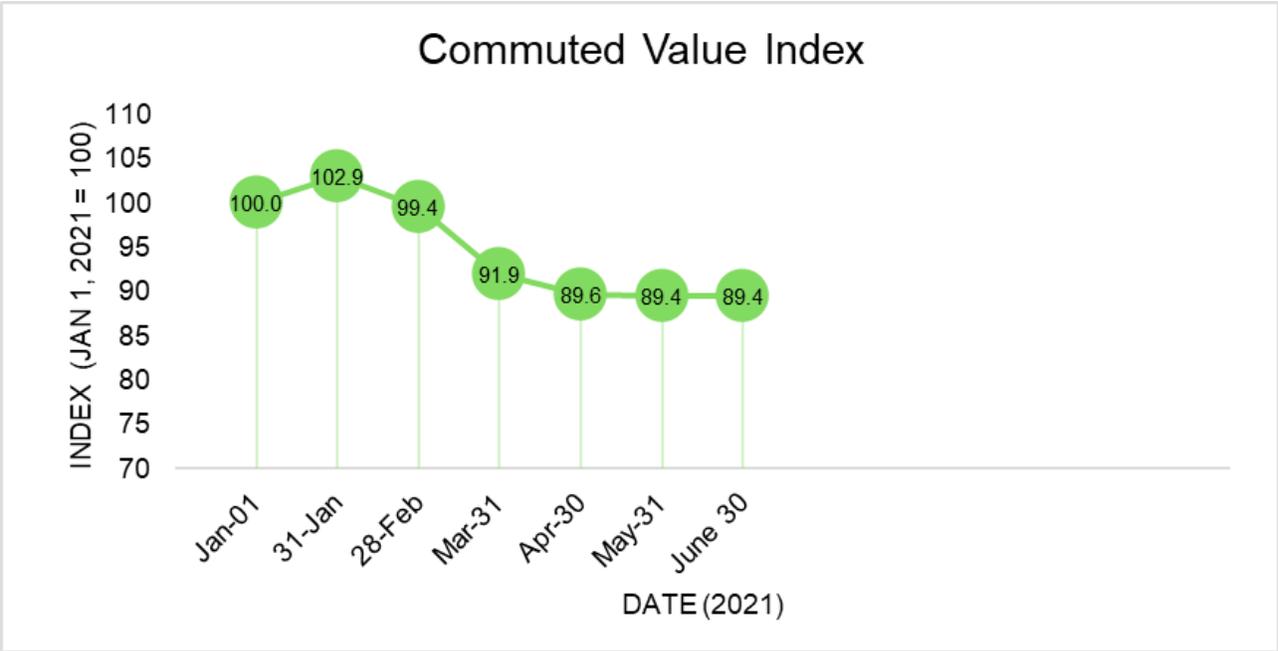
Definitions

Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted Value Index	Provides an indication of changes in commuted values for members of an average pension plan since the start of the year
Accounting (Balance Sheet) Index	Provides an indication of changes in the accounting funding level of an average pension plan since the start of the year
Accounting (Pension Expense) Index	Provides an indication of changes in the following year's pension expense since the start of the year
Plan Asset Index	Provides an indication of changes in asset levels for an average pension plan since the start of the year

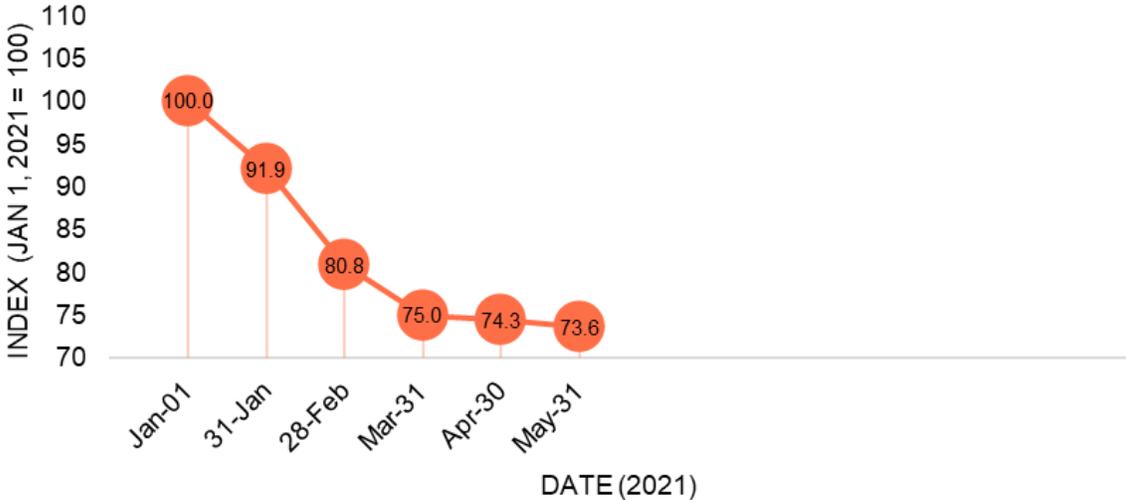
Notes on methodology

- The indices show the monthly progression of various indicative pension measures since the start of the calendar year.
- Each index is reset to 100 on January 1.
- The monthly *Asset Index* is calculated based on a LifeWorks Benchmark portfolio, 50% equities and 50% fixed income (2% in 91 day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 25% S&P/TSX, 25% MSCI ACWI).
- The plan liabilities are for a medium duration pension plan.
- The monthly *Solvency Index* reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.
- The monthly *Commuted Value Index* reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA's actuarial Standards of Practice.
- The monthly Accounting Indices reflect estimates of accounting liabilities using a discount rate derived from the LifeWorks AA Corporate Bond Yield Curve.

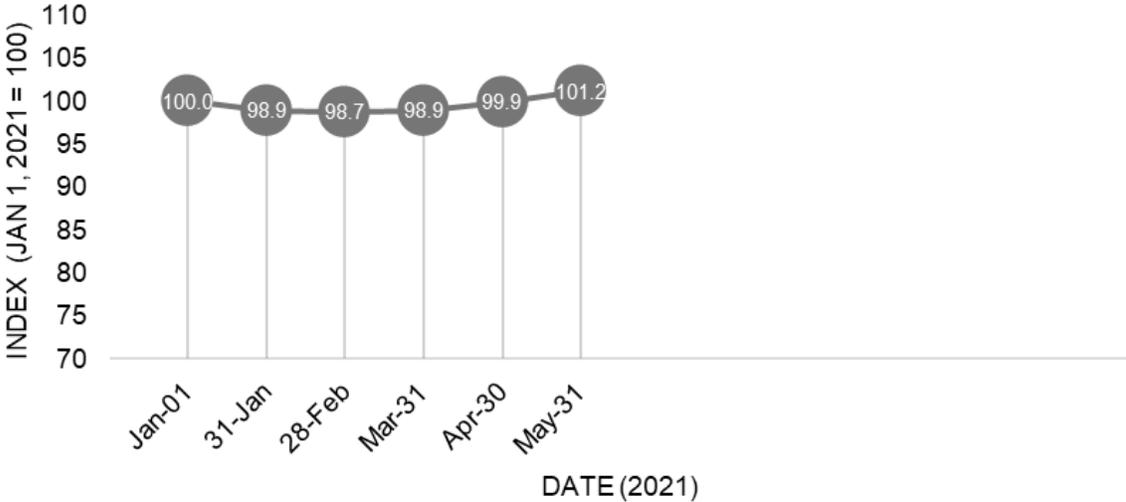




Accounting (Pension Expense) Index



Plan Asset Index





Improving lives. Improving business.

LifeWorks is a global leader in delivering technology-enabled solutions that help clients support the total wellbeing of their people and build organizational resiliency. By improving lives, we improve business. Our solutions span employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement and financial consulting, actuarial and investment services. LifeWorks employs approximately 7,000 employees who work with some 24,000 client organizations that use our services in more than 160 countries. LifeWorks is a publicly traded company on the Toronto Stock Exchange (TSX: LWRK).

For more information, visit lifeworks.com