

# Pension Indices by LifeWorks

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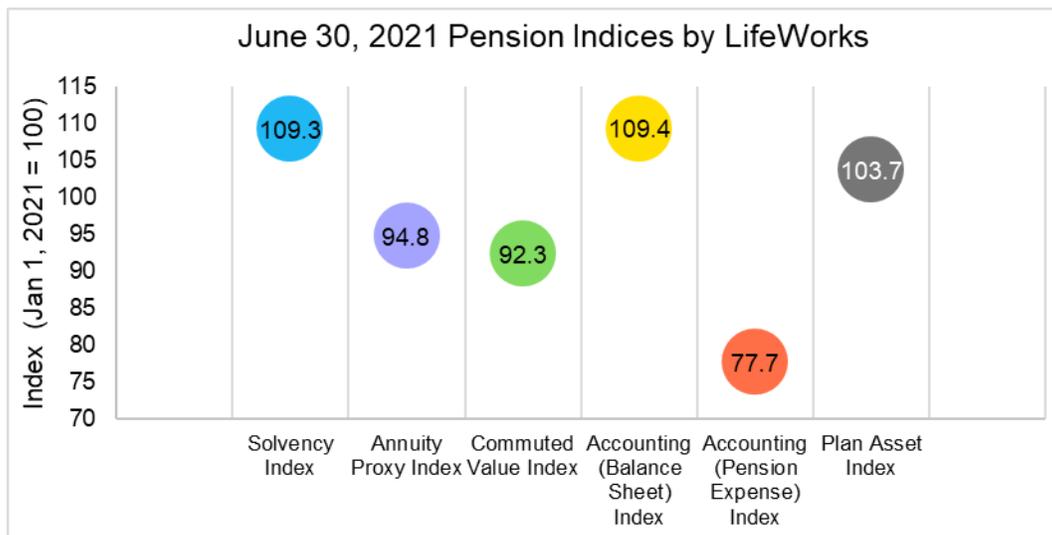
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that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

## Highlights:

- The funded position of an average pension plan improved slightly over the month of June, on both a solvency and accounting basis.
- Asset returns for an average plan were around 2.5% in June. Returns were positive for almost all asset classes.
- Non-indexed long term Government of Canada bond yields decreased by 0.2% in June, while real return bond yields decreased by only 0.1%. This indicated a reduction 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 June 2021, with the TSX returning 2.5% during the month and hitting record highs at the start of July. Returns for US and Global equities were also strong with the S&P 500 increasing by 5.1% over the month in Canadian dollar terms.

The significant increase in long-term bond yields that has occurred year to date reversed slightly in June with the yield curve flattening over the month. Provincial and corporate credit spreads remained broadly stable during the month.

Consumer prices rose by 3.6% in May which is the highest reading for Canadian inflation in a decade. However, market expectations for long term inflation decreased in June as illustrated by the difference in yields between non-indexed long term bonds and real return bonds.

“There appears to be a growing consensus that the current levels of higher inflation will be temporary”, says Murray Wright, Principal in LifeWorks’ Retirement and Financial Solutions team. “Markets are expecting inflation to cool down towards the end of the year as distortions created by the pandemic work their way out of the numbers. That said, there is likely to be a lot of volatility in the coming months as the economy continues to open

up, and even if inflation returns to more normal levels there will be lingering effects from the COVID-19 distortions. One example is the impact on the Year's Maximum Pensionable Earnings (YMPE) and registered pension plan tax limits which increased by almost 5% for 2021 due to greater unemployment for lower income Canadians through the pandemic. Due to the nature of the calculations, we expect there to be a similar increase for 2022, resulting in an increase in YMPE and tax limits of around 10% over a two year period. This will further increase CPP contributions in 2022 alongside the planned increases related to CPP enhancements.”

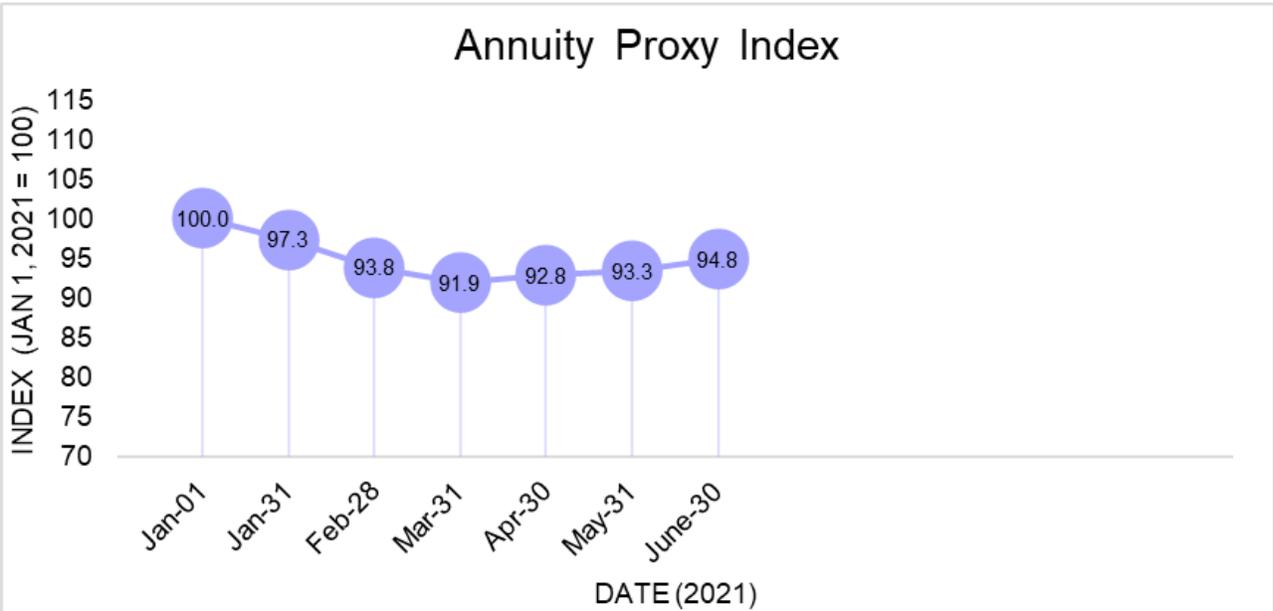
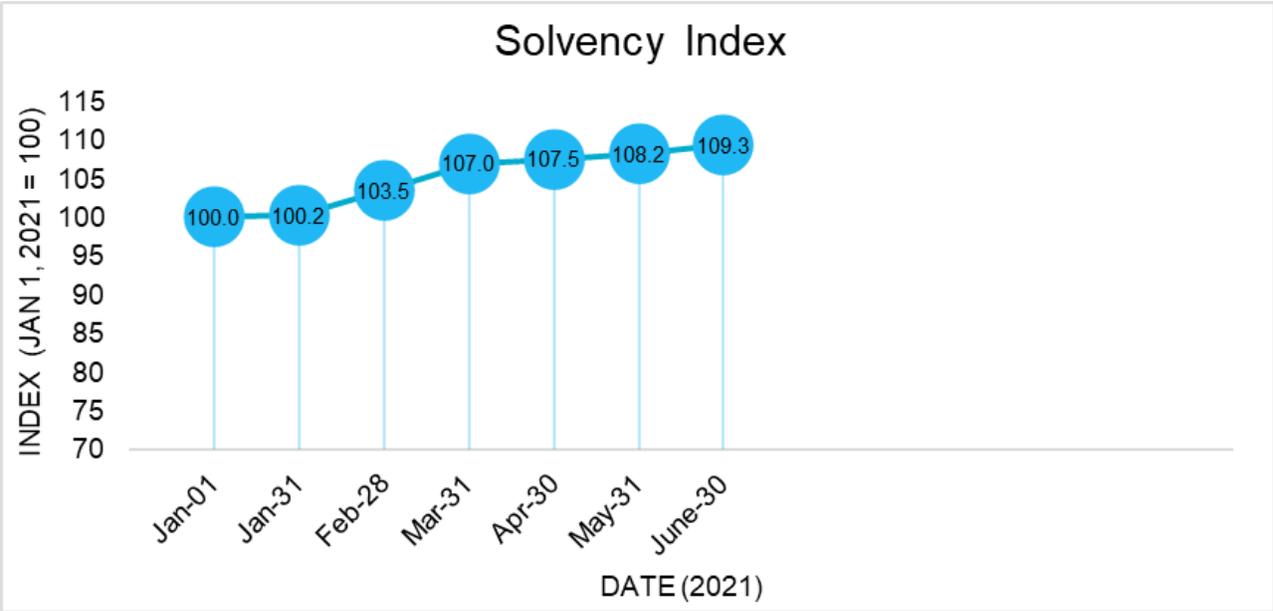
The graphs below show the month-to-month evolution of each index.

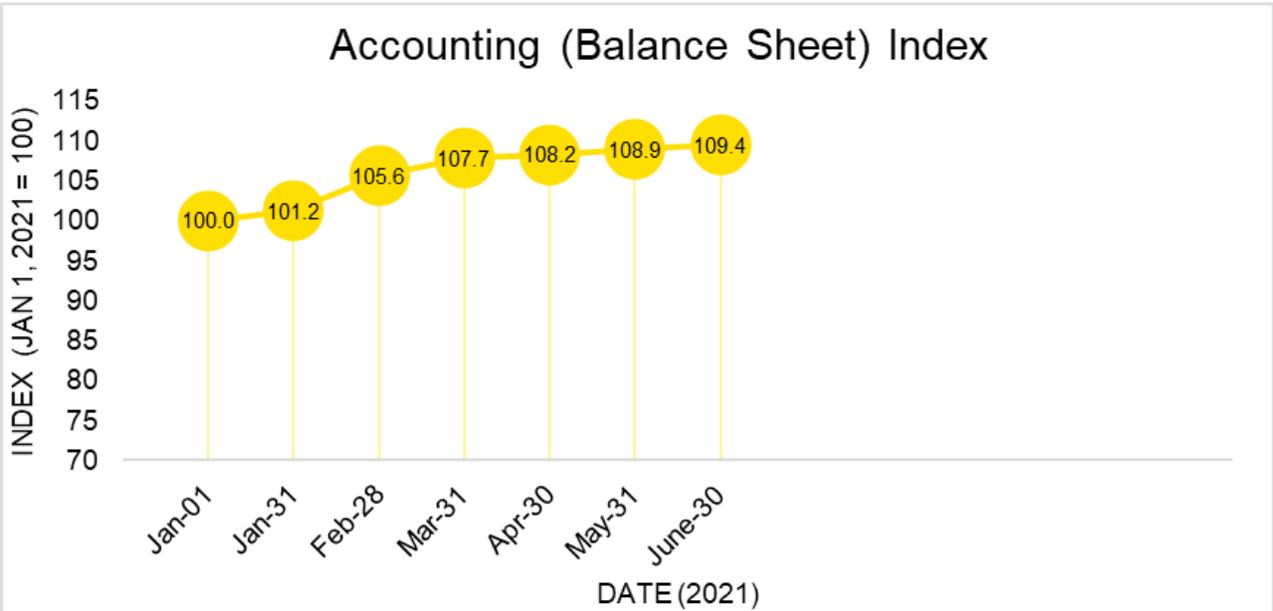
## Definitions

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

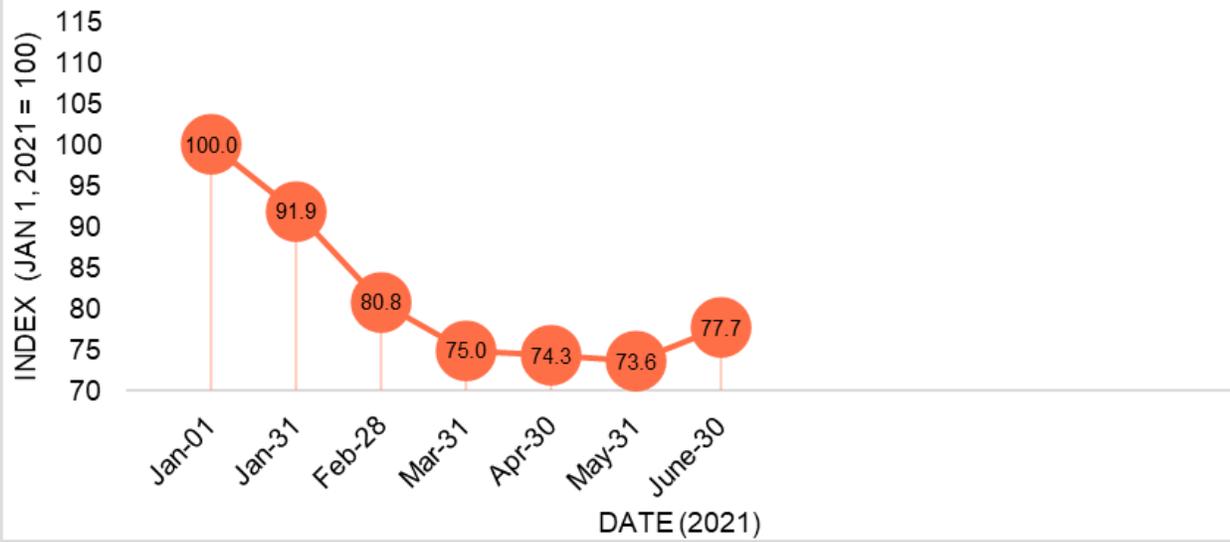
## Notes on methodology

- 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.

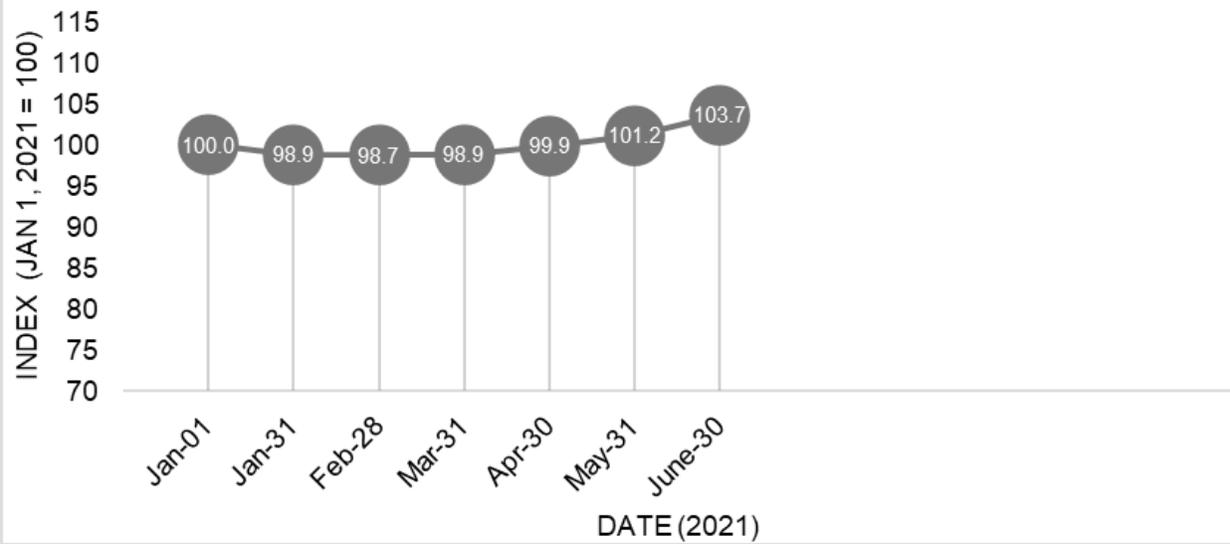




### Accounting (Pension Expense) Index



### Plan Asset Index





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