

Pension Indices by LifeWorks

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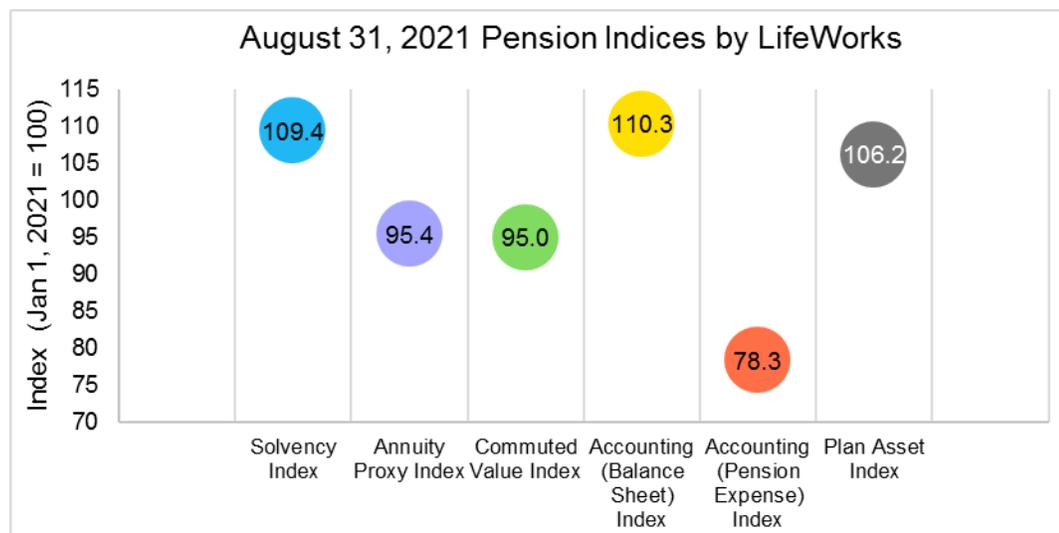
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that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

Highlights:

- Over the month of August, the funded position of an average pension plan improved slightly on both the solvency and accounting basis.
- Investment returns were 1.2% for the month for a representative pension plan portfolio. In general, returns on equities were positive, while returns on bonds were slightly negative.
- Long-term Government of Canada bond yields increased by about 3 bps in August. Corporate bond yields also slightly increased for long term maturities, which led to a slightly lower value being placed on accounting liabilities for pension plans.
- The accounting pension expense index continues to register a significant fall in next year's anticipated pension expense compared to the start of the year.
- Accounting and solvency funding levels have improved by about 10% and 9% respectively compared to December 31, 2020.



In general, bond yields increased slightly over the month of August giving negative returns for bond investments. Provincial and corporate credit spreads remained broadly stable. This led to lower values being placed on accounting liabilities for pension plans.

Equity markets generated positive returns overall, with global equities up 3.7% over the month, in Canadian dollar terms. Canadian equities also advanced, with the S&P/TSX Composite index up 1.6%.

Over the month of August, market expectations for long-term inflation remained largely unchanged, as evidenced by the difference in yields between non-indexed and real return long-term bonds remaining fairly stable.

“The significant improvement in plans’ financial situation through 2021 so far has been driven by better than expected returns on plan assets alongside increases in long term bond yields. Large movements like this can

present opportunities for some plans to take risk off the table, without adversely impacting cash contributions”, says Murray Wright, Principal in LifeWorks’ Retirement and Financial Solutions team. “While plans sponsors will have different risk appetites, the fact that some equity indices are hitting record highs this month should open the door for conversations about how a plan’s risk profile has changed and whether the investment strategy needs to be revisited. This is especially true where plans have moved into a surplus position and changes to the investment strategy could protect plans from moving back into a deficit if markets start to move against them.”

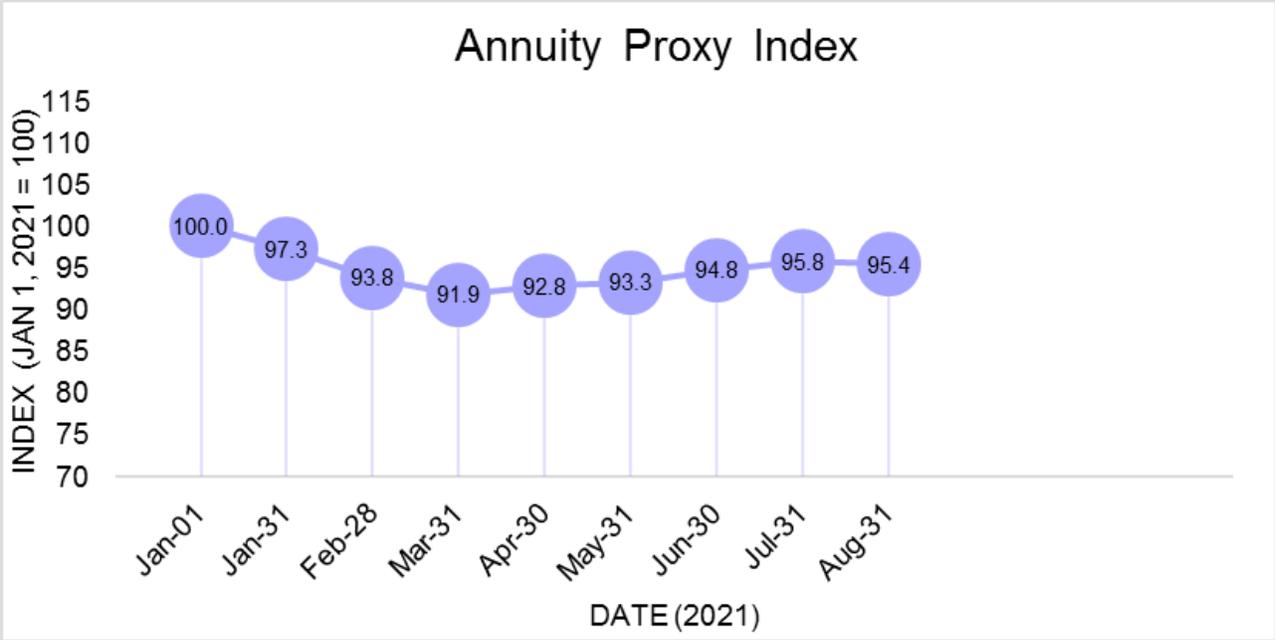
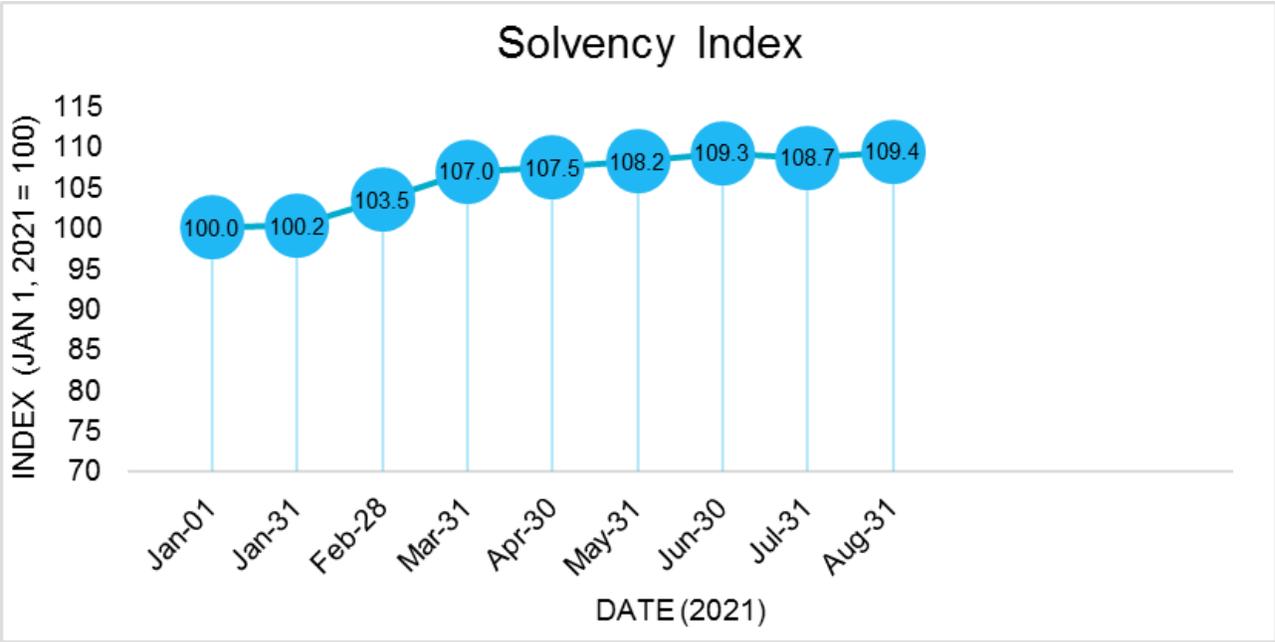
The graphs below show the month-to-month evolution of each index.

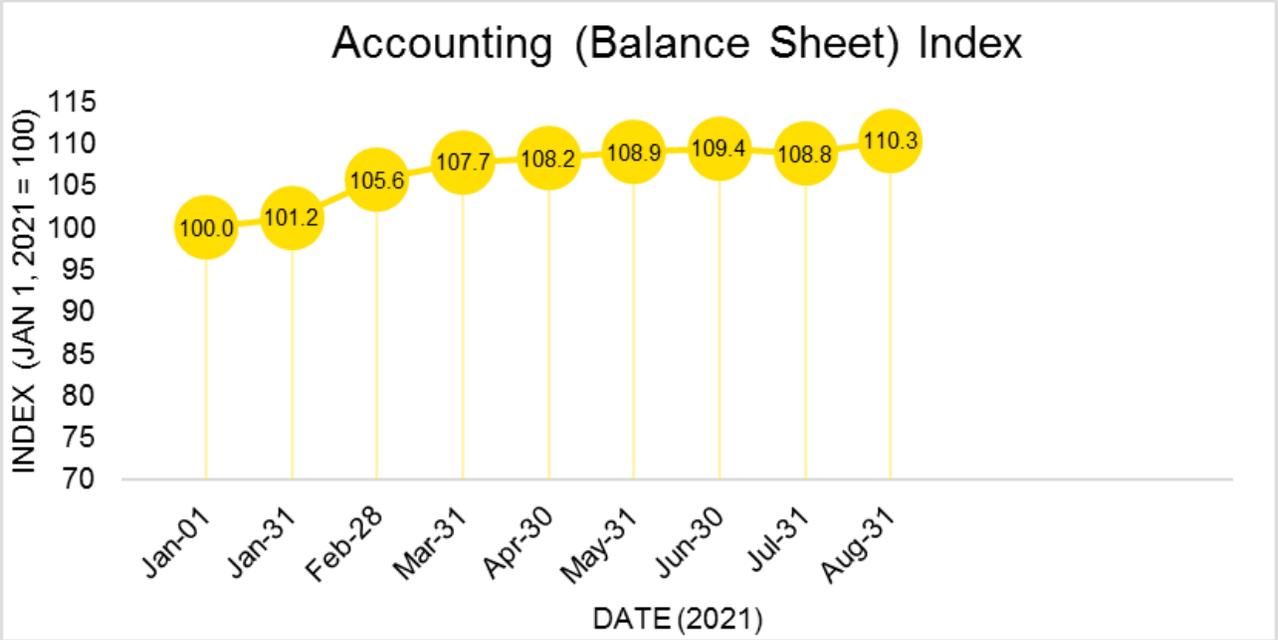
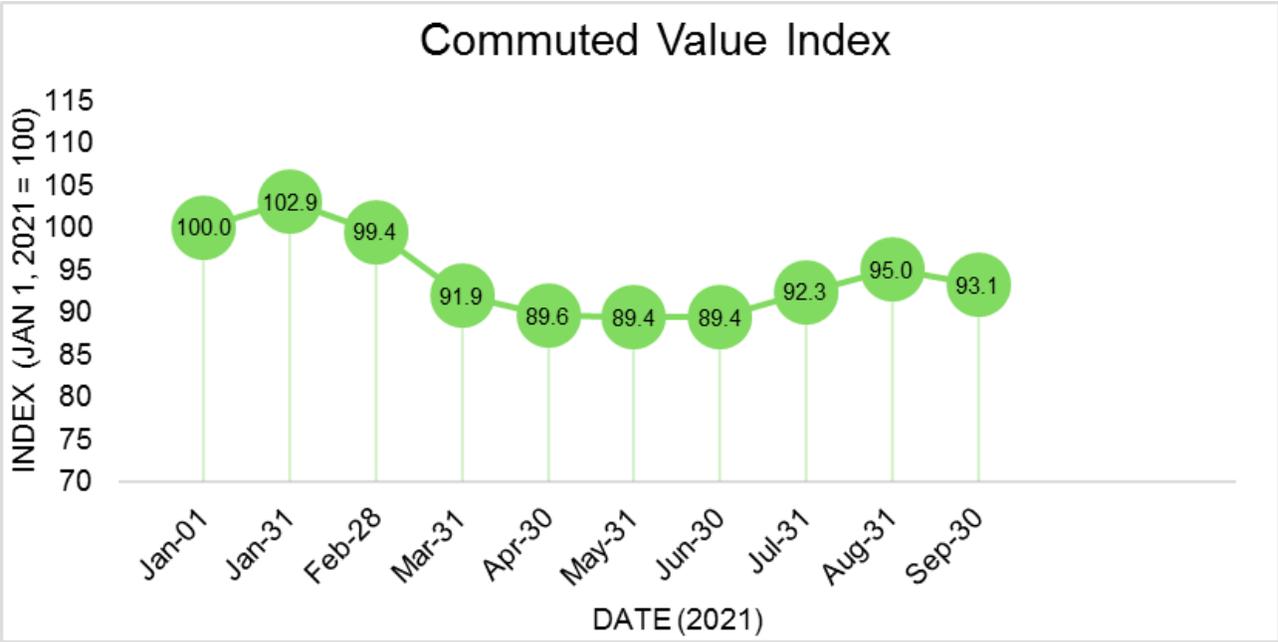
Definitions

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

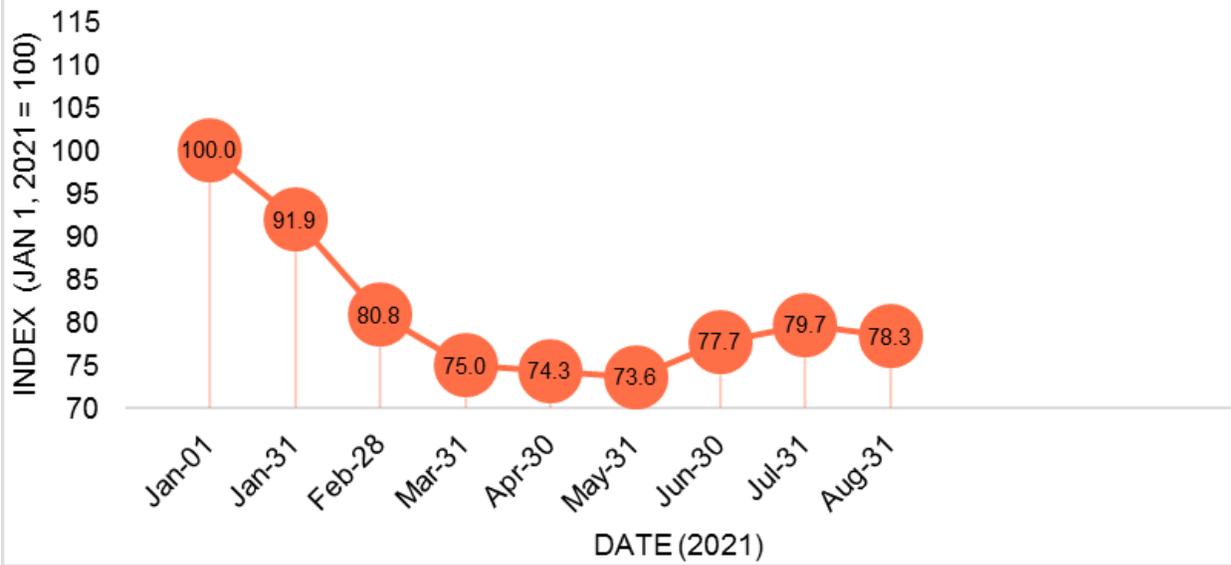
Notes on methodology

- 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.

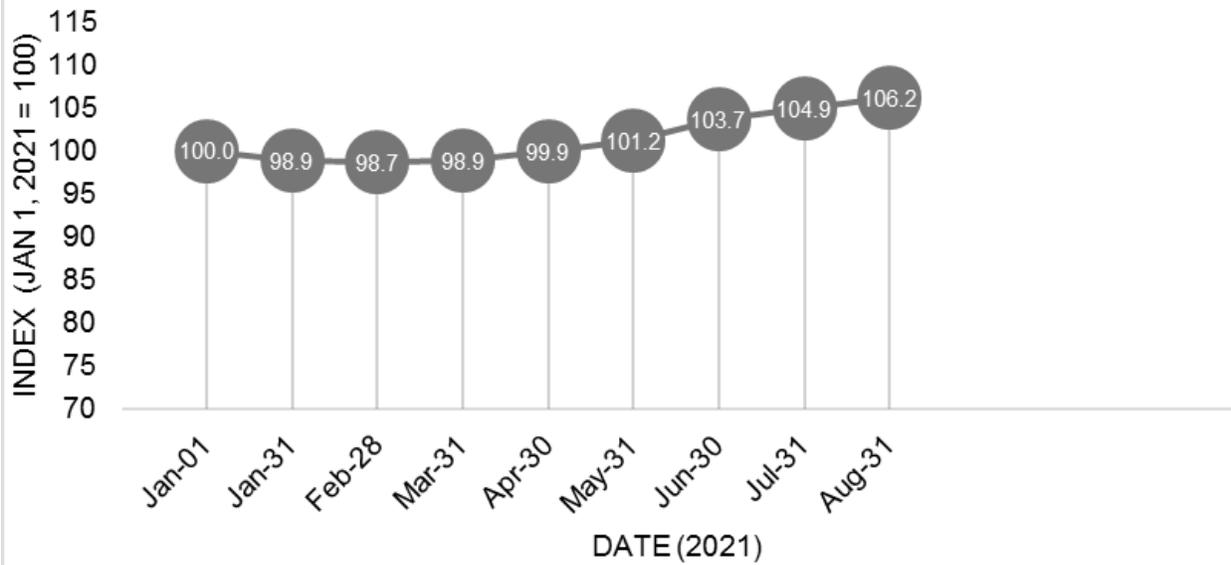




Accounting (Pension Expense) Index



Plan Asset Index





Improving lives. Improving business.

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