

# Pension Indices by LifeWorks

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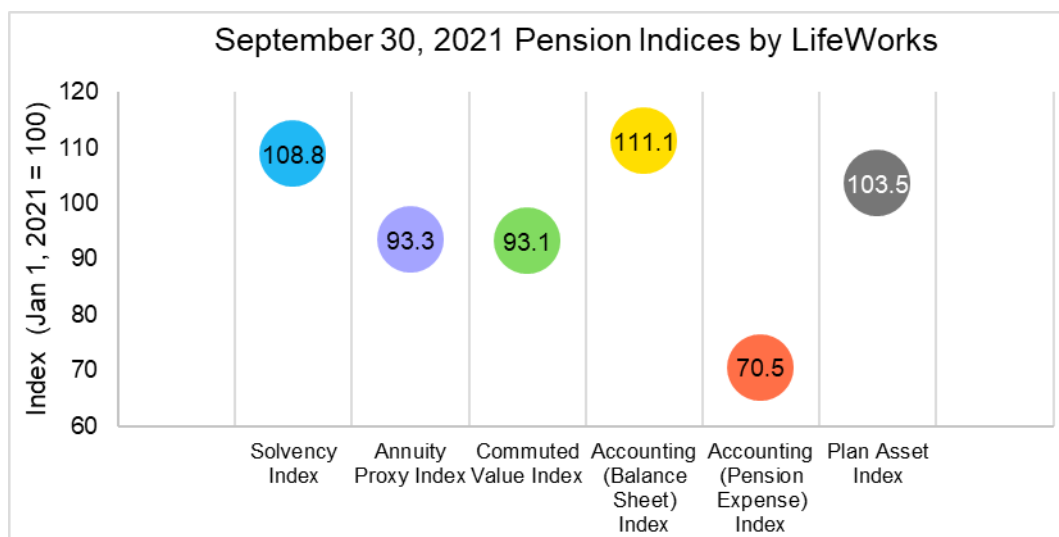
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 September, the funded position of a typical pension plan deteriorated on the solvency basis whereas it improved on the accounting basis.
- Investment returns were negative, falling by around -2.5%. Bonds sold off in tandem with domestic and foreign equity markets as investors weighed the prospects of rising inflation and interest rates.
- Non-indexed long-term Government of Canada bond yields increased by around 19 bps, whereas the equivalent but indexed bond yield increased by around 12 bps, an indication that market expectations for long-term inflation increased over the period. With credit spreads remaining broadly stable, corporate bond yields increased across the yield curve.
- 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.



Bond yields rose across all maturities in the second half of the month of September on the back of rising inflation as well as indications that central banks around the world hope to start tightening monetary policy. In Canada, the August CPI inflation print released in September showed a 4.1% advance in prices, the highest rate of increase since 2003. Meanwhile, south of the border, the United States' Federal Reserve signaled interest rate increases may begin sooner than previously anticipated. Credit spreads remained broadly stable.

Domestic and foreign equity markets sold off alongside bonds. The Canadian representative index, the S&P/TSX Composite, contracted -2.2%. The global developed and emerging markets index, the MSCI ACWI, contracted -3.9% in Canadian dollar terms.

“At the quarter end, pension plans showed meaningful improvements in their financial position since the beginning of the year, thanks to strong equity markets returns alongside increasing bond yields, the latter helping to push liability measures lower. However, the month of September served as a reminder of how precarious the situation remains. Markets reacted strongly to the changing discourse from central bankers, which must contend with the possibility that higher inflation is here to stay. Rising interest rates can be good news for pension plan balance sheets, but this depends on the economic environment in which the changes are taking place. Higher inflation combined with weak economic growth, for example, could prove to be a dangerous combination.” says Murray Wright, Principal in LifeWorks’ Retirement and Financial Solutions team. “Sponsors should consider how their current funding and investment strategies would perform if these economic scenarios were to play out.”

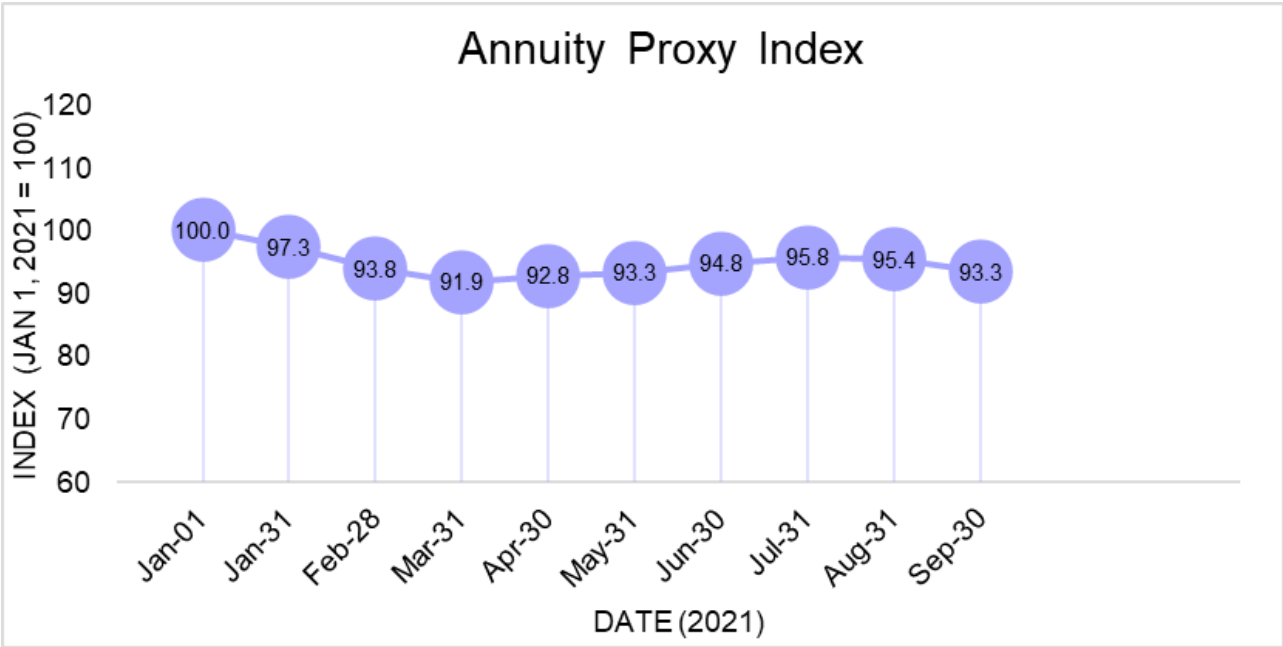
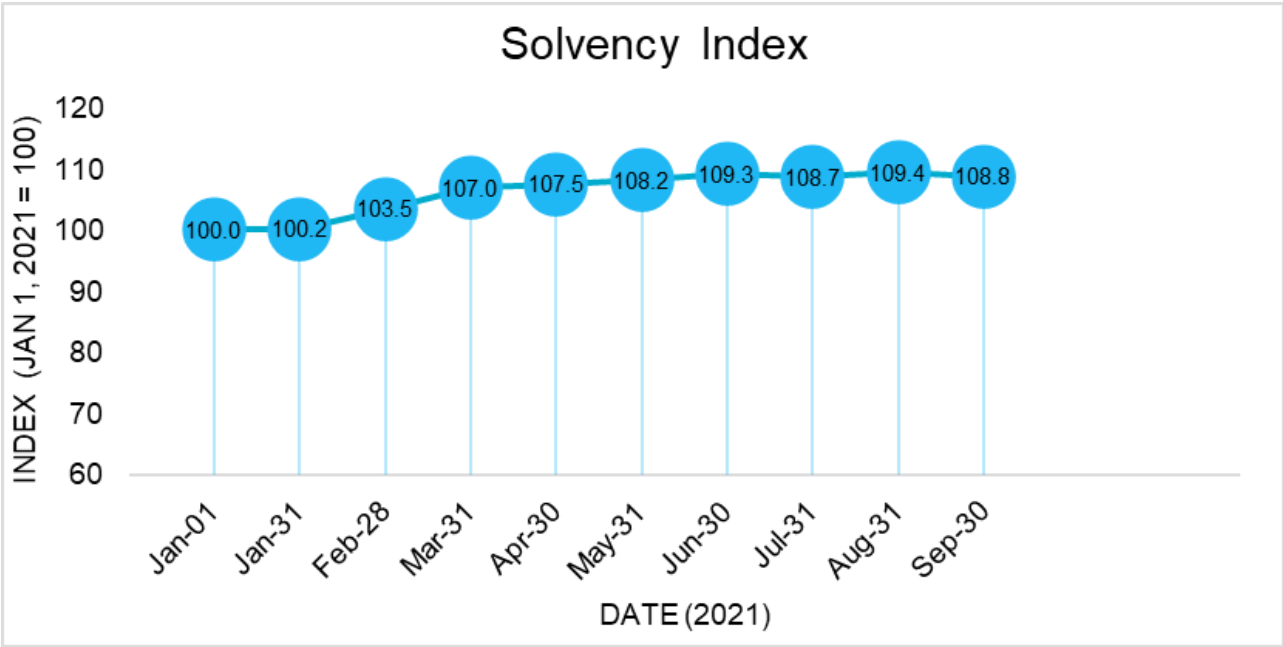
The graphs below show the month-to-month evolution of each index.

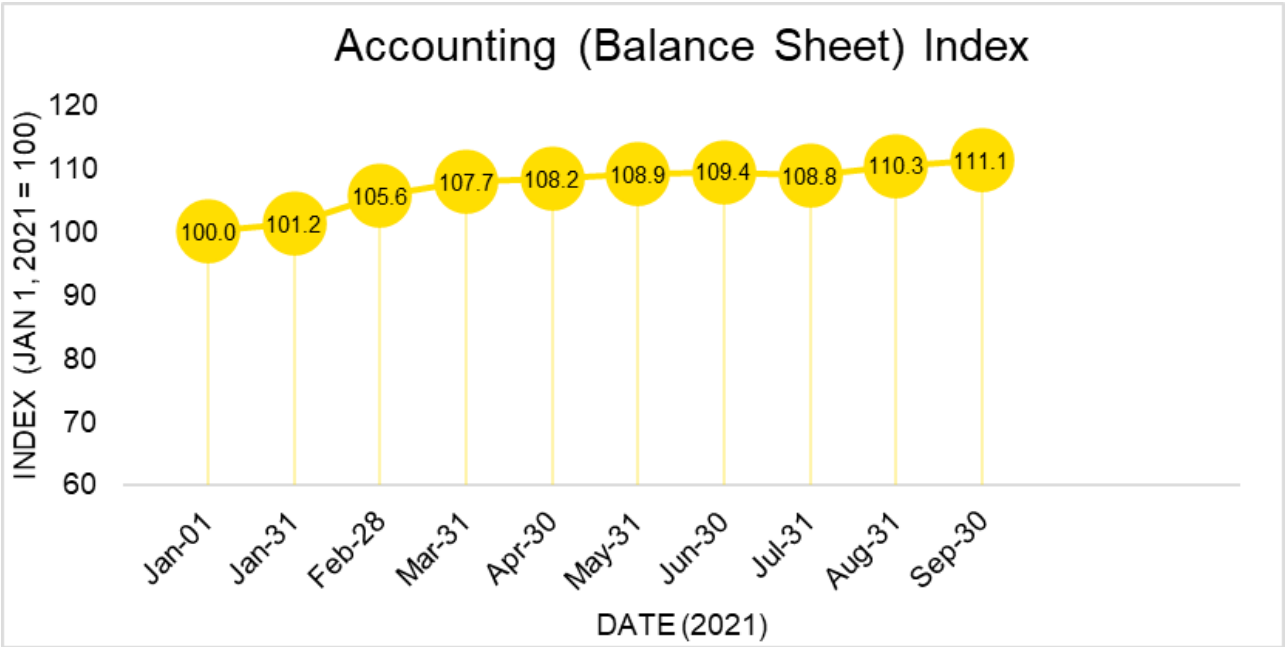
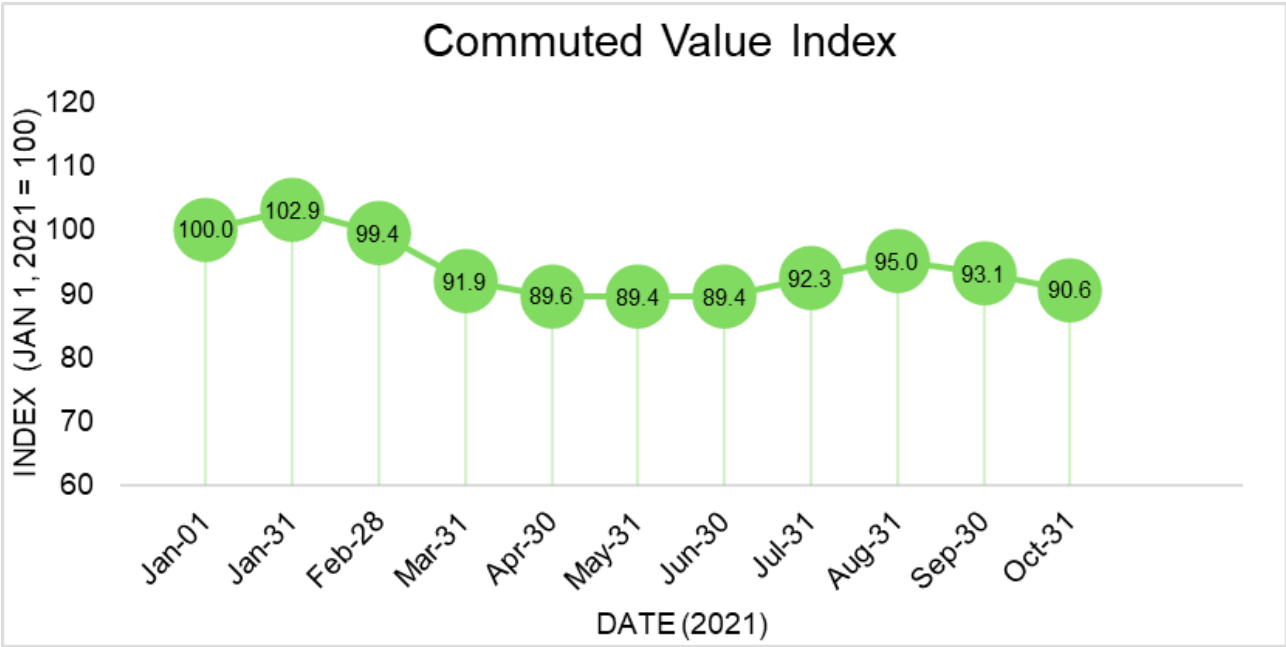
## Definitions

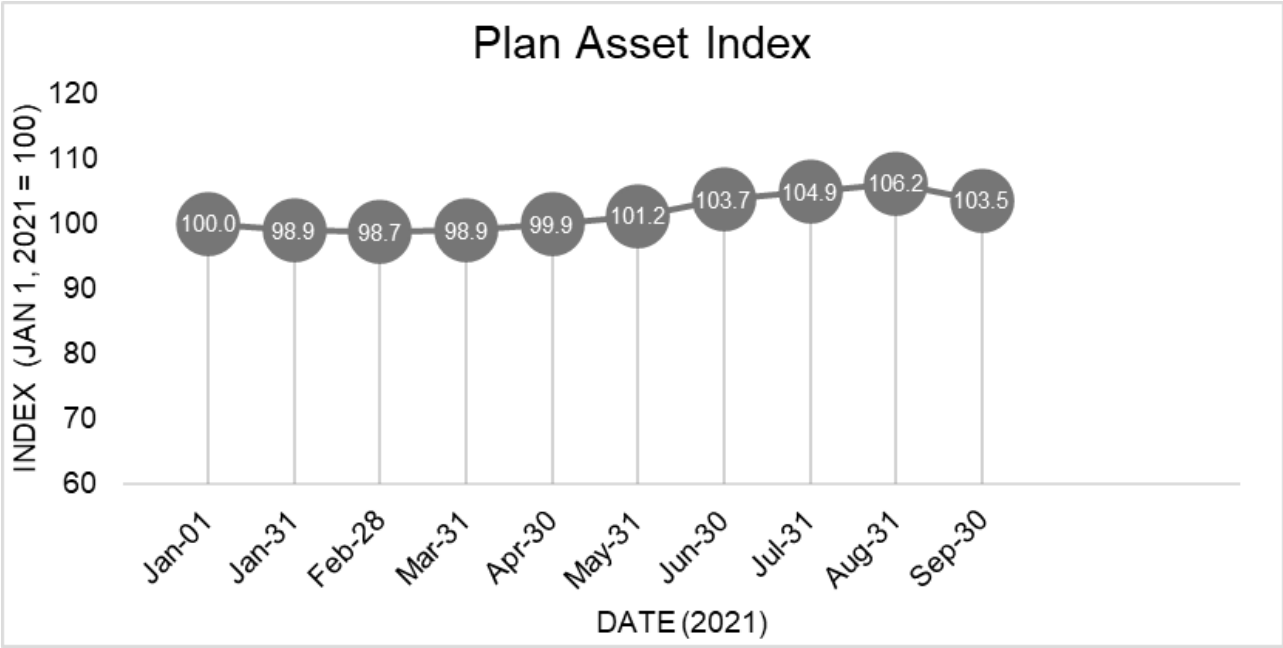
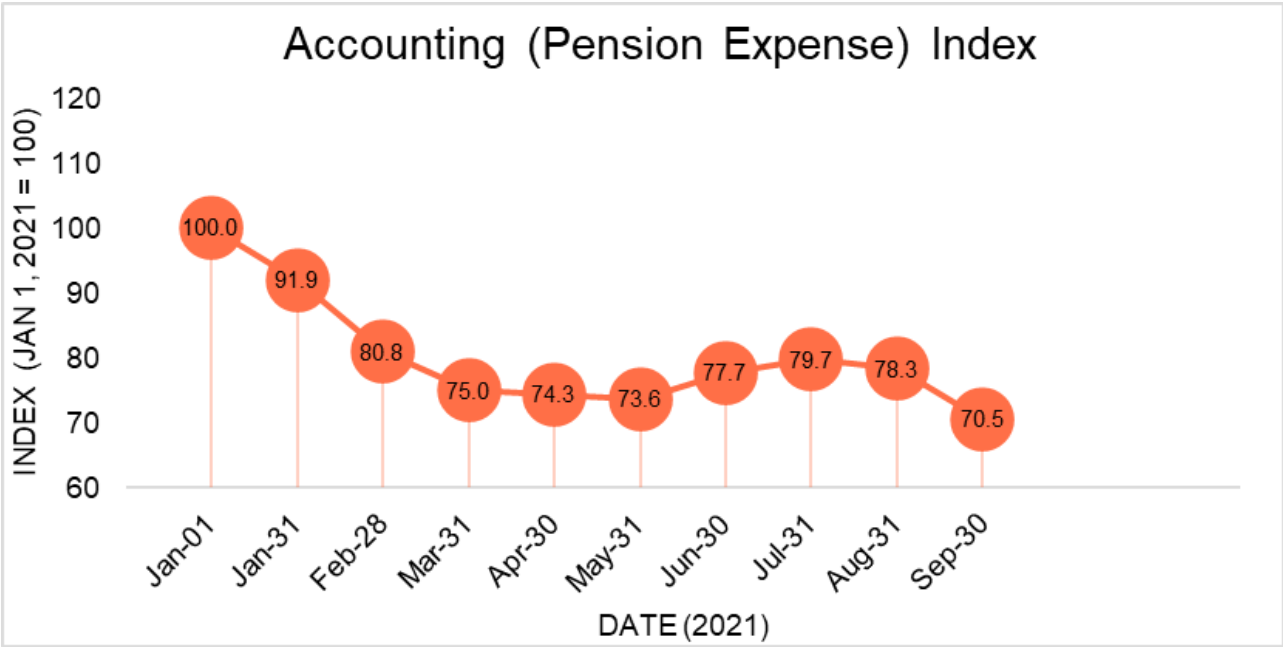
<b>Solvency Index</b>	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
<b>Annuity Proxy Index</b>	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium 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.









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