

Pension Indices by LifeWorks

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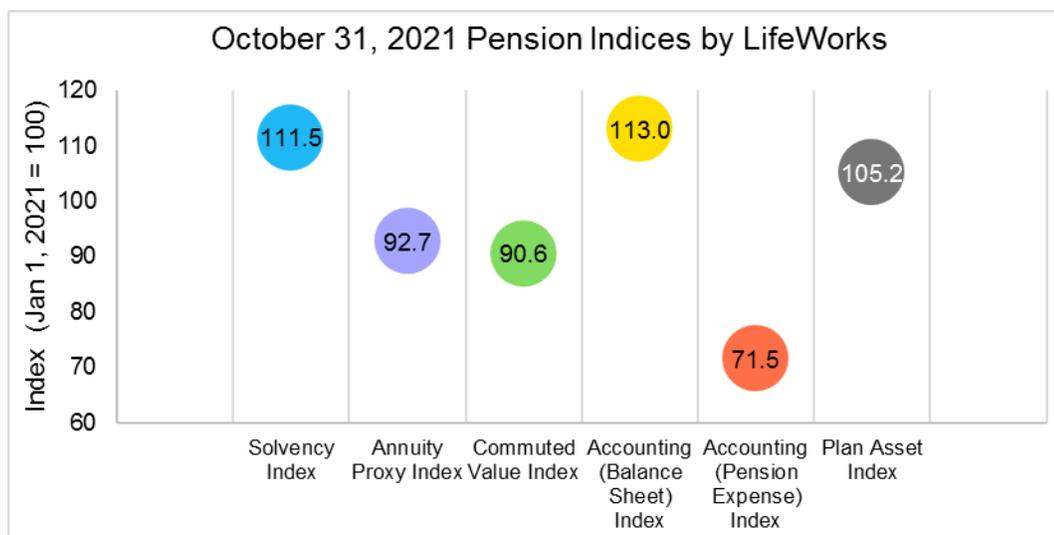
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that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

Highlights:

- The funded positions of a typical pension plan improved on both solvency and accounting bases over the month of October and are at their highest levels so far in 2021.
- Investment returns were positive, with a typical pension plan achieving approximately 1.6% in October. Equity markets returns were broadly positive, supported by stronger than expected earnings growth. Returns on most bonds were negative as yields increased at short-term and medium-term maturities, as the yield curve flattened.
- Non-indexed 30-year Government of Canada bond yields increased by 4 bps, and the equivalent but indexed bond yield increased by 1 bps, indicating that market expectations for long-term inflation increased only narrowly by approximately 3 bps over the period.
- Corporate credit spreads contracted slightly at long-term maturities, whereas they increased slightly at medium-term maturities.
- 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.



Short-term and medium-term bond yields increased, as investors came to grips with the fact that central bankers may start tightening their monetary policies sooner than expected. Corporate credit spreads contracted slightly at long-term maturities, whereas they increased slightly at medium-term maturities. At its October meeting, the Bank of Canada announced the end of its bond-buying stimulus program as well as an acceleration of the forecasted timing of future policy interest rate increases. The September CPI inflation reading reported a 4.4% advance in prices year-over-year.

Domestic and foreign equities rallied on stronger than expected earnings growth. The Canadian representative index, the S&P/TSX Composite, advanced 5.0%. Meanwhile, the global developed and emerging markets representative index, the MSCI ACWI, advanced 2.8% in Canadian dollar terms. The Canadian dollar appreciated 2.8% relative to the US dollar.

“In its October Monetary Policy Report, the Bank of Canada reported that from a good news perspective, economic activity and employment have increased in the second half of 2021. On the other hand, supply disruptions and energy constraints are limiting growth and causing inflationary pressures in many countries, including Canada.” says Gavin Benjamin, Partner in LifeWorks’ Retirement and Financial Solutions team. “With this mixed bag of developments in the Canadian and other economies, pension plan sponsors should continue to be mindful of the financial risks imbedded in their plans, despite the improvement in the funded positions of many of these plans so far in 2021. In fact, the current environment of improved solvency funded positions and highly competitive annuity pricing presents opportunities for many plan sponsors to transfer risk from their plans on a cost-effective basis.”

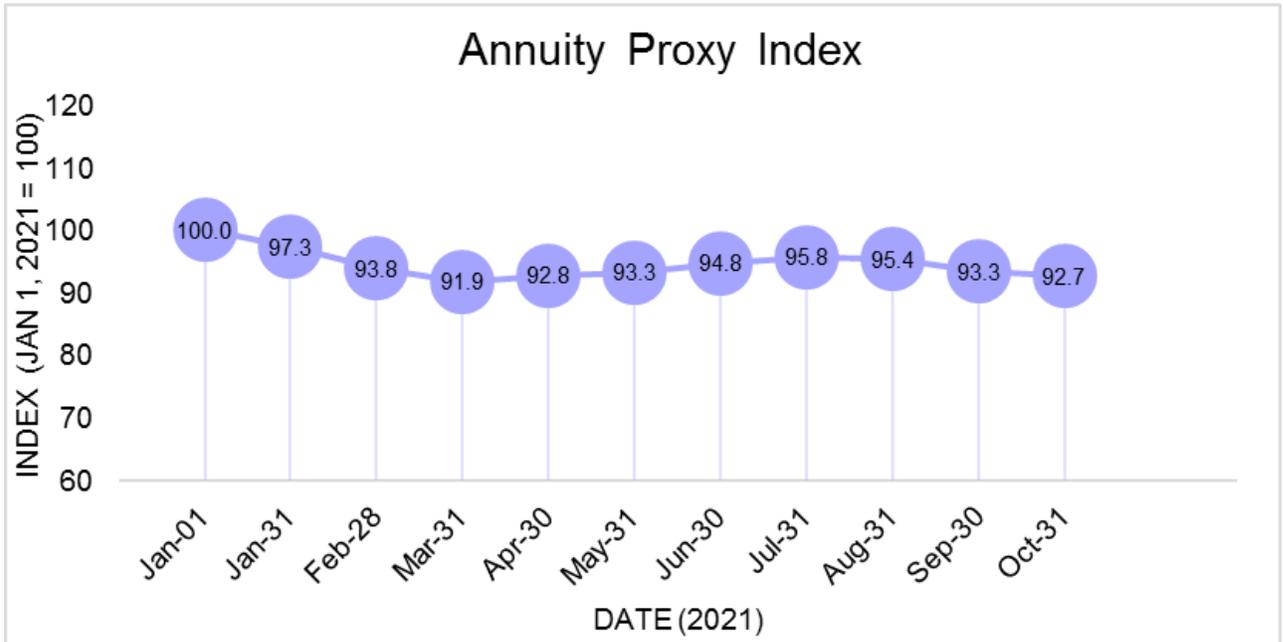
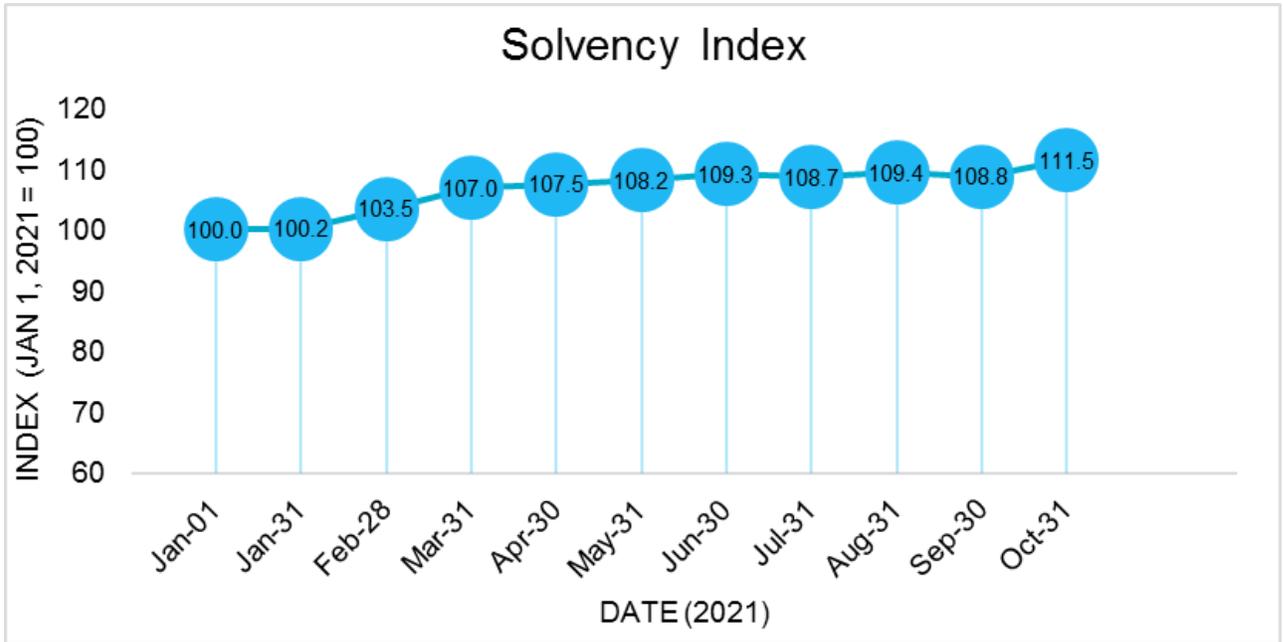
The graphs below show the month-to-month evolution of each index.

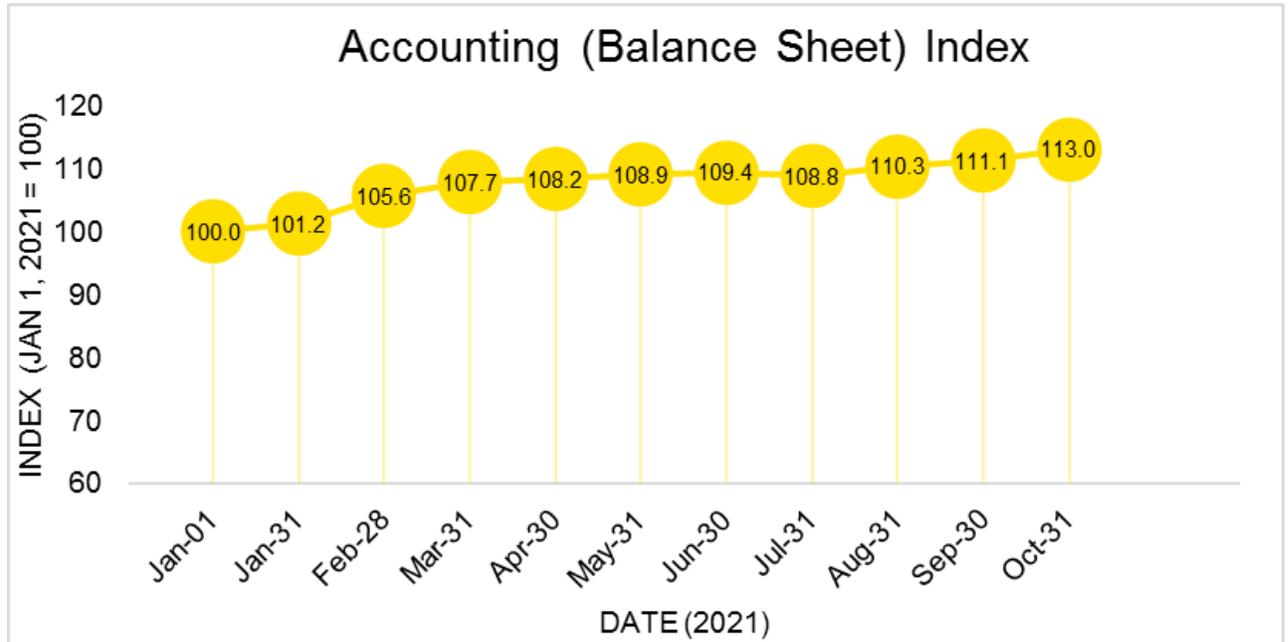
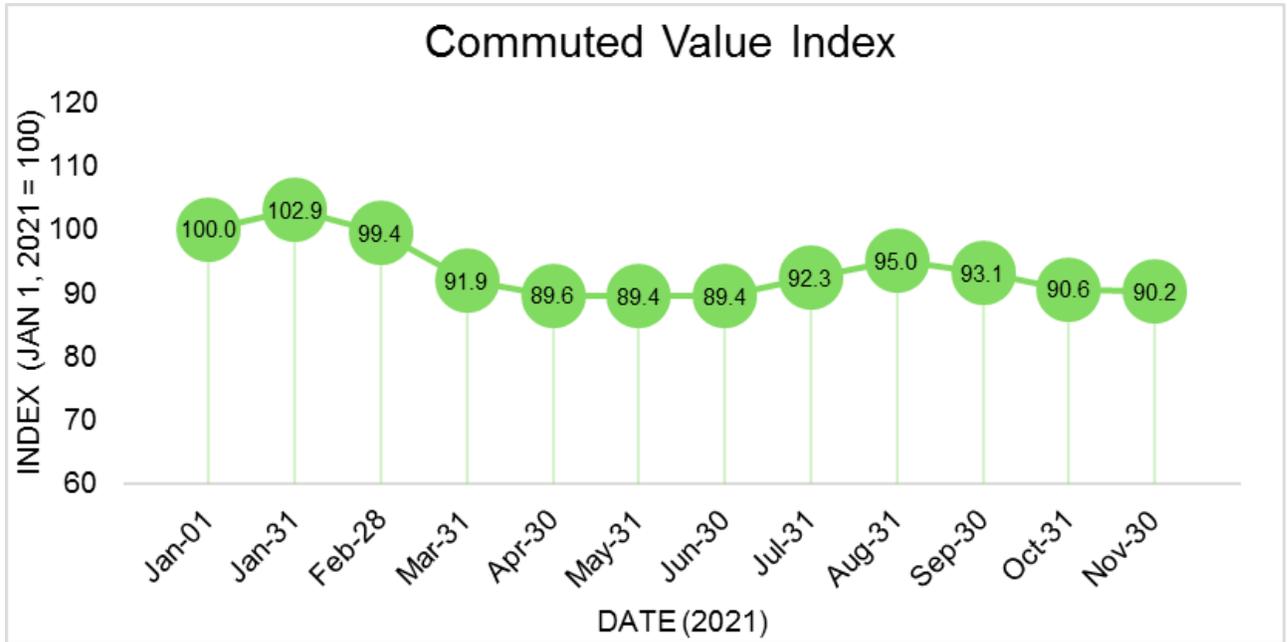
Definitions

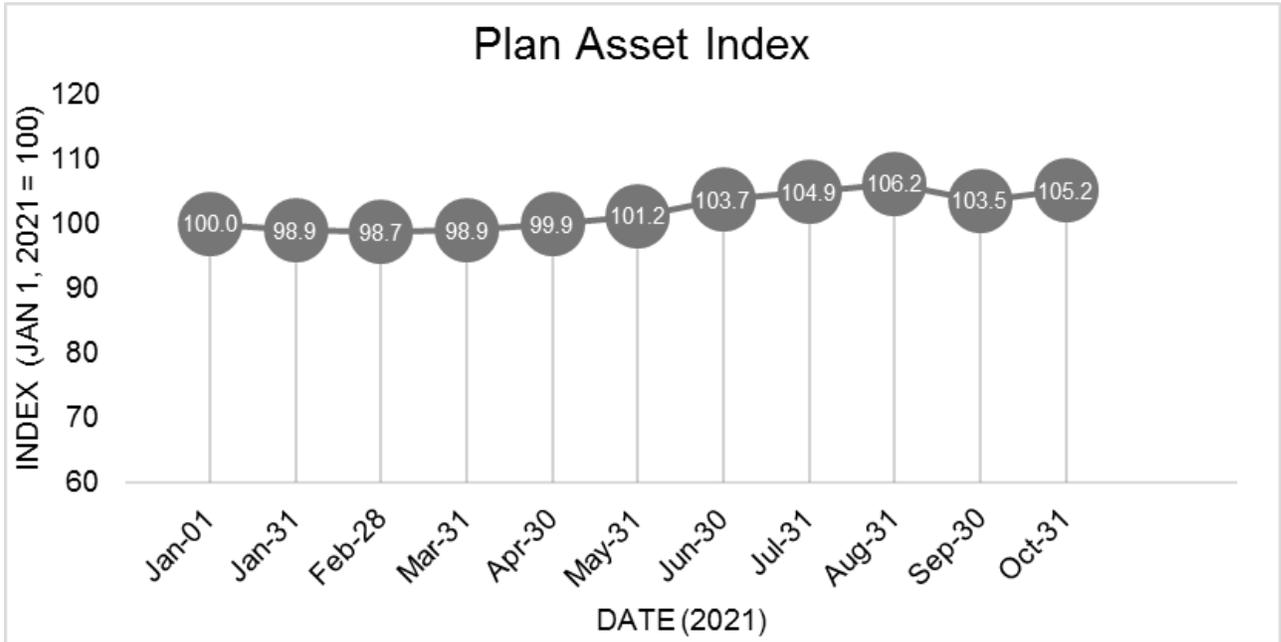
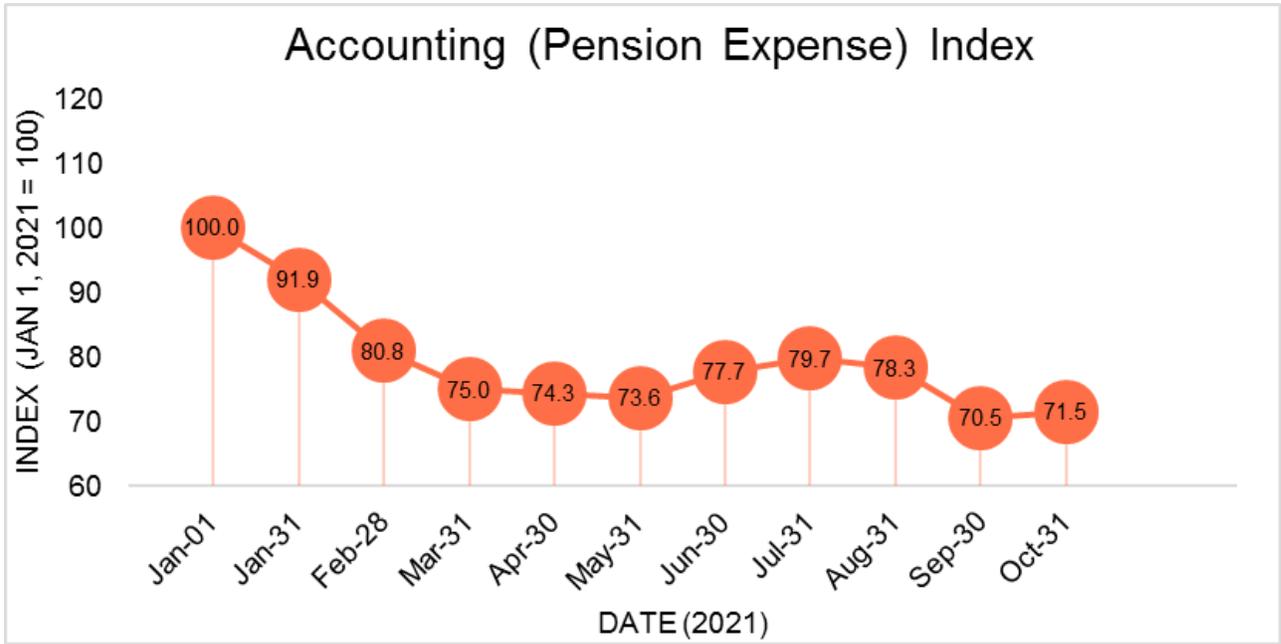
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted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









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