Pension Indices by LifeWorks

January 31, 2022

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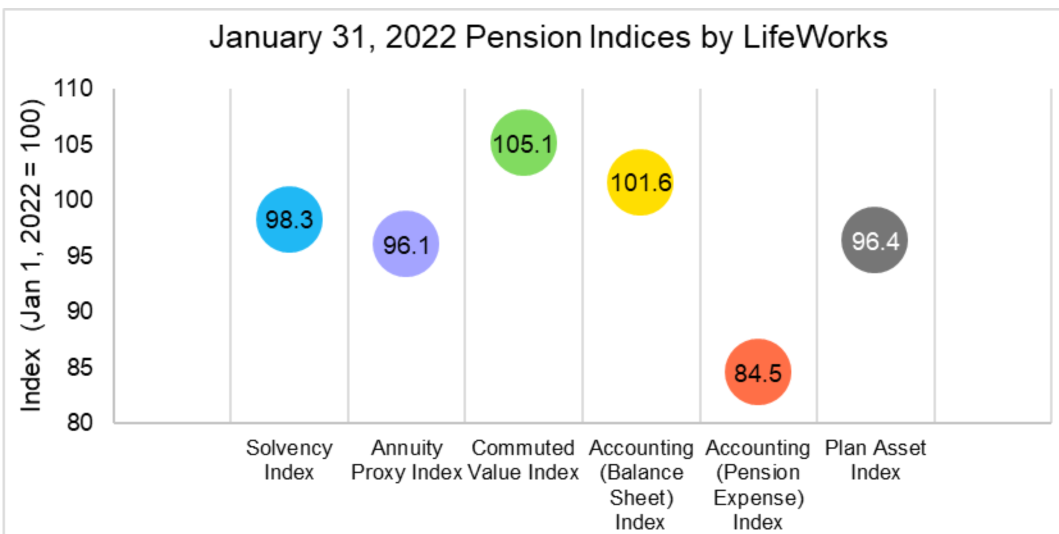
The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that are yet to come for plan sponsors and administrators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

Highlights:

- The funded position of a typical pension plan decreased on a solvency basis but increased on an accounting basis over the month of January, reflecting the offsetting effects of negative investment returns and increases in bond yields during the month.
- In January, investment returns were negative, with a typical pension plan achieving a return of approximately -3.6%. Canadian as well as foreign equity markets pulled back as worries about inflation, the winding down of monetary stimulus from central banks and the risk of conflict in Ukraine increased. Returns for Canadian bond indices were also negative as yields increased by 0.30% to 0.50%. Corporate credit spreads increased by approximately 0.10% to 0.15% during the month.
- Market expectations for long-term inflation decreased by approximately 0.10% over the period. Non-indexed 30-year Government of Canada bond yields increased by 0.37%, while the equivalent but indexed bond yield increased by 0.47%.
- The accounting pension expense index shows thus far a 15.5% reduction in next year's pension expense, largely driven by bond yield increases in January.



Equity markets pulled back in January as worries about inflation, the winding down of monetary stimulus from central banks and the risk of conflict in Ukraine increased. The Canadian equity index, the S&P/TSX Composite, dropped 0.4%, while the global developed and emerging markets equity index, the MSCI ACWI, dropped 4.3% in Canadian dollar terms. Returns for Canadian bond indices were also negative as yields increased by 0.30% to 0.50%. Corporate credit spreads increased by approximately 0.10% to 0.15% during the month.

"The increase in bond yields during January was quite dramatic for just a one-month period," says Gavin Benjamin, Partner in LifeWorks' Retirement and Financial Solutions team. "This should be viewed in the context of the funded position of many pension plans improving significantly in 2021. In January 2022, the positive effect of the increase in bond yields on pension plans' funded positions was either partially or fully offset by the pullback in equities. However, affordable de-risking opportunities remain available for many pension plans, and these opportunities will likely increase if equity markets recover quickly from their drop in January or long-term bond yields continue to rise."

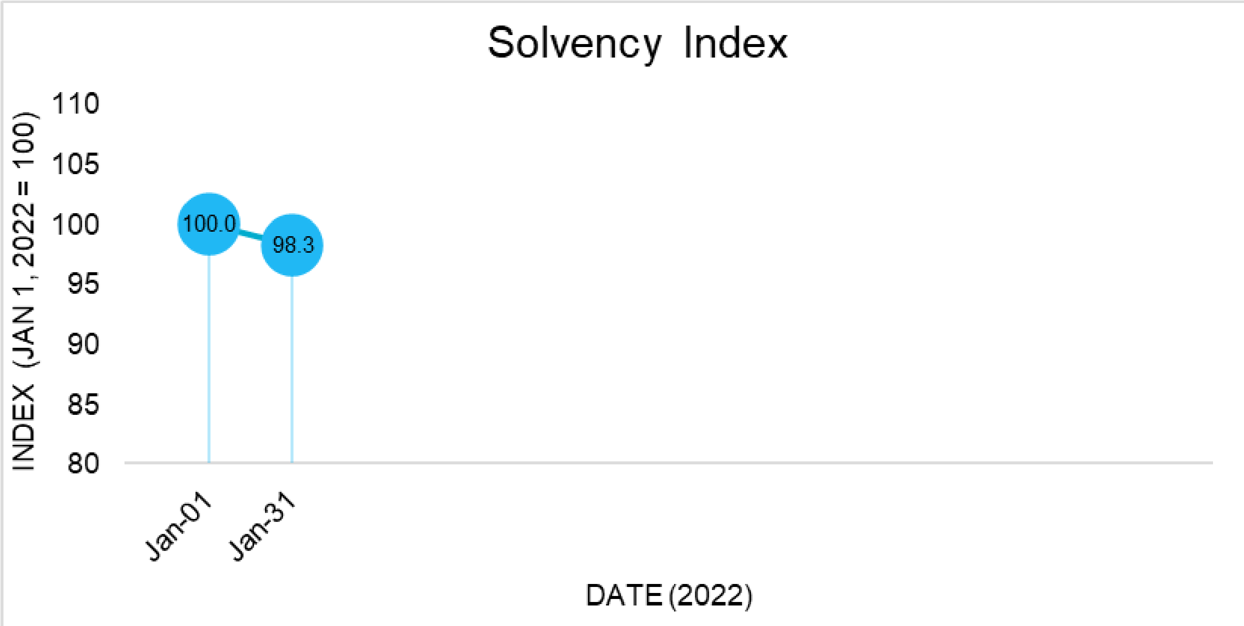
The graphs below show the month-to-month evolution of each index.

Definitions

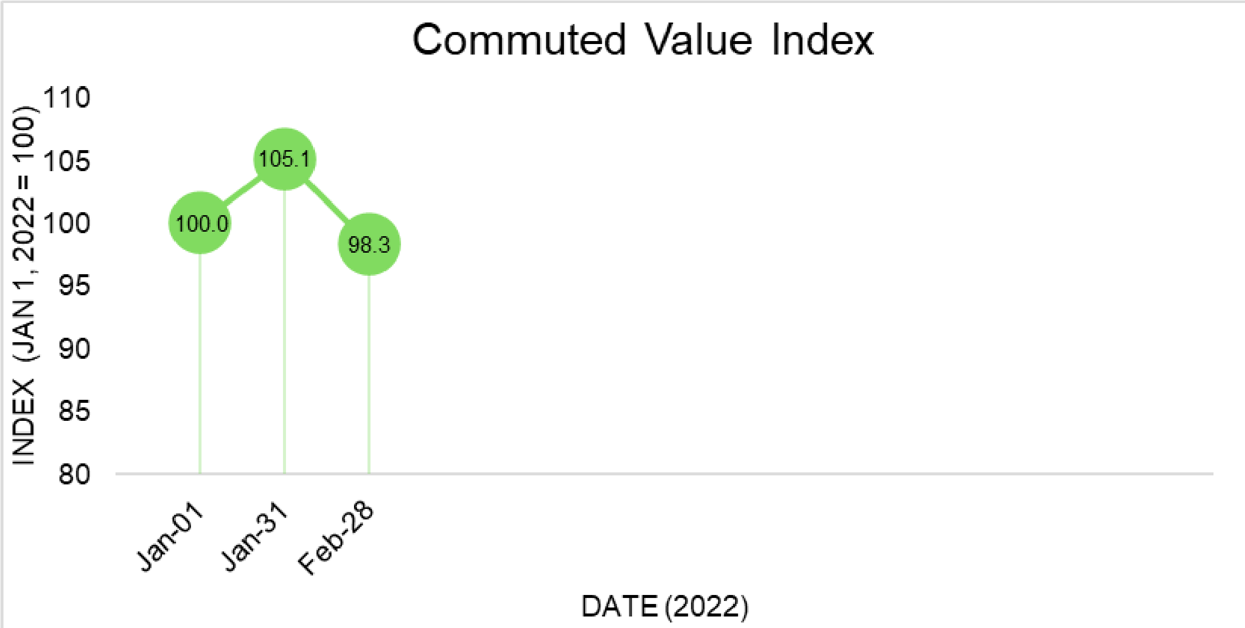
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted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

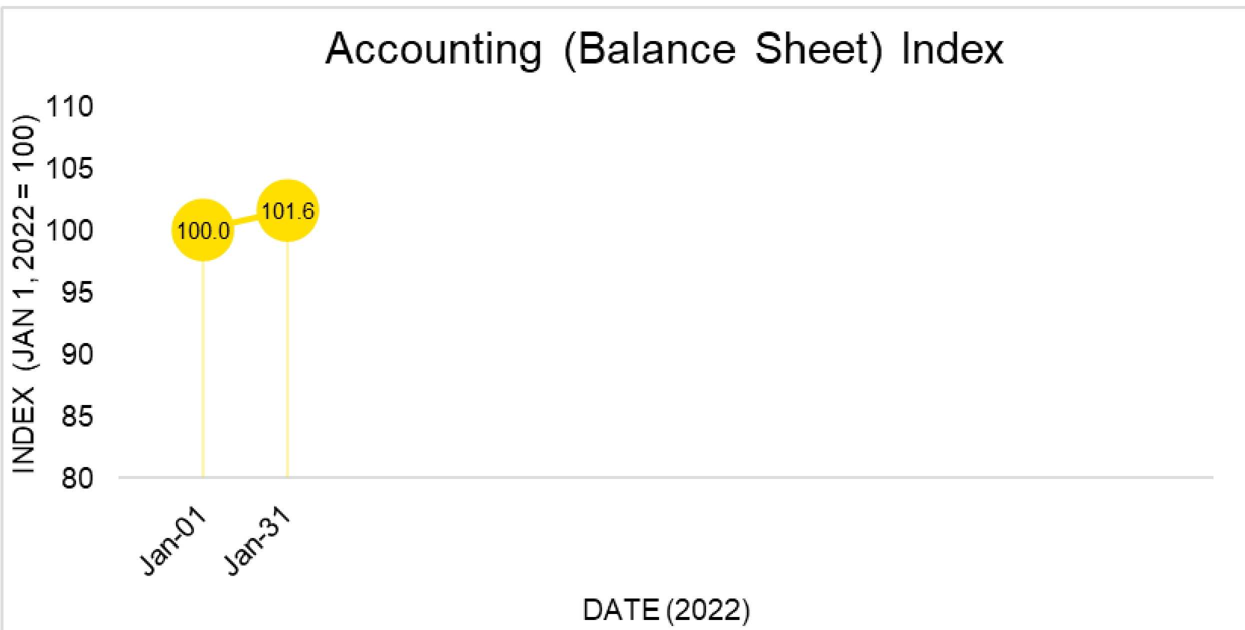
Notes on methodology

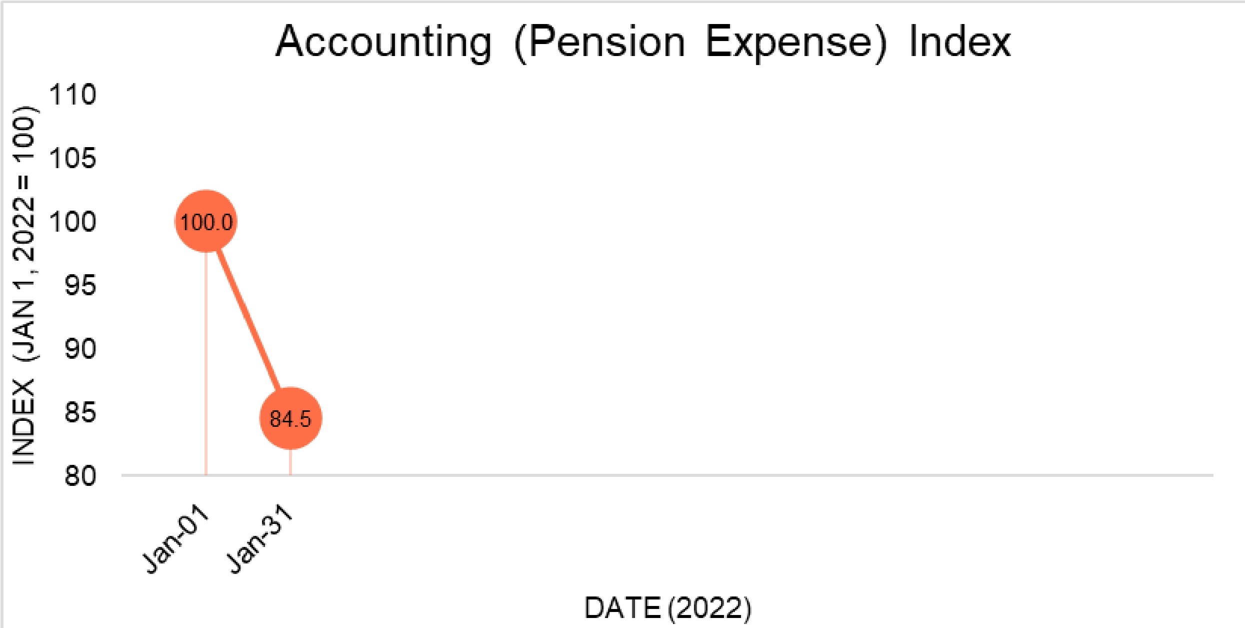
- The indices show the monthly progression of various indicative pension measures since the start of the calendar year.
- Each index is reset to 100 on January 1.
- The monthly *Asset Index* is calculated based on a LifeWorks Benchmark portfolio, 50% equities and 50% fixed income (2% in 91-day T-Bills, 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.


Solvency Index
INDEX (JAN 1, 2022 = 100)
110
105
100
95
90
85
80
100.0
98.3
Jan-01
Jan-31
DATE (2022)


Annuity Proxy Index
INDEX (JAN 1, 2022 = 100)
110
105
100
95
90
85
80
100.0
96.1
Jan-01
Jan-31
DATE (2022)


Commuted Value Index
INDEX (JAN 1, 2022 = 100)
110
105
100
95
90
85
80
100.0
105.1
98.3
Jan-01
Jan-31
Feb-28
DATE (2022)


Accounting (Balance Sheet) Index
INDEX (JAN 1, 2022 = 100)
110
105
100
95
90
85
80
100.0
101.6
Jan-01
Jan-31
DATE (2022)



Accounting (Pension Expense) Index
INDEX (JAN 1, 2022 = 100)
110
105
100
95
90
85
80
100.0
84.5
Jan-01
Jan-31
DATE (2022)

Plan Asset Index
INDEX (JAN 1, 2022 = 100)
110
105
100
95
90
85
80
100.0
96.4
Jan-01
Jan-31
DATE (2022)

About LifeWorks

LifeWorks is a world leader in providing digital and in-person solutions that support the total wellbeing of individuals. We deliver a personalized continuum of care that helps our clients improve the lives of their people and by doing so, improve their business.

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