

# Pension Indices by LifeWorks

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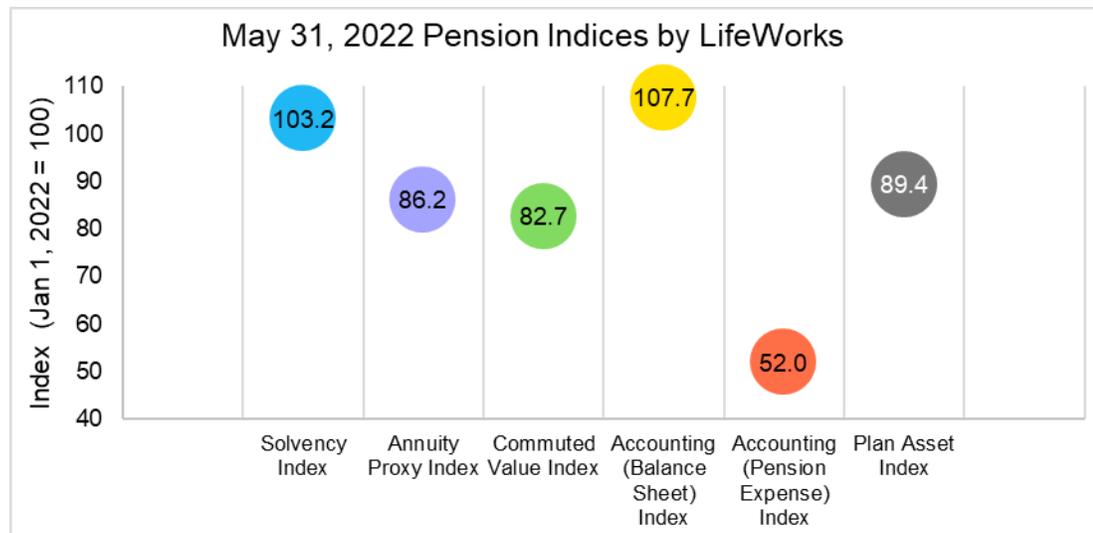
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 May, the funded position of a typical pension plan improved on a solvency basis, but remained essentially unchanged on an accounting basis.
- The investment return was -0.4% for the month for a representative pension plan portfolio. The Canadian equity index finished the month with a return of 0.1%. Also, returns for Canadian bond indices were slightly negative as yields increased slightly in general along the curve.
- Corporate credit spreads also saw a slight increase, especially for bonds with short terms to maturity.
- The yield curve remained relatively flat as both short-term Government of Canada bond yields as well as 30-year term Government of Canada bond yields increased by a few basis points. Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.76% at the end of May, which represents a 0.12% decrease from the end of April.
- The accounting pension expense index saw a slight drop in May, as the accounting discount rate increased, and continues to indicate a significant anticipated decrease in next year's pension expense.



In May, the global developed and emerging equity markets index, the MSCI ACWI, dropped -0.9% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of 0.1%.

Returns for Canadian bond indices were generally slightly negative as yields in May rose slightly. Corporate credit spreads also saw a slight increase, especially for bonds with short terms to maturity.

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"Even though the financial markets continue to be volatile, many pension plan sponsors find themselves with pension plans that are in a surplus position. The Financial Services Regulatory Authority of Ontario estimates that as of March 31, 2022 the median solvency funded ratio of DB plans registered in their jurisdiction was 112% and 85% of plans had a solvency ratio over 100%. Some plans across the country are suddenly even in territory where the Income Tax Act may require a contribution holiday absent conscious action, yet plan sponsor comfort around the sustainability of the funding cushion is not always high" says Gavin Benjamin, a Partner in LifeWorks Retirement and Financial Solutions Practice.

"The emergence of surplus in a pension plan raises a number of issues and opportunities. Should a full or partial contribution holiday be taken if permitted by pension legislation? Should the go-forward investment and/or longevity risk in the plan be reduced? If the plan does not provide automatic cost of living increases, should some of the surplus be used to provide a one-time cost of living increase to pensioners to help protect them against the recent surge in inflation? Plan sponsors may want to establish a surplus management policy to increase the likelihood that short-term and long-term value can be derived from current and future pension surpluses."

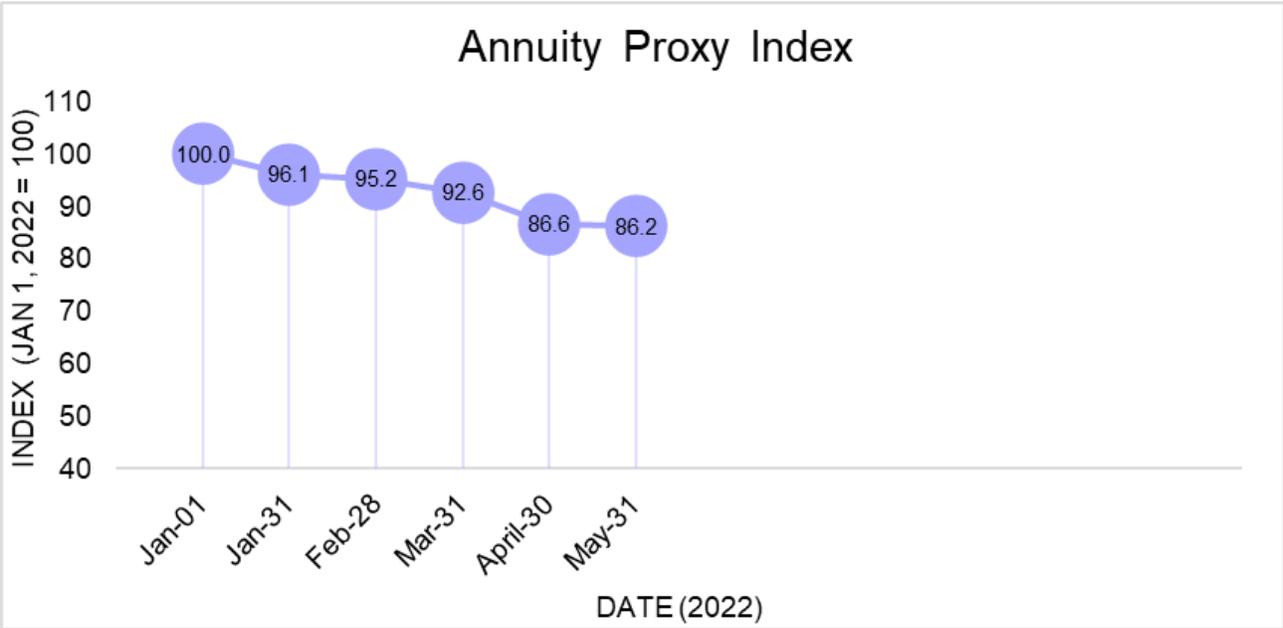
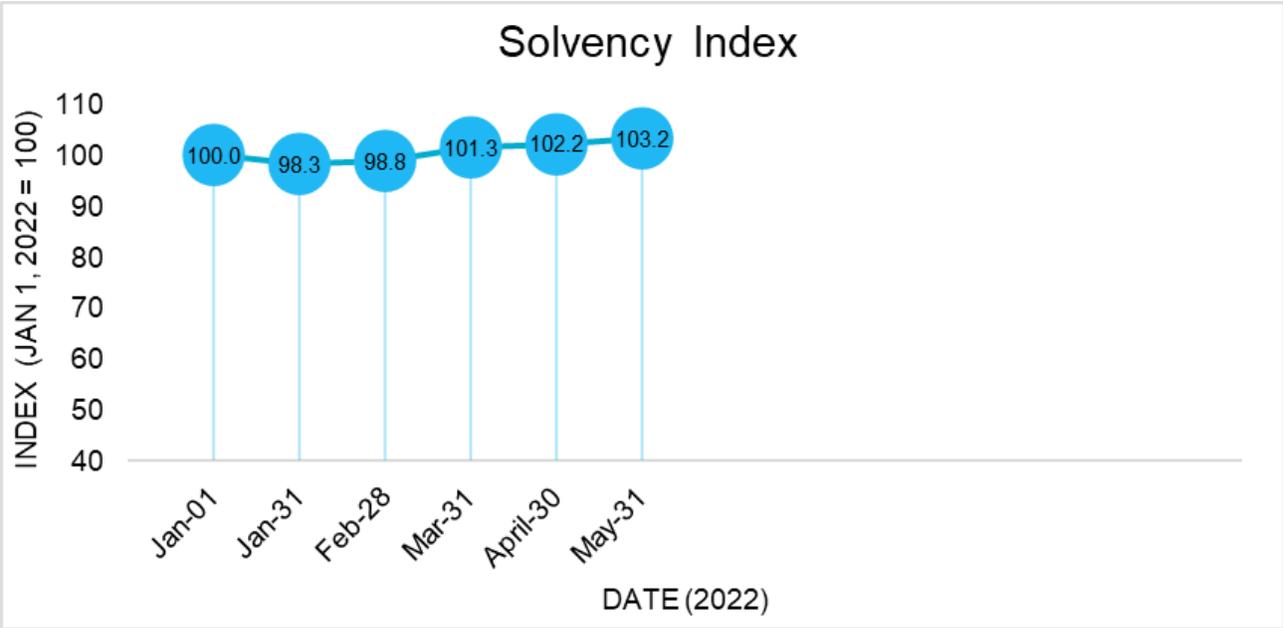
The graphs below show the month-to-month evolution of each index.

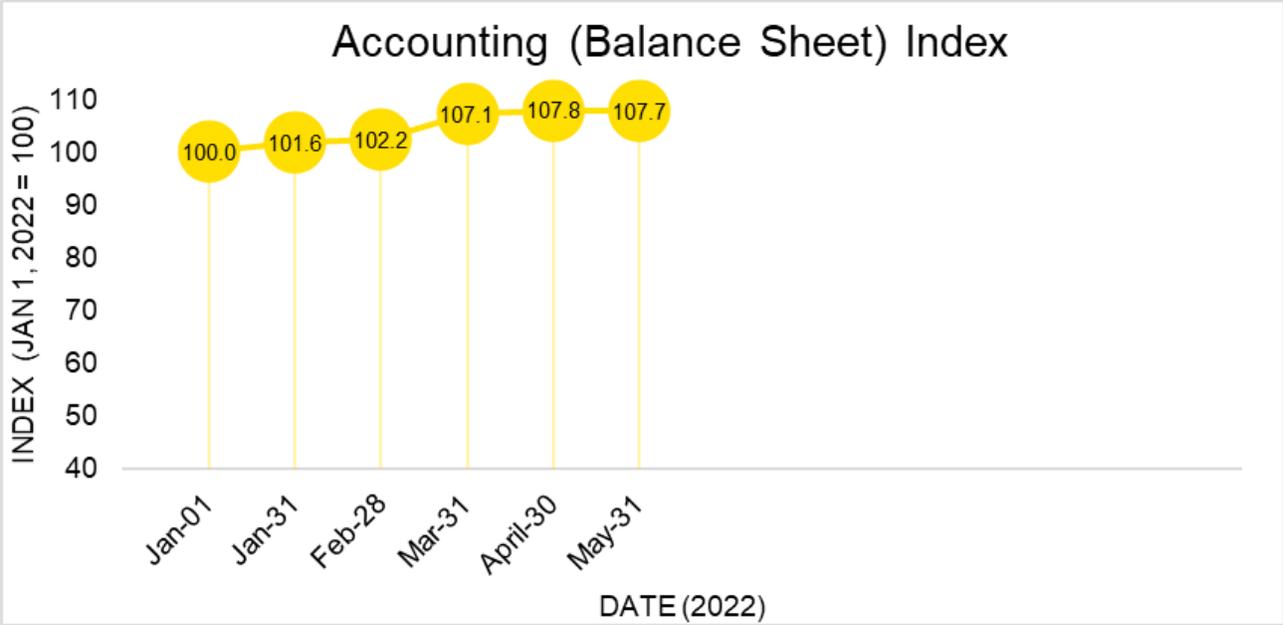
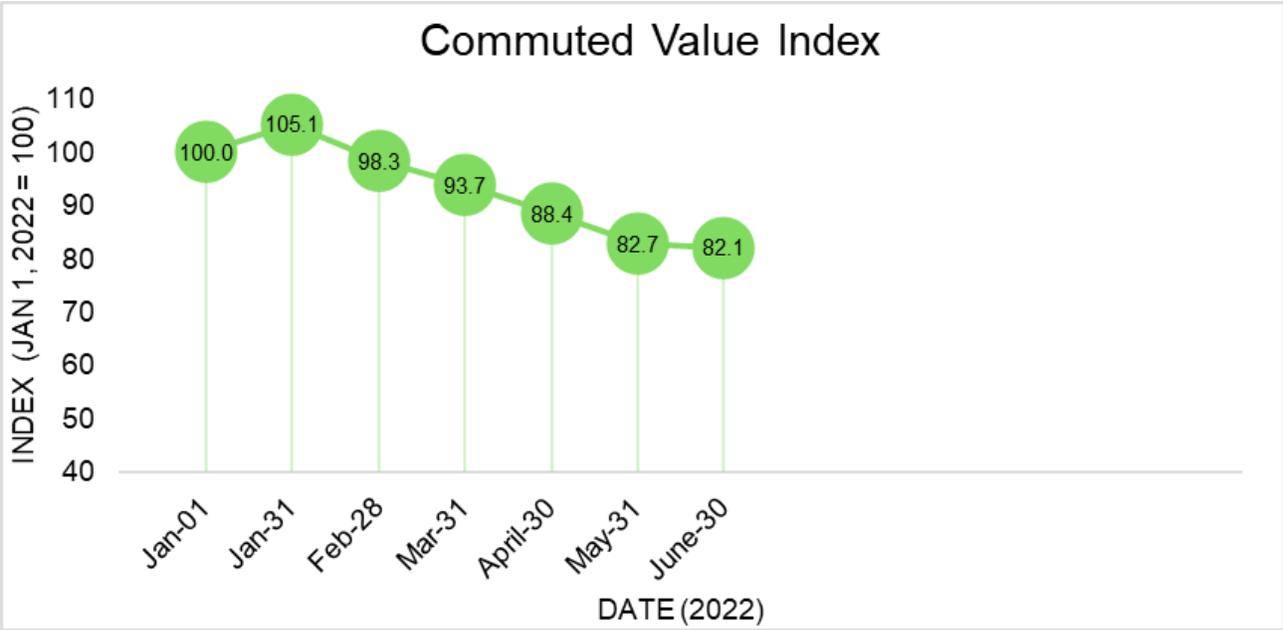
## Definitions

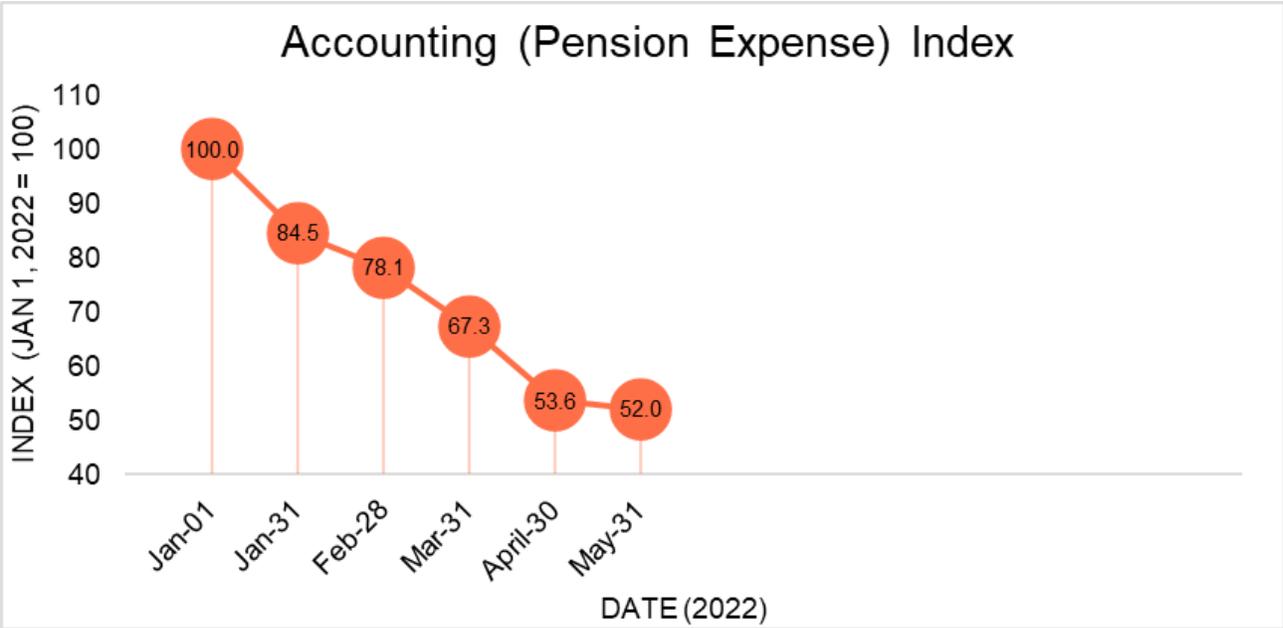
<b>Solvency Index</b>	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
<b>Annuity Proxy Index</b>	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium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