

Pension Indices by LifeWorks

June 30, 2022



Editorial Team

Gavin Benjamin

Partner,
Retirement and Financial Solutions
(437) 703-8286
gavin.benjamin@lifeworks.com

Murray Wright

Associate Partner,
Retirement and Financial Solutions
(604) 649-0409
murray.wright@lifeworks.com

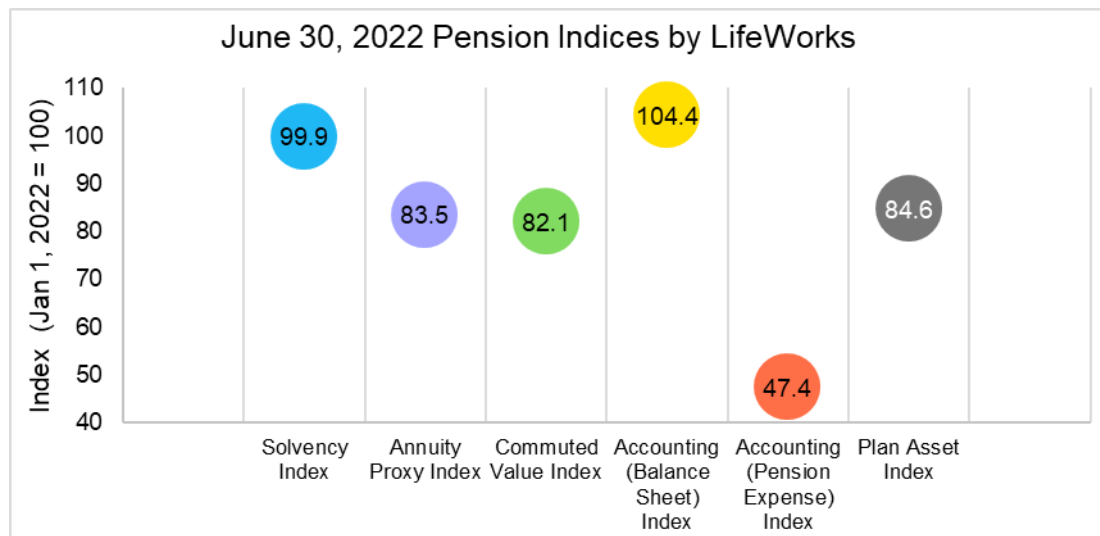
Christian Laurin

Consultant,
Retirement and Financial Solutions
(438) 797-9919
christian.laurin@lifeworks.com

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 June, the funded position of a typical pension plan declined on both solvency and accounting bases.
- The investment return was -5.4% for the month for a representative pension plan portfolio. The Canadian equity index finished the month with a weak return of -8.7%. Also, returns for Canadian bond indices were negative as yields increased significantly, especially for bonds with short durations. Short-term Government of Canada bond yields increased by approximately 0.47% compared to an increase of 0.29% for long-term Government of Canada bond yields.
- Corporate credit spreads also saw a slight increase for bonds with short terms and median terms to maturity.
- Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.78% at the end of June, which represents a 0.02% increase from the end of May.
- The accounting pension expense index saw a drop in June, as the accounting discount rate increased, and continues to indicate a significant anticipated decrease in next year's pension expense.



In June, the global developed and emerging equity markets index, the MSCI ACWI, dropped -6.6% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a weak return of -8.7%.

Returns for Canadian bond indices were negative as yields increased in June. Corporate credit spreads also saw a slight increase for bonds with short and median terms to maturity. Non-indexed long-term Government of Canada bond yields increased 0.29%, while the equivalent indexed bond yield increased 0.27%.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.78% at the end of June, which represents a 0.02% increase from the end of May.

“We are only six months into 2022 and from the perspective of financial markets to some maybe it feels more like six years. Markets have been so fast moving it has been difficult for many to keep up. The amount of volatility has created opportunities for some pension plans to de-risk. Even though assets have fallen, plan liabilities are also falling as longer term interest rate expectations have increased. Some plans are using this to take risk off the table and lock-in funding positions where they can” says Stuart Morgan, Principal at LifeWorks.

“We also need to take a step back and consider the impact on pension plan members. Market volatility, inflation and political instability make for regular headlines and members may have questions about their pensions. Commuted values have fallen dramatically – LifeWorks’ Pension Indices indicate that the average commuted value is 25% lower than it was at the end of December 2021. Many Capital Accumulation Plan values will likely have fallen as well. Plan sponsors should explore whether it is appropriate to communicate with members to either provide commentary or resources to help answer any questions they have. While any communication needs to be carefully designed, there are huge benefits to actively ensuring members have an understanding of their plan in evolving circumstances.”

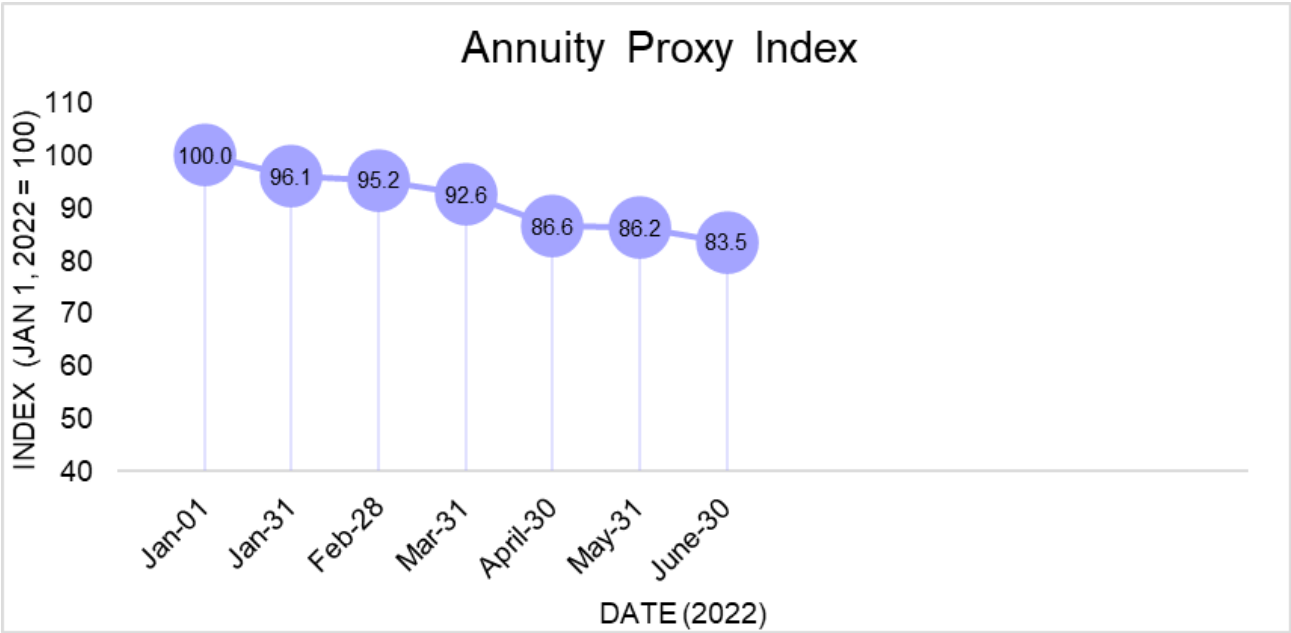
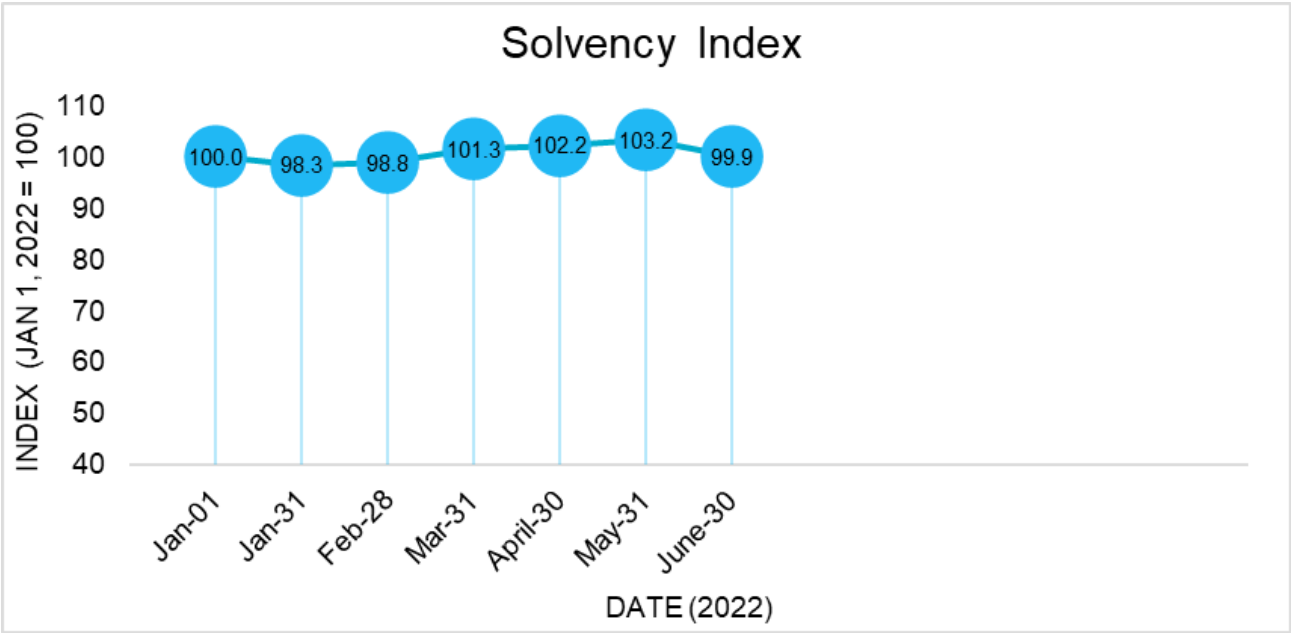
The graphs below show the month-to-month evolution of each index.

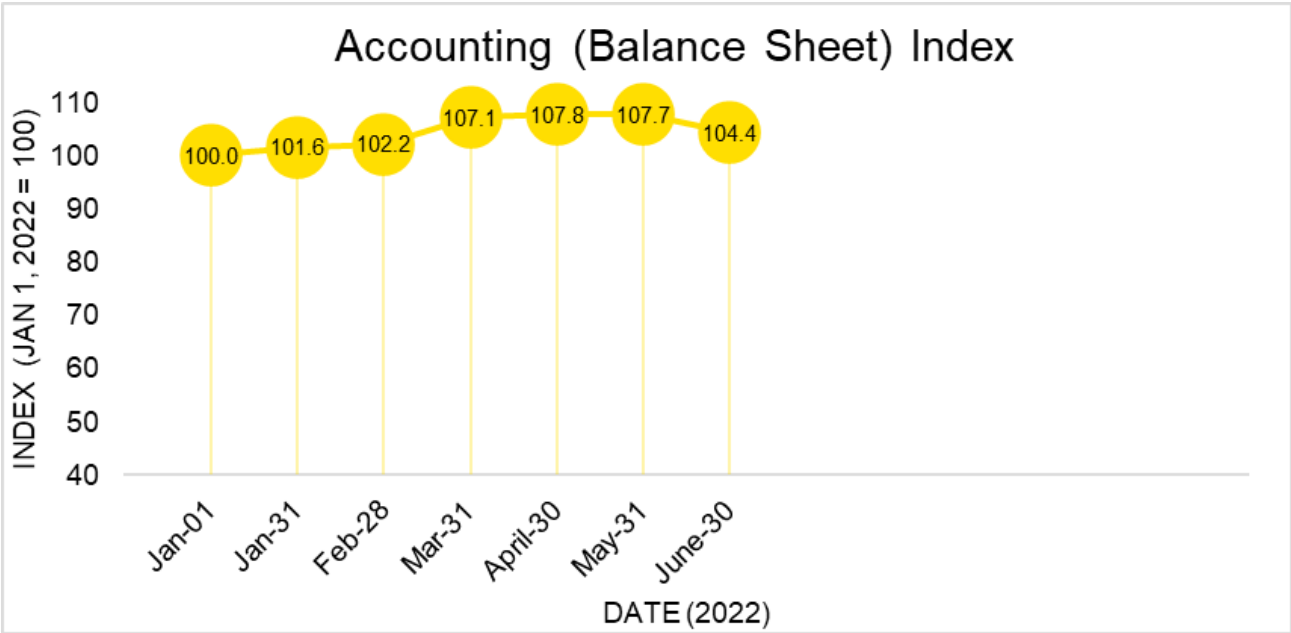
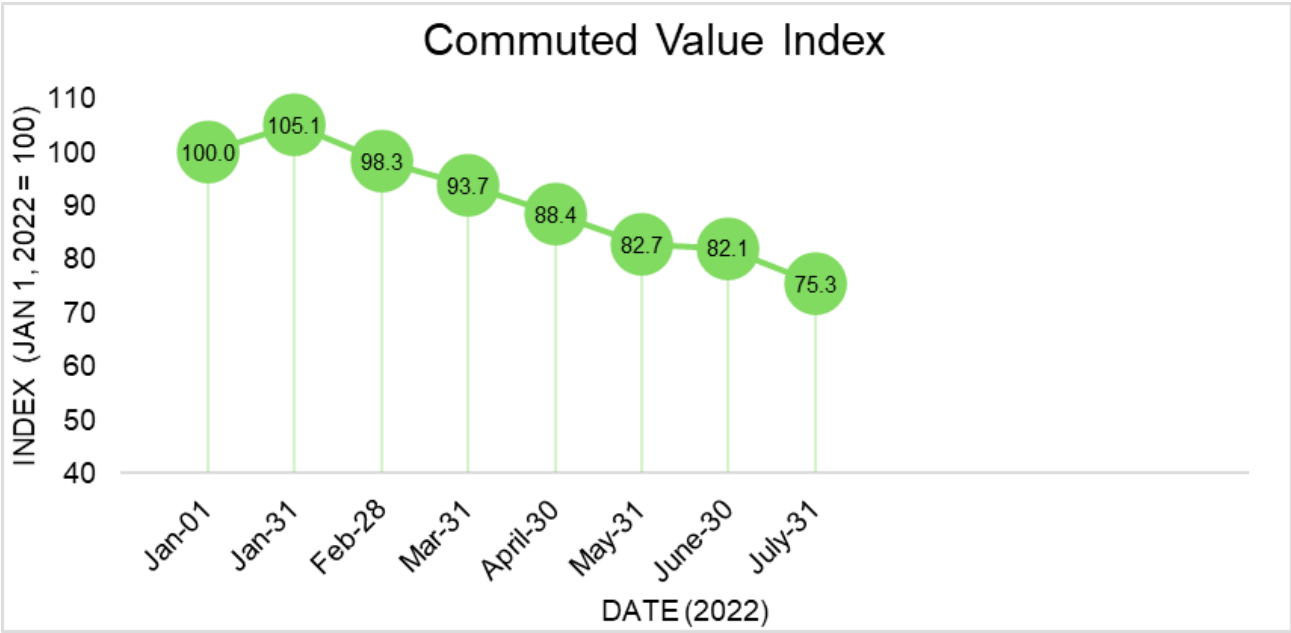
Definitions

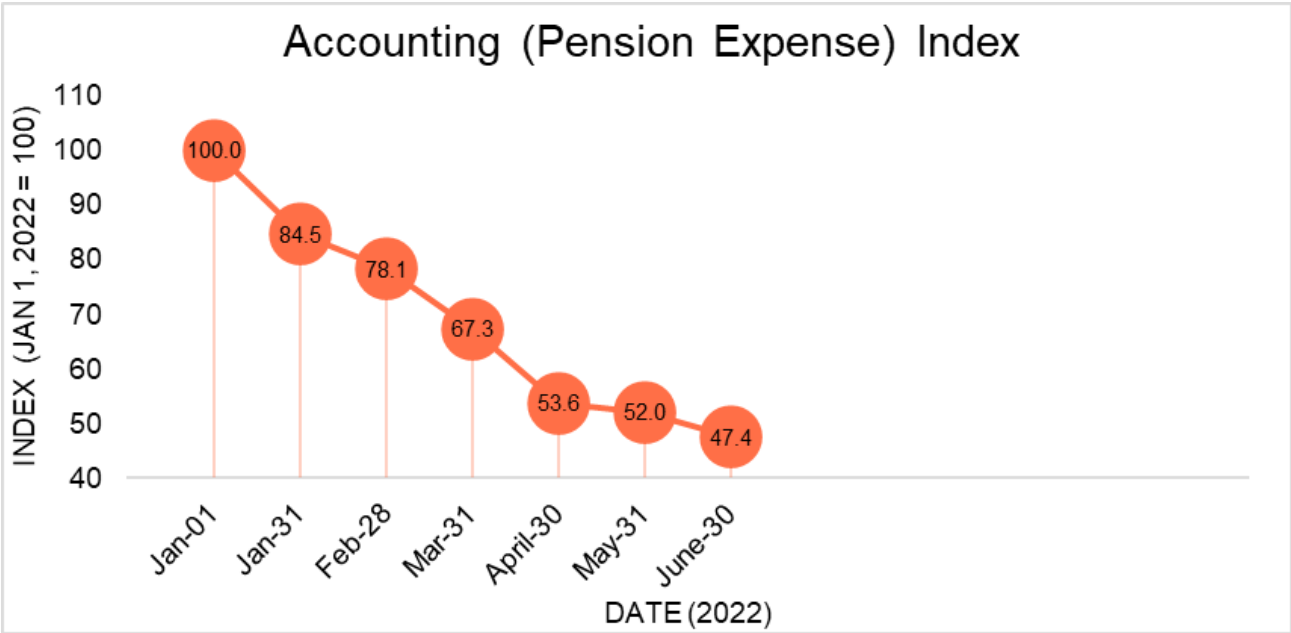
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted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









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.

For more information, visit lifeworks.com