

Pension Indices by LifeWorks

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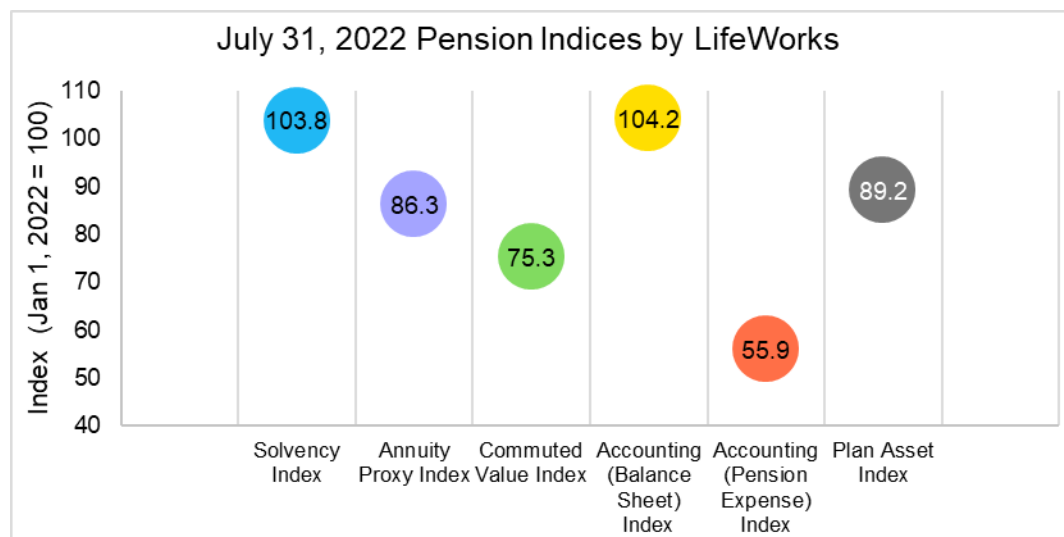
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 July, the funded position of a typical pension plan improved on a solvency basis, but slightly declined on an accounting basis.
- The investment return was 5.4% for the month for a representative pension plan portfolio. However, this reflects only a partial recovery in the return for the year, as the return for the first seven months of the year for the plan was -10.8%.
- The Canadian equity index finished the month with a strong return of 4.7%. Also, returns for Canadian bond indices were positive as yields decreased, especially for bonds with median and long durations. Long-term Government of Canada bond yields decreased by approximately 0.37% during the month but were still 1.09% higher at the end of July 2022 compared to year-end 2021.
- Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.84% at the end of July, which represents a 0.06% increase from the end of June.
- The accounting pension expense index saw an increase in July, as the accounting discount rate decreased, but is still well below the expense index at the beginning of the year.



In July, the global developed and emerging equity markets index, the MSCI ACWI, rose 6.3% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a strong return of 4.7%. However, returns for both indices were still negative for the first seven months of 2022 (-13.4% for the MSCI ACWI index and -5.7% for the S&P/TSX Composite index).

Returns for Canadian bond indices were positive as yields decreased in July. Corporate credit spreads experienced a slight decrease for bonds with short and long terms to maturity. Non-indexed long-term Government of Canada bond yields decreased 0.37% in July, but were still 1.09% higher at the end of July 2022 compared to year-end 2021.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.84% at the end of July, which represents a 0.06% increase from the end of June.

“With all the media attention on the increases to the Bank of Canada policy rate, it is important to understand that what really matters for the financial position of most pension plans is long-term interest rates” says Gavin Benjamin, Partner in LifeWorks Retirement and Financial Solutions Practice. “The Bank of Canada policy rate is a short-term rate. However, because a pension plan is expected to pay pensions to retirees for many decades into the future, the calculation of a plan’s liabilities involves the use of long-term interest rates to discount these future pension payments.”

“Long-term interest rates are affected by a number of factors, including future inflation expectations, expectations regarding future real interest rates, and the level of perceived risk in the economy. Therefore, a change to the Bank of Canada policy rate does not necessarily immediately flow through to long-term interest rates. July is a case in point, as the Bank of Canada increased its policy rate by 1.00%, while long-term Government of Canada bond rates actually decreased by 0.37%. This means that plan sponsors should look beyond the headlines to understand how changes to interest rates are affecting their pension financials. Also, plan sponsors should be wary of trying to predict changes to long-term interest rates based on anticipated changes to the Bank of Canada policy rate.”

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

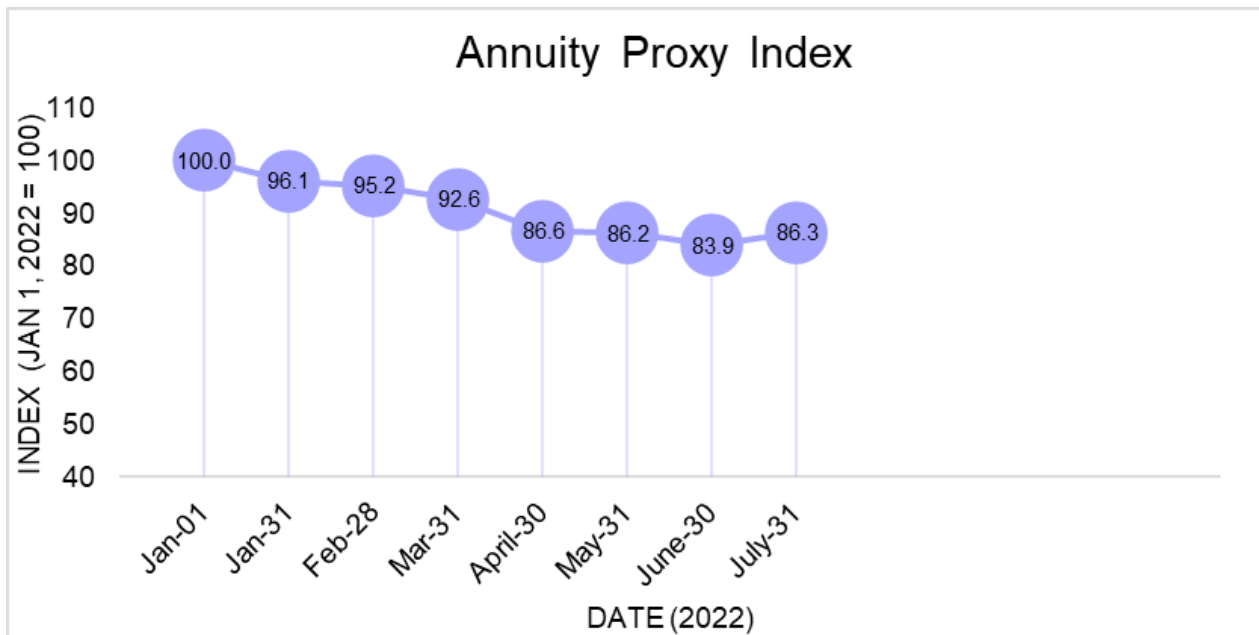
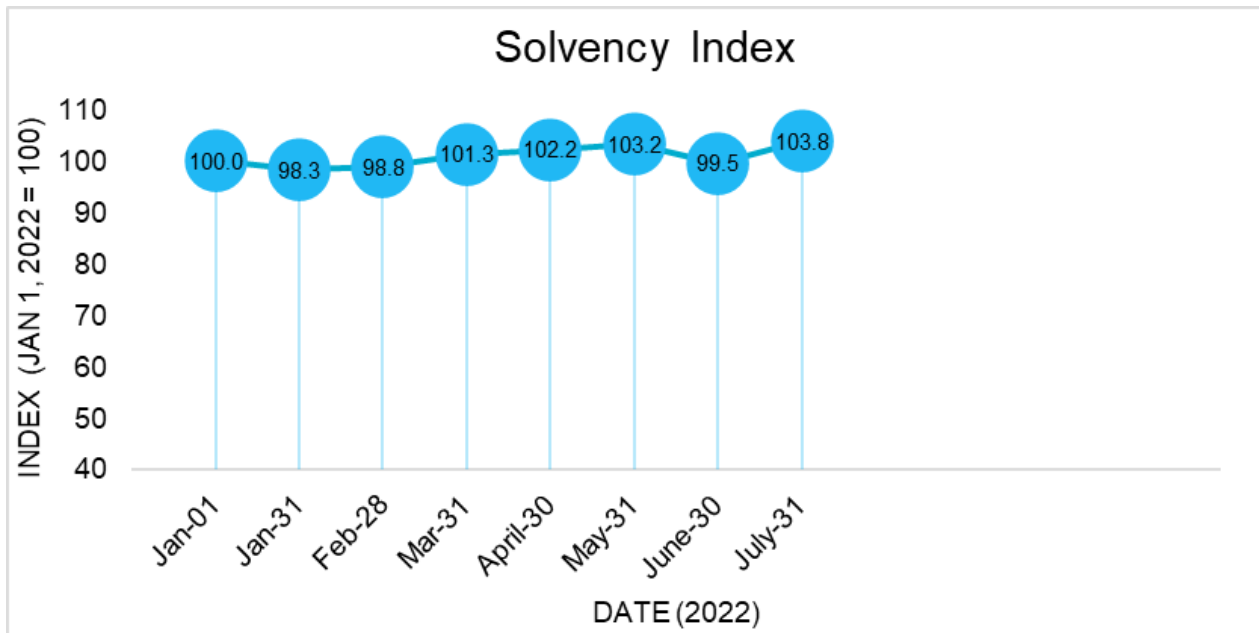
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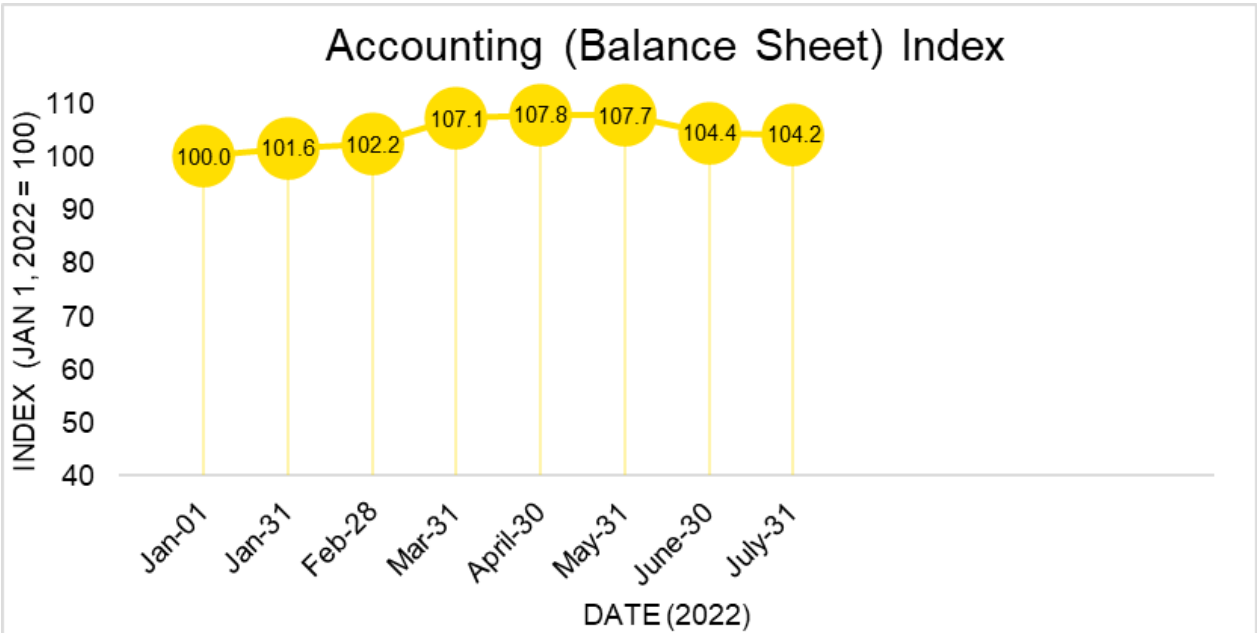
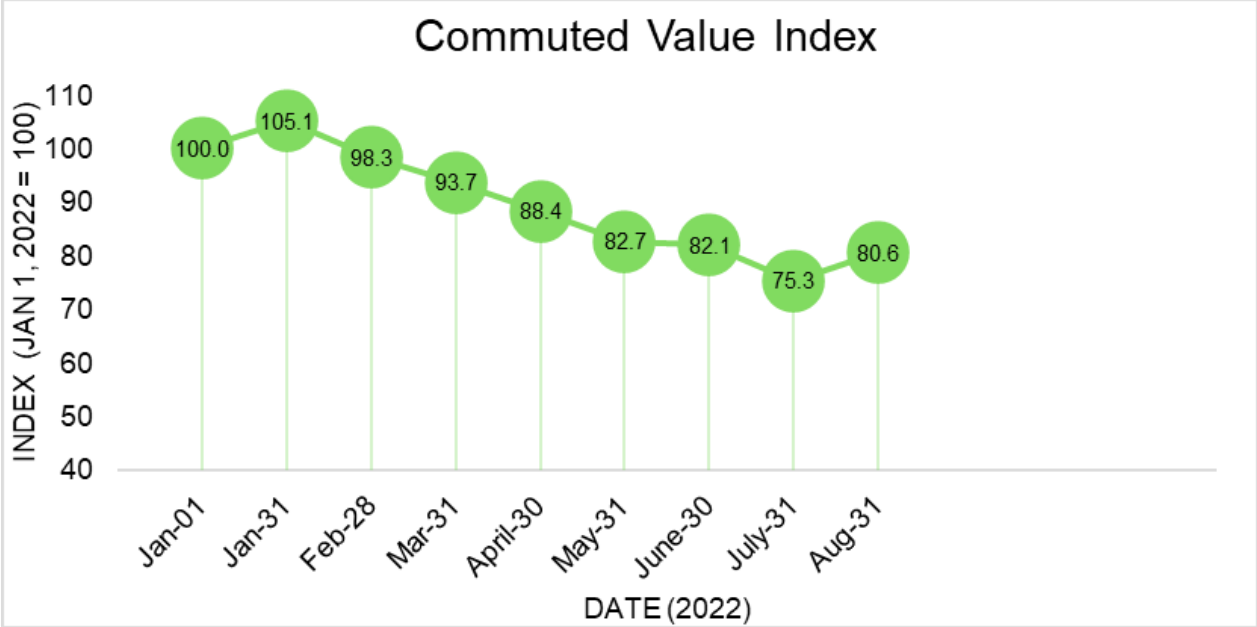
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted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

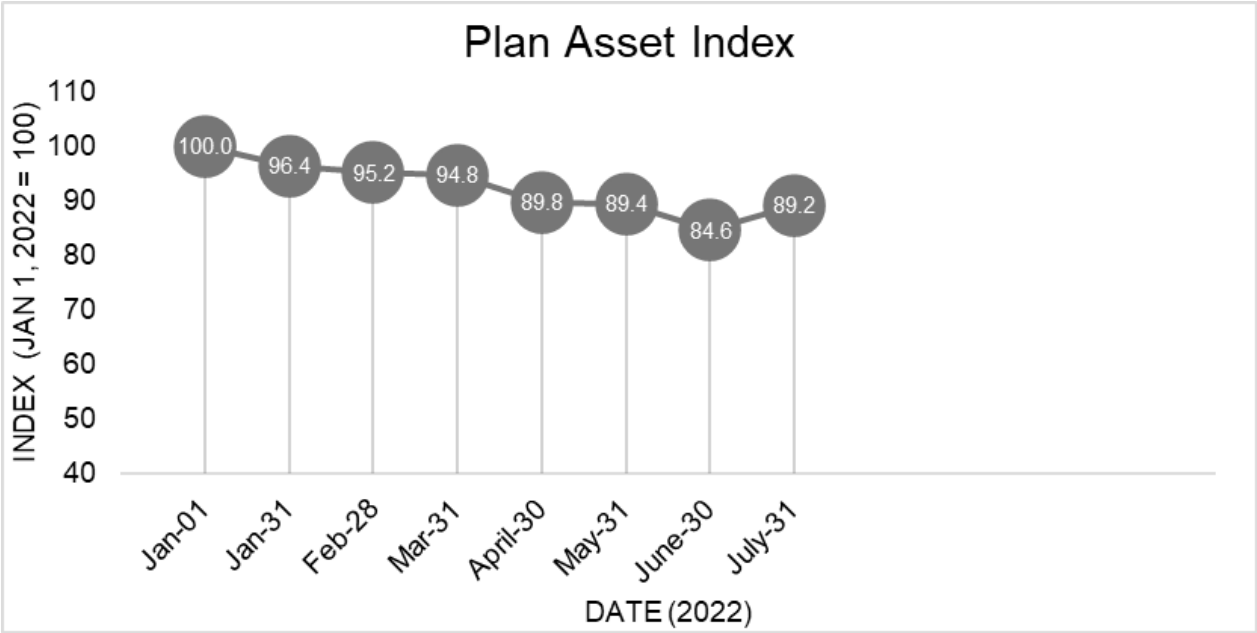
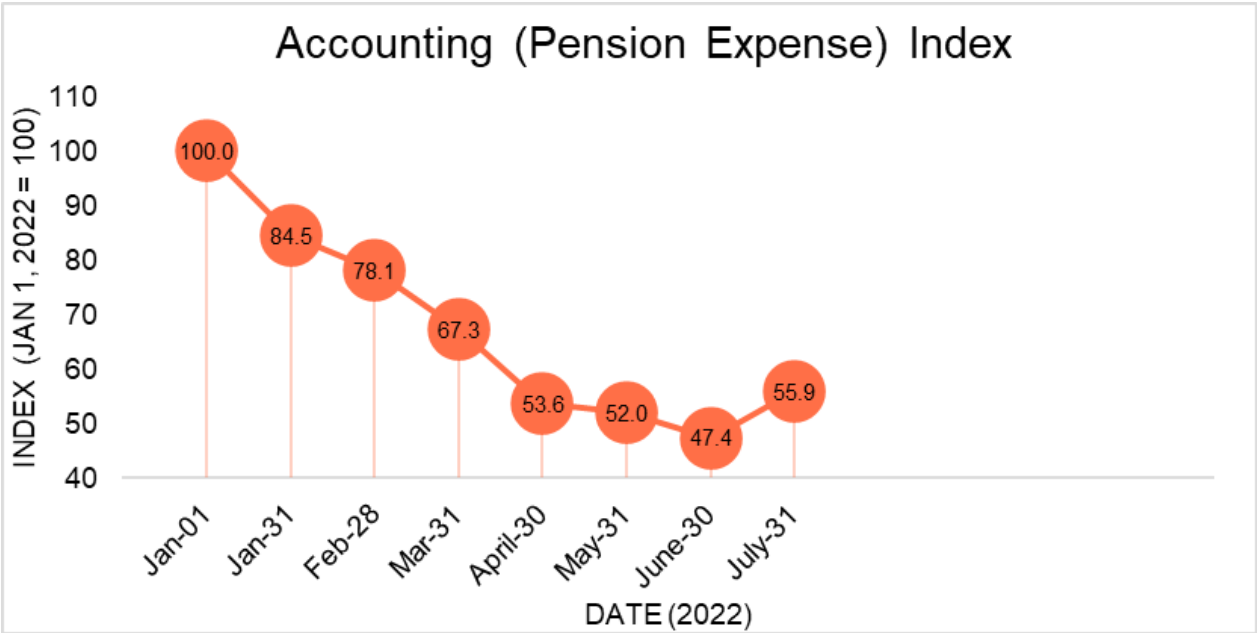
Notes on methodology

- 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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