

Pension Indices by LifeWorks

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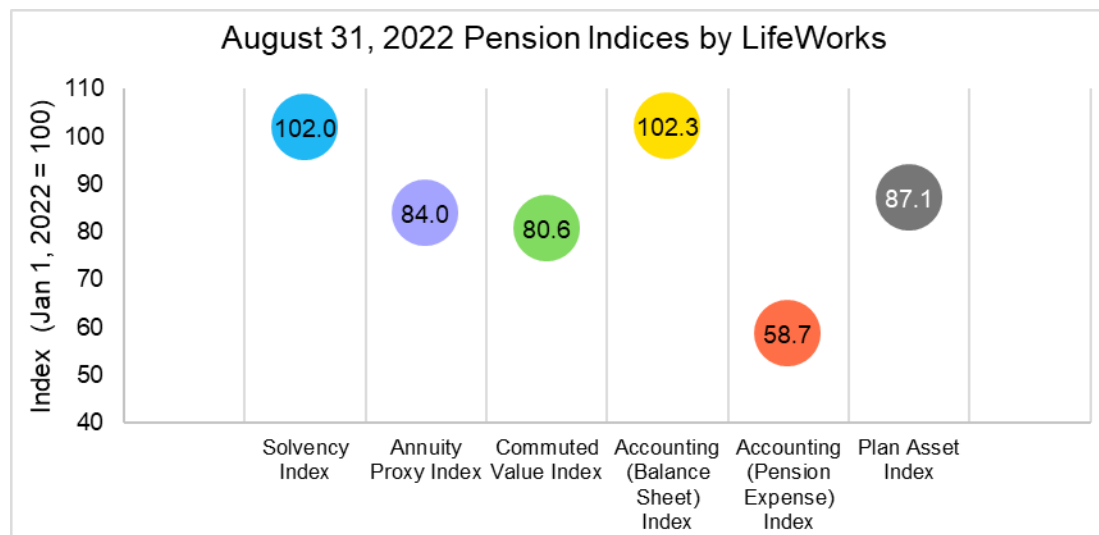
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 August, the funded position of a typical pension plan declined on both a solvency basis and an accounting basis.
- The investment return was -2.4% for the month for a representative pension plan portfolio. The return for the first eight months of the year for the plan was -12.9%.
- The Canadian equity index finished the month with a weak return of -1.6%. Also, returns for Canadian bond indices were negative as yields increased, especially for bonds with short and median durations. Short-term Government of Canada bond yields increased by 0.68% during the month, whereas long-term Government of Canada bond yields increased by approximately 0.25%.
- Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.78% at the end of August, which represents a 0.06% decrease from the end of July.
- The accounting pension expense index saw an increase in August, but is still well below the expense index at the beginning of the year.



In August, the global developed and emerging equity markets index, the MSCI ACWI, dropped 1.6% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with an equally weak return of -1.6%.

Returns for Canadian bond indices were negative as yields increased in August. Corporate credit spreads experienced a slight decrease for bonds with short and long terms to maturity. Non-indexed short-term Government of Canada bond yields increased by 0.68% during the month, whereas long-term Government of Canada bond yields increased by 0.25%.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.78% at the end of August, which represents a 0.06% decrease from the end of July.

“With another increase to the Bank of Canada policy rate announced on September 7, 2022, short term interest rates are almost 3% higher than they were at the start of the year. Long-term interest rates, which are a key driver of the financial position of pension plans, are around 1.3% higher. The increase in long-term interest rates has generally led to improvements in plan funding positions since the start of the year, despite significant falls in assets values, as pension plan liabilities have also fallen.”

“With short-term interest rates rising much more than long-term interest rates, we have an inverted yield curve in Canada with long-term interest rates below short-term interest rates”, says Murray Wright, Associate Partner in LifeWorks Retirement and Financial Solutions Practice. “The yield curve is usually upward sloping, recognizing that investors look for higher interest rates if they are lending money for a longer period of time. When the yield curve inverts, it has historically been a good early warning signal of the onset of a recession. Pension plans should tread carefully when making strategic decisions based on current funding levels, in particular around contribution holidays and benefit improvements, as the economic outlook is extremely uncertain. Action can be taken to protect current funding levels, but good fiduciary education on options / impacts, strong governance and ability to act at the right time are vital.”

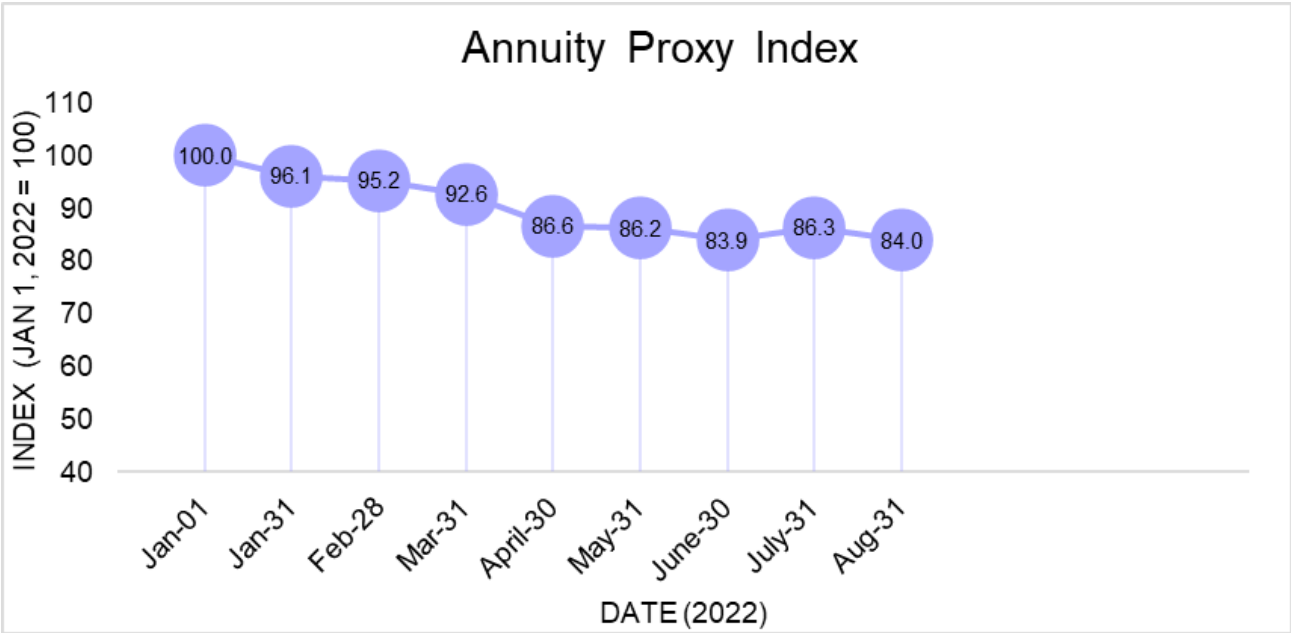
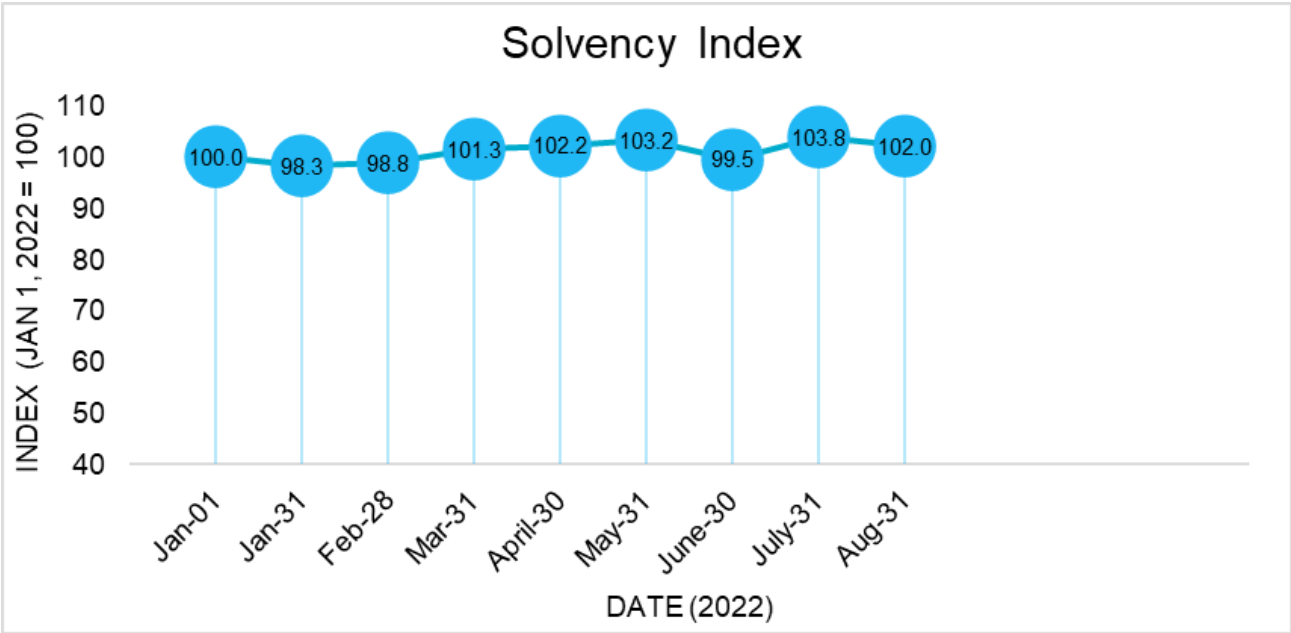
The graphs below show the month-to-month evolution of each index.

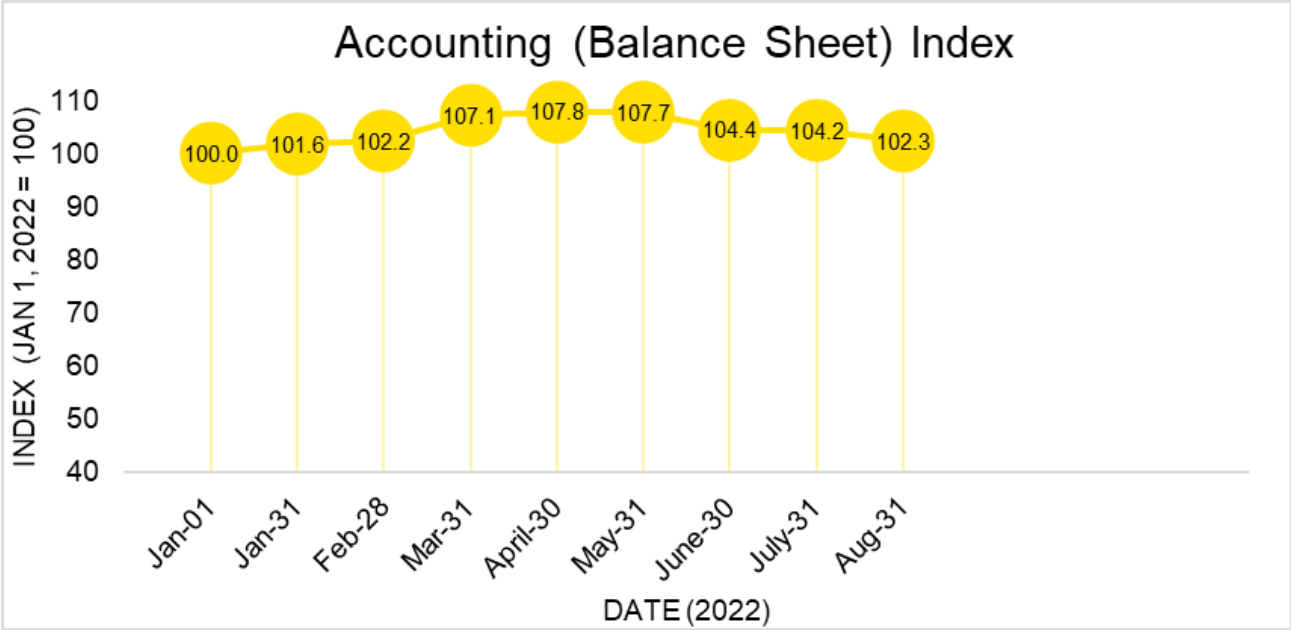
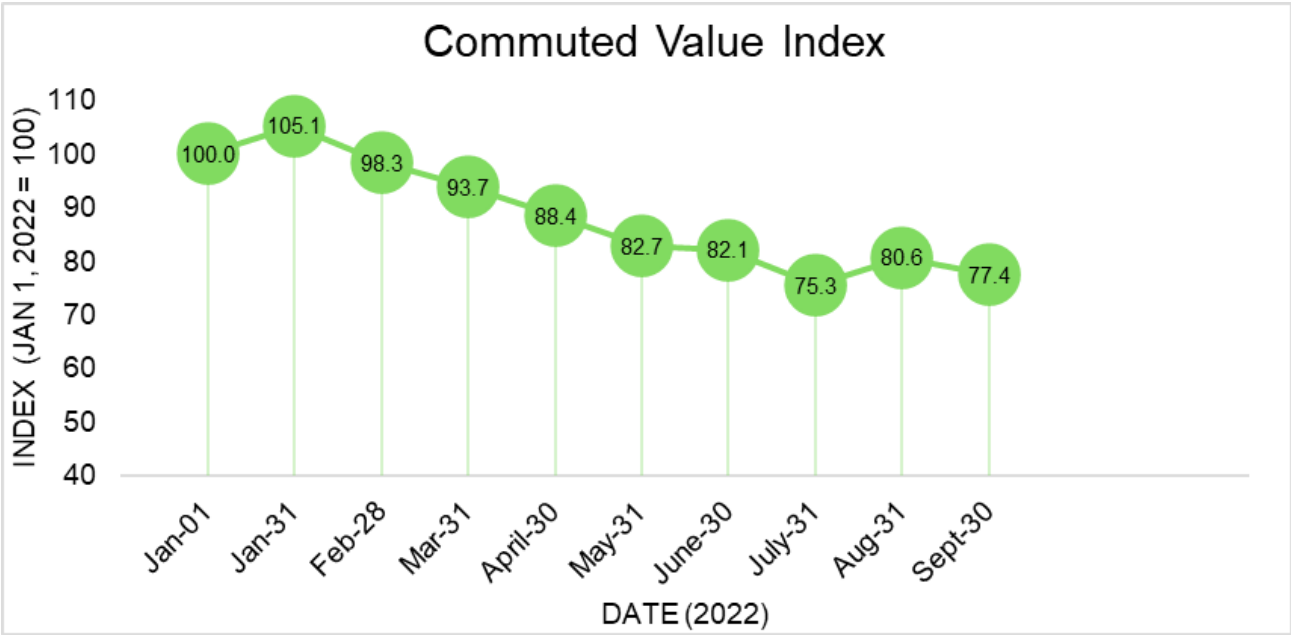
Definitions

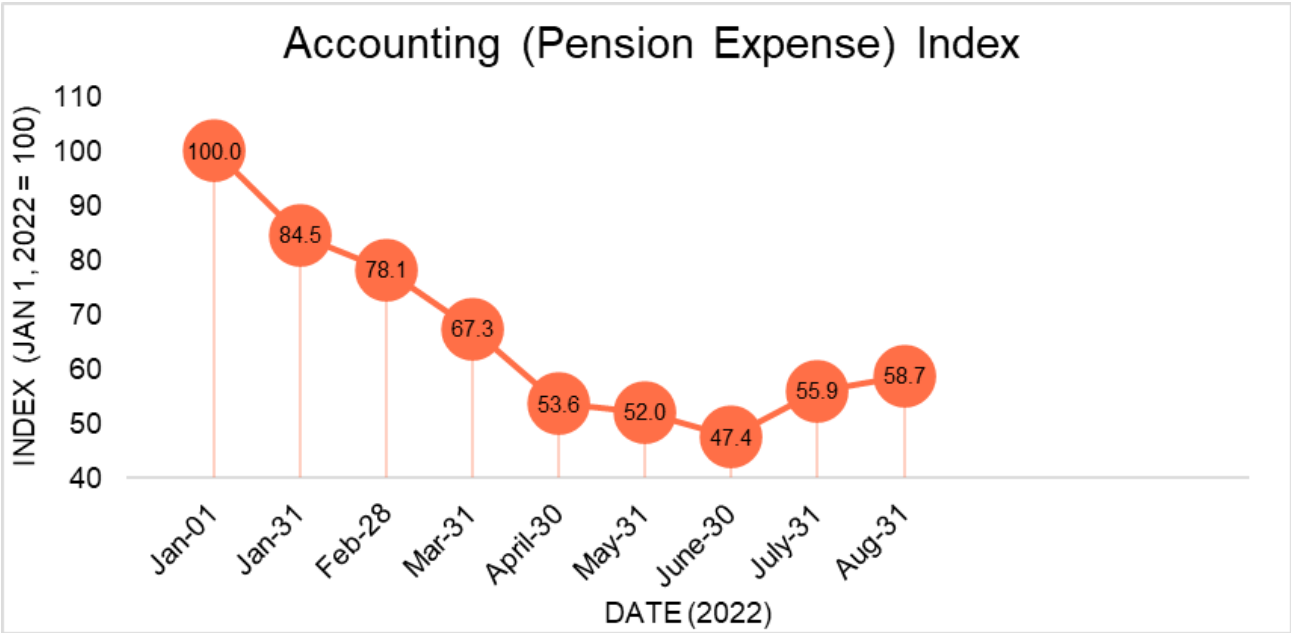
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted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