

# Pension Indices by LifeWorks

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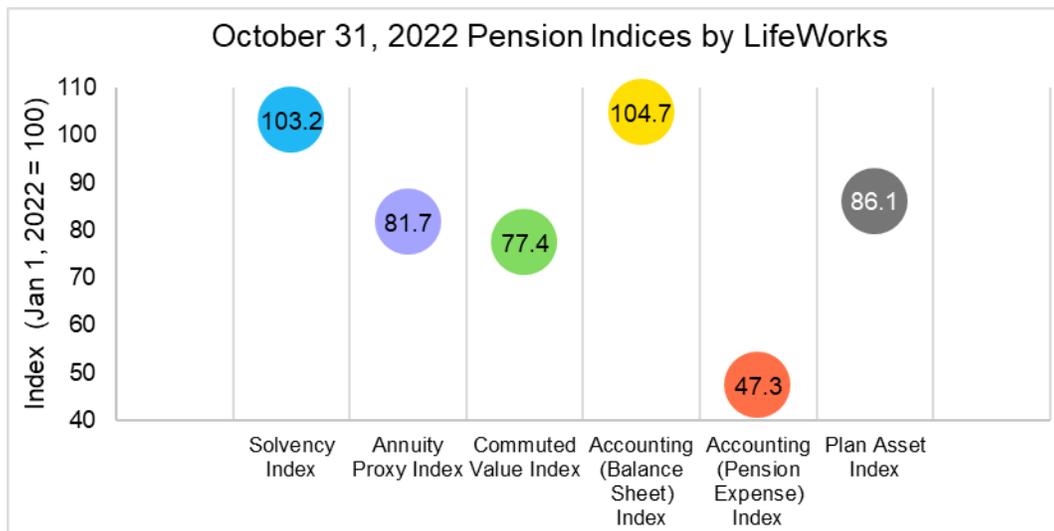
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 October, the funded position of a typical pension plan improved on both a solvency basis and an accounting basis.
- The investment return was 1.8% for the month for a representative pension plan portfolio. The return for the first ten months of the year for the plan was -13.9%.
- The Canadian equity index finished the month with a strong return of 5.6%. On the other hand, returns for Canadian bond indices were negative as yields increased for bonds of all durations. Short-term Government of Canada bond yields increased by 0.13% during the month, whereas long-term Government of Canada bond yields increased by approximately 0.23%.
- Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.97% at the end of October, which represents a 0.32% increase from the end of September.
- The accounting pension expense index saw a drop in October, as the discount rate increased.



In October, the global developed and emerging equity markets index, the MSCI ACWI, returned 5.3% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a strong return of 5.6%.

Returns for Canadian bond indices were negative as yields increased in October. Corporate credit spreads experienced an increase for bonds of all durations. Non-indexed short-term Government of Canada bond yields increased by 0.13% during the month, whereas long-term Government of Canada bond yields increased by 0.23%.

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“Now that we are well into the fourth quarter of 2022, pension plan sponsors with a December 31st fiscal year-end are turning their attention to their year-end pension accounting disclosures as well as their pension cost for 2023. Given the equity market losses and increases in bond yields experienced year-to-date, a plan sponsor’s pension cost for 2023 could be quite different to the cost that was budgeted for at the beginning of the year” says Catherine Lai, Associate Partner in LifeWorks’ Retirement and Benefits Solutions practice.

“For example, despite negative double digit investment returns for most pension plans so far in 2022, a plan sponsor that reports under International Financial Reporting Standards (IFRS) may actually see a material decrease in their 2023 pension cost relative to budget. This is because the discount rate used to measure a plan’s liabilities and service cost under IFRS, which is based on corporate AA bond yields, has increased dramatically so far this year which has acted to decrease both plan liabilities and the service cost on an accounting basis. On the other hand, organizations that report under Canadian accounting standards for private (i.e., non-publicly traded) enterprises or not-for-profit organizations and use their funding liabilities for pension accounting purposes may experience a material negative pension-related hit to their year-end balance sheet and/or net income as well as a higher-than-expected 2023 pension accounting cost. For these organizations, it is unlikely that the year-end accounting discount rate, which is based on the most recent funding actuarial valuation for the plan, will have increased sufficiently (or at all) to offset the pension plan’s negative investment returns. Given the financial market volatility experienced this year, plan sponsors should consider updating their accounting budgets from earlier this year to reduce the likelihood of surprises at year-end.”

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

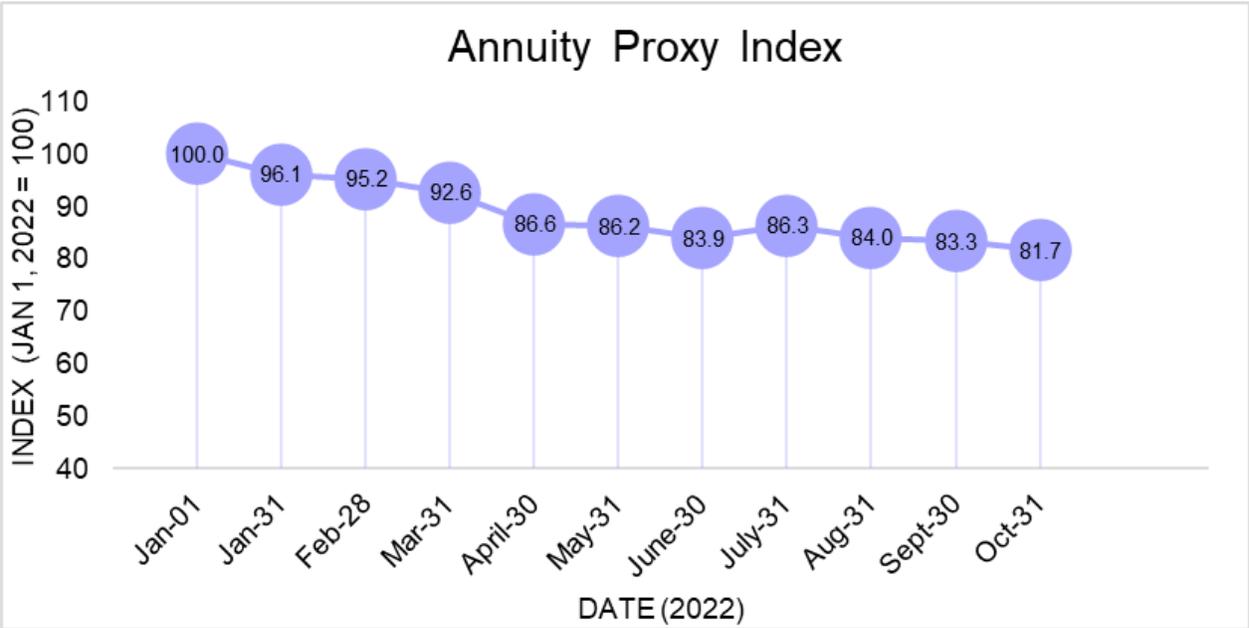
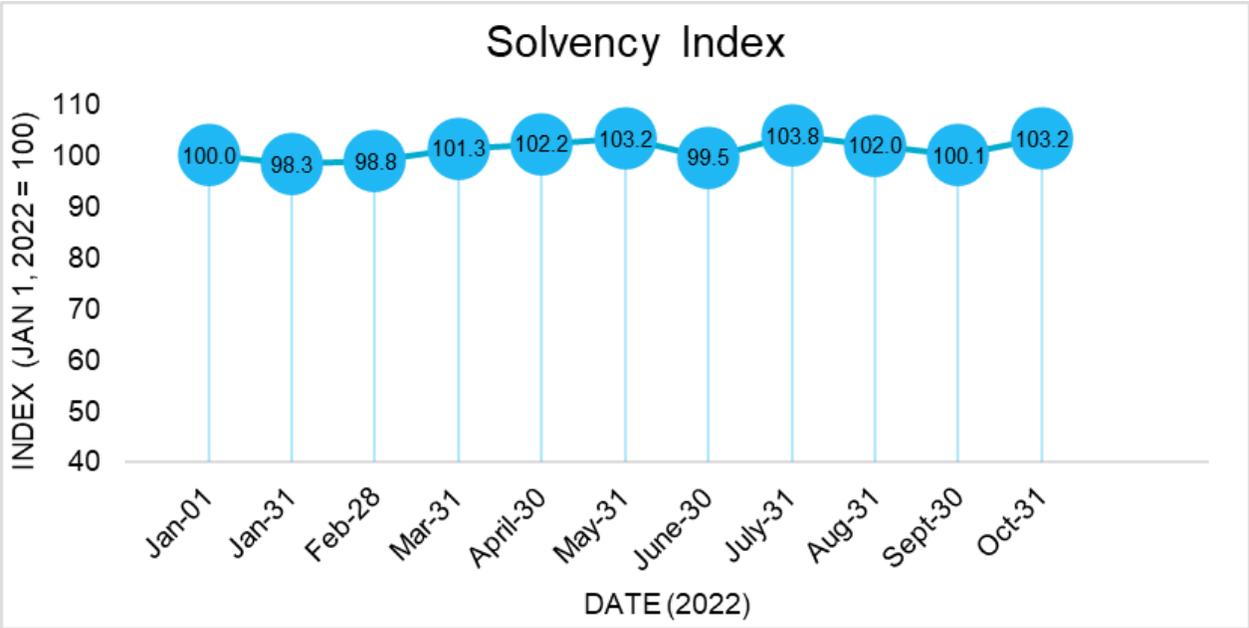
## Definitions

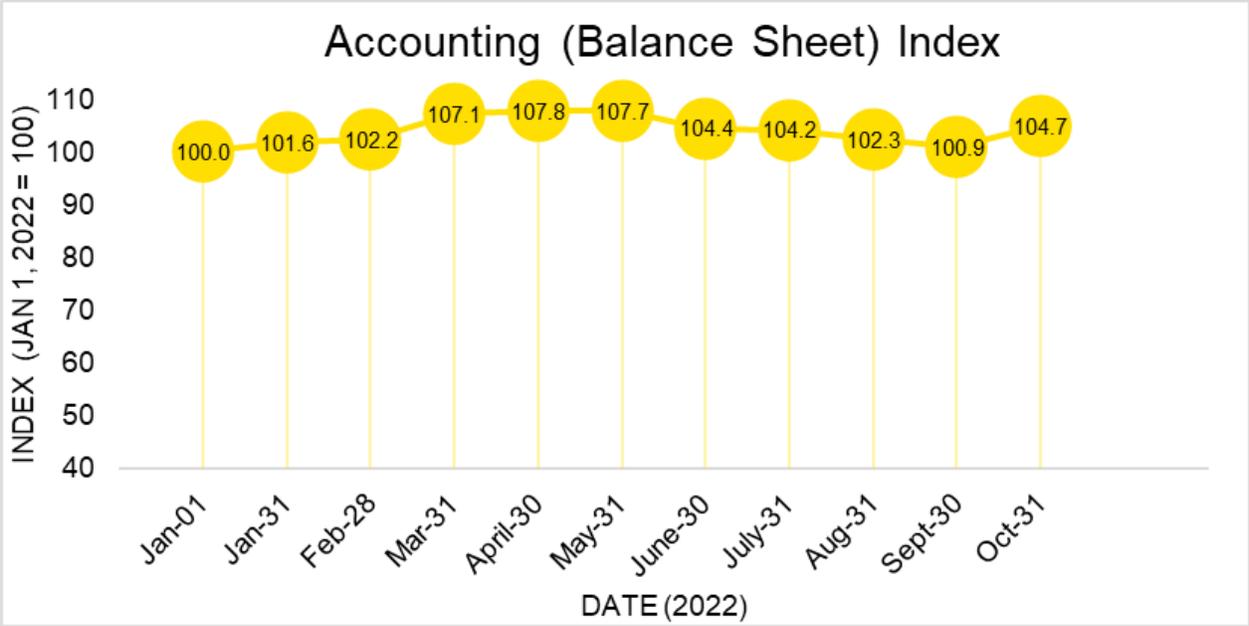
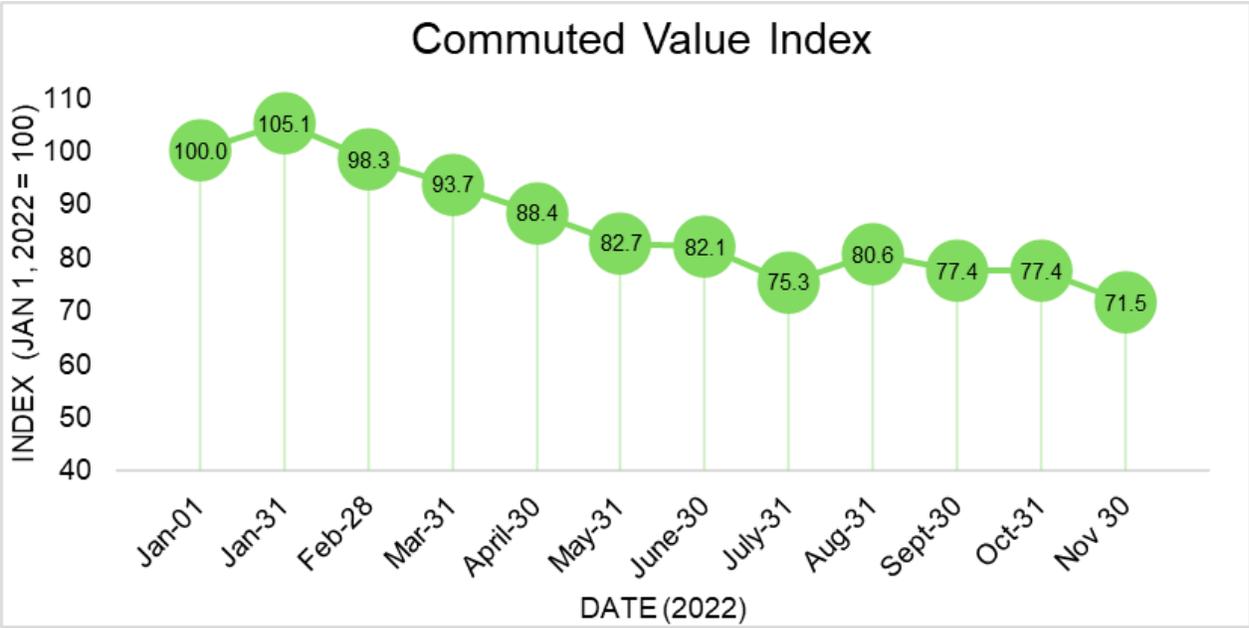
<b>Solvency Index</b>	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
<b>Annuity Proxy Index</b>	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium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

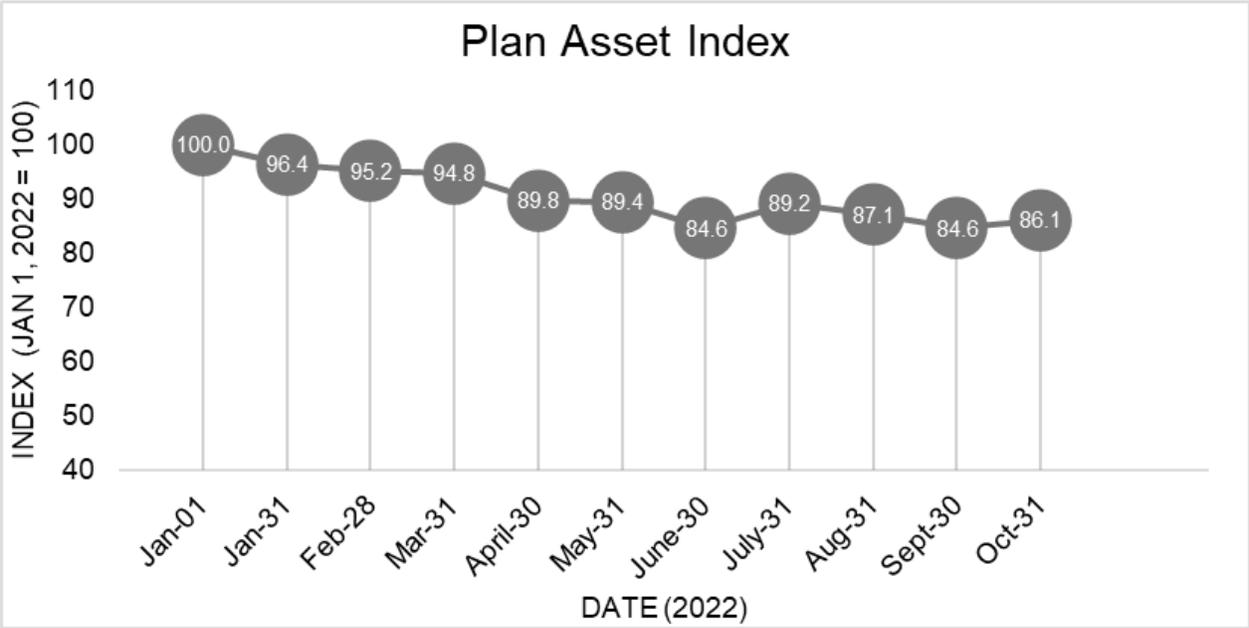
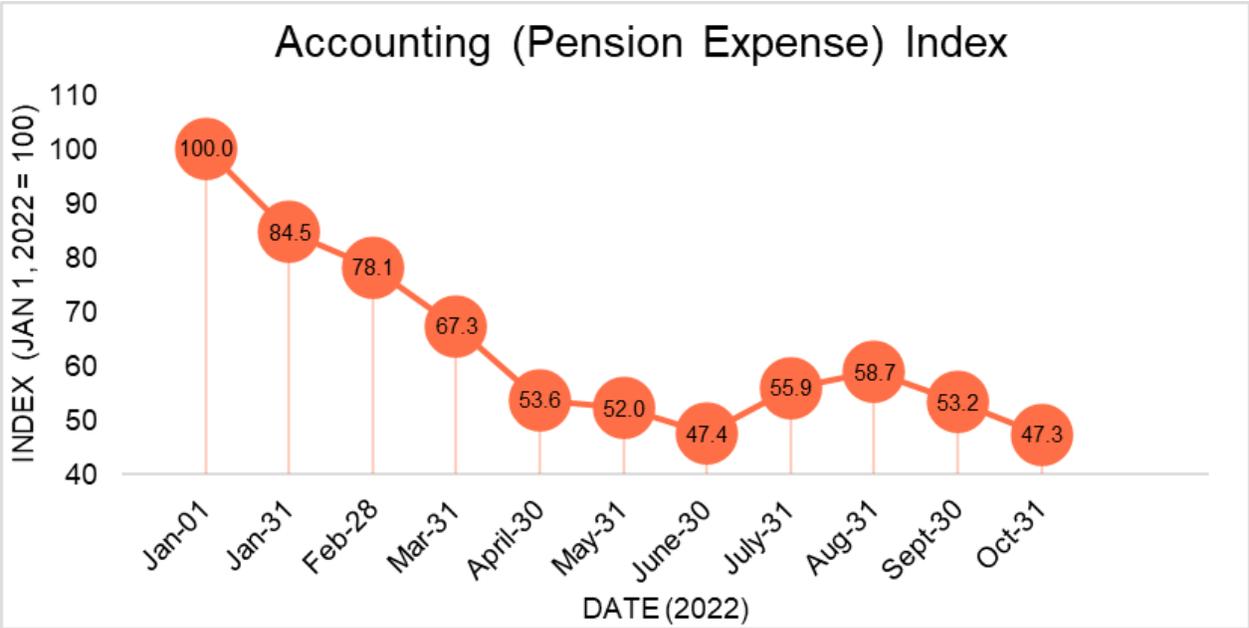
## Notes on methodology

- 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.









### **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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