

Pension Indices by LifeWorks

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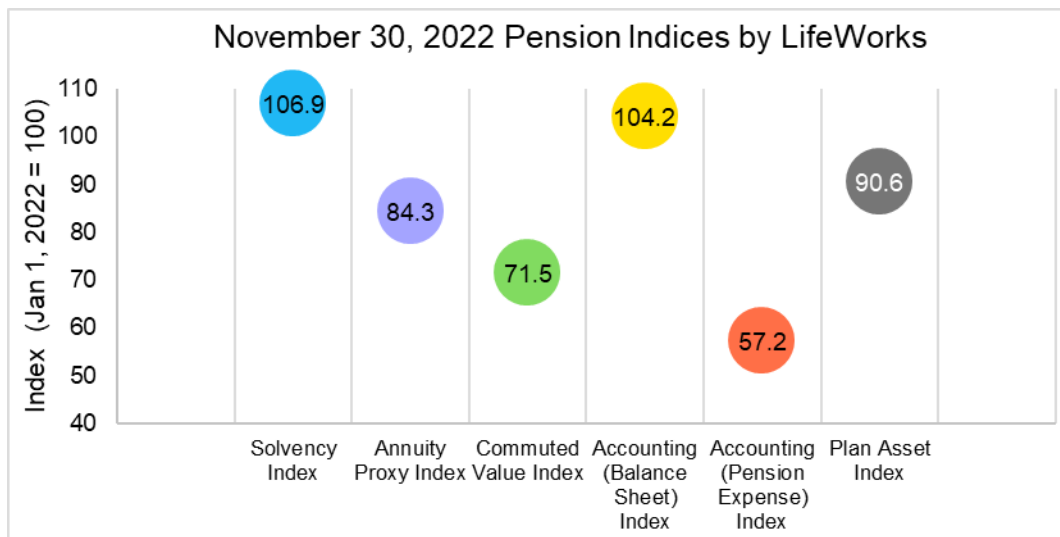
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 November, the funded position of a typical pension plan improved on a solvency basis but declined slightly on an accounting basis.
- The investment return was 5.2% for the month for a representative pension plan portfolio, driven by a partial rebound in equity markets and a decrease in bond yields. The return for the first eleven months of the year for the plan was -9.4%.
- The Canadian equity index finished the month with a strong return of 5.5%. Returns for Canadian bond indices were also positive as yields decreased for bonds of all durations. Short-term Government of Canada bond yields decreased by 0.03% during the month, whereas long-term Government of Canada bond yields decreased by approximately 0.31%.
- Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.87% at the end of November, which represents a 0.10% decrease from the end of October.
- The accounting pension expense index saw an increase in November, as the discount rate decreased, but is still well below the beginning of year index value.



In November, the global developed and emerging equity markets index, the MSCI ACWI, returned 7.1% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, also finished the month with a strong return of 5.5%.

Returns for Canadian bond indices were positive as yields decreased in November. Non-indexed short-term Government of Canada bond yields decreased by 0.03% during the month, whereas long-term Government of Canada bond yields decreased by 0.31%. Corporate credit spreads experienced a decrease for bonds of all durations.

Despite the current high levels of inflation, market expectations for long-term inflation (the break-even inflation rate) were approximately 1.87% at the end of November, which represents a 0.10% decrease from the end of October.

“Most pension plans are in good financial health as we approach the end of 2022. However, there are still many risks that should be top of mind for sponsors, such as the potential for financial market surprises, as they consider their DB pension risk management strategy for 2023 and beyond. It also appears that there are some new risks that some pension plan sponsors will need to concern themselves with, which are the risks resulting from the likely passage of Bill C-228” says Gavin Benjamin, a Partner in LifeWorks’ Pension and Benefits Solutions business.

“Bill C-228, which was passed by the Canadian House of Commons in November and is currently being reviewed by the Senate, would give super-priority to pension deficits in the case of a company’s insolvency. While the goal of the bill is to protect the pensions of members and retirees in the event of a company’s insolvency, it could have adverse consequences for certain companies that sponsor DB pension plans. The potential adverse consequences include making it more difficult for certain companies whose pension plans have large deficits or contain significant risk to borrow at affordable rates. Therefore, plan sponsors should assess the implications of Bill C-228 in the event that the bill becomes law, including the potential need to revise the funding and investment strategies for their pension plans.”

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

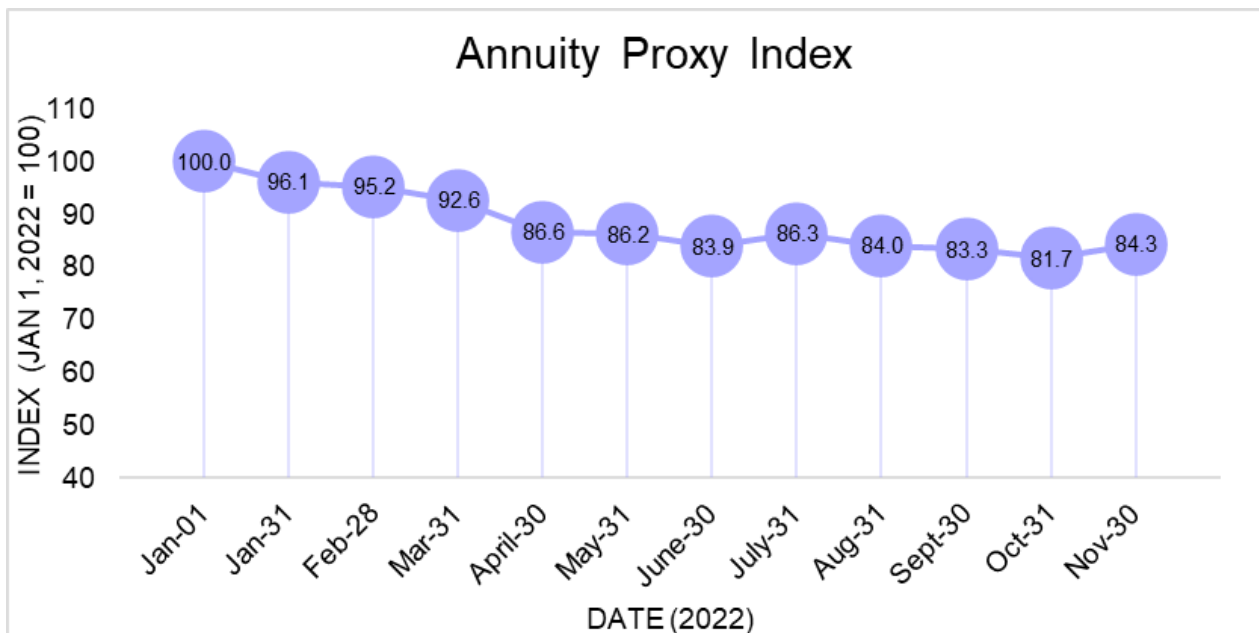
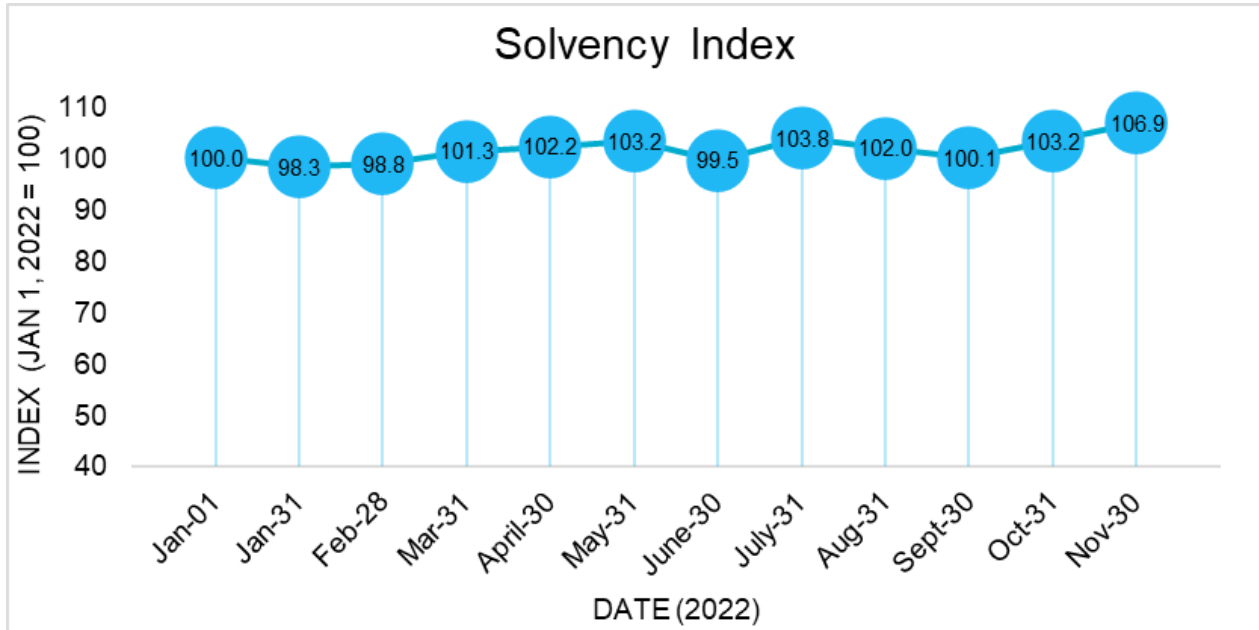
Definitions

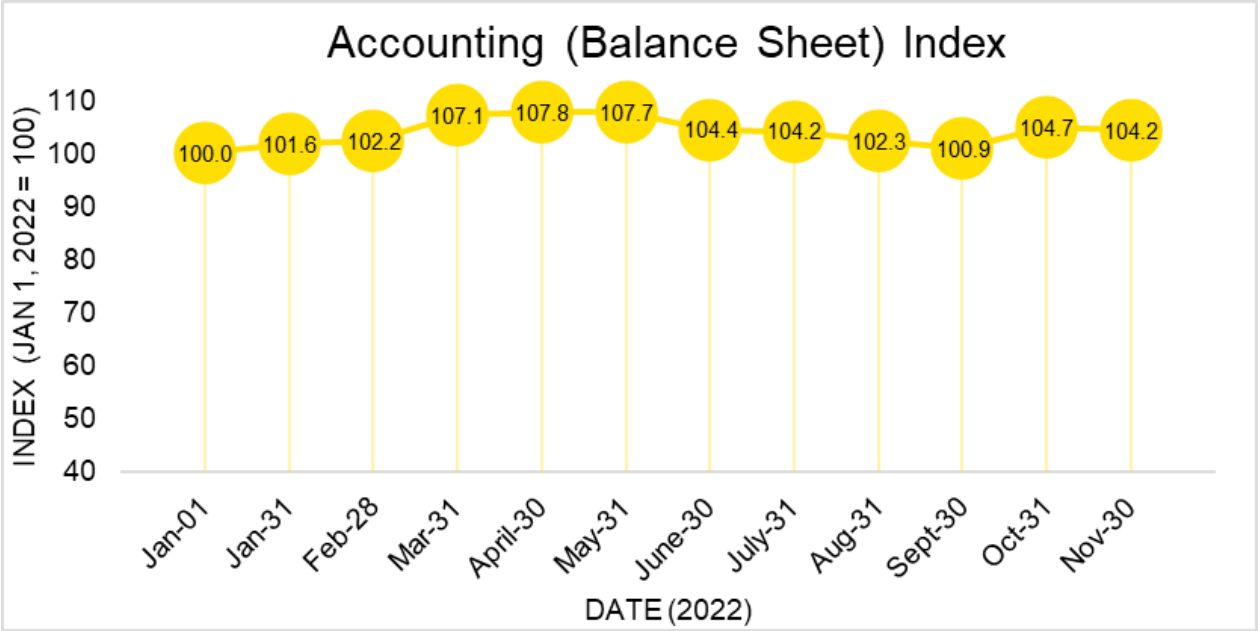
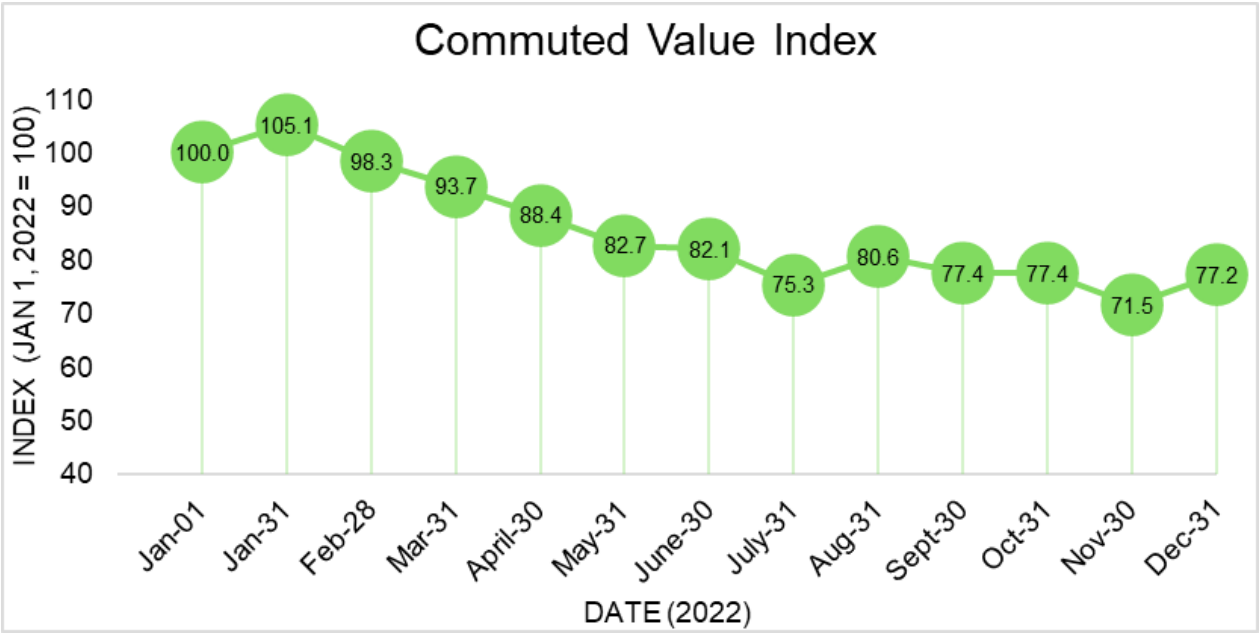
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commutated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

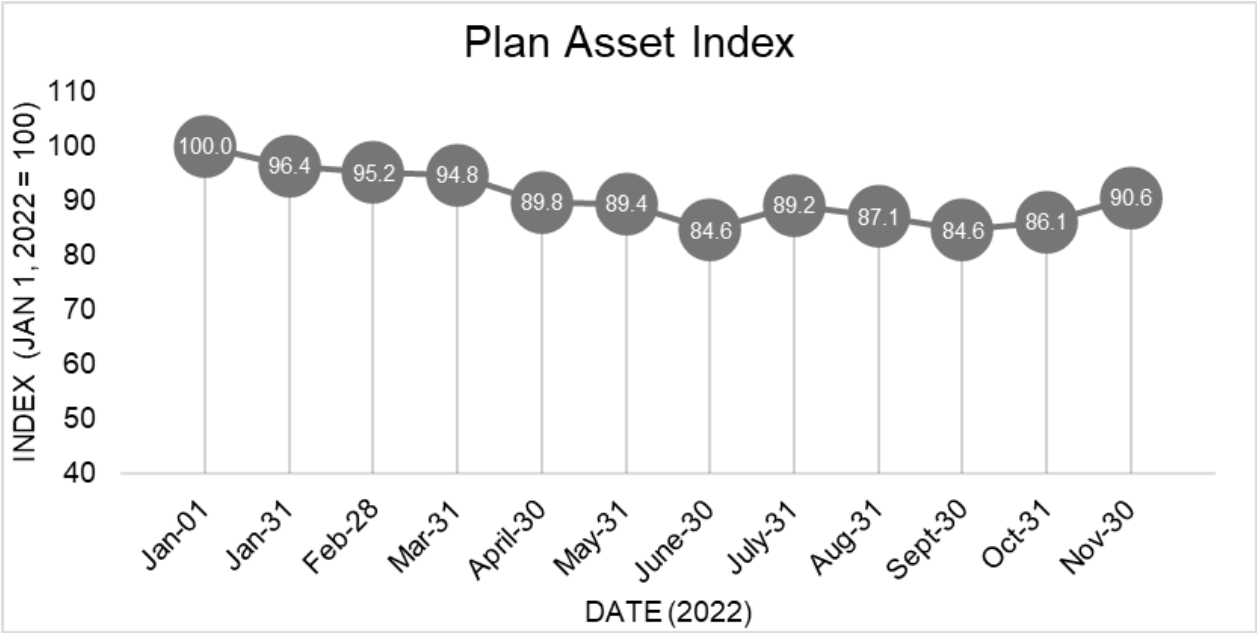
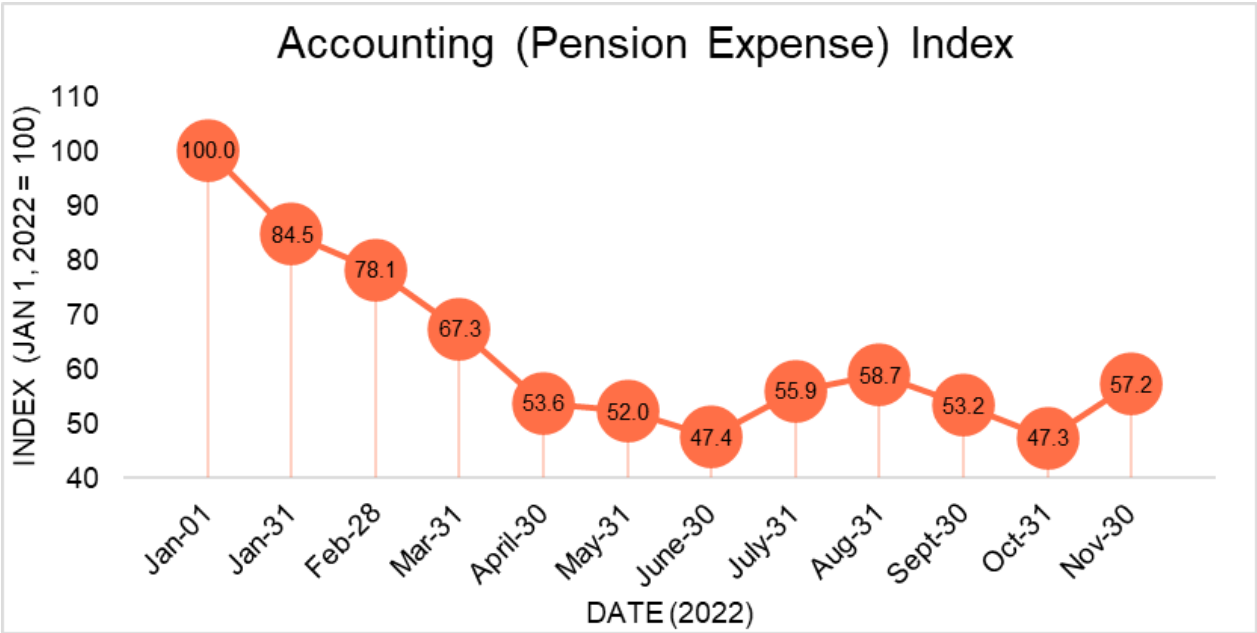
Notes on methodology

- 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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