

Pension Indices by LifeWorks

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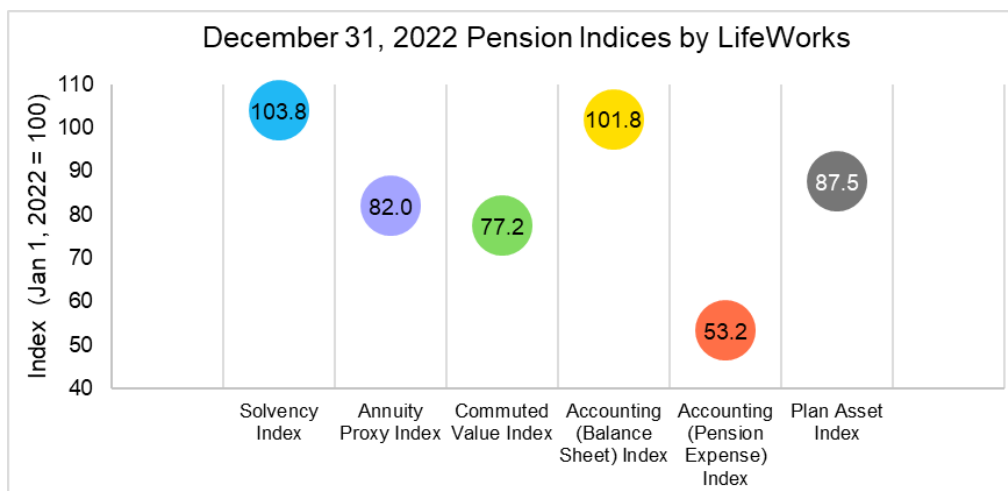
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The Pension Indices by LifeWorks, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that 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 December, the funded position of a typical pension plan decreased on a solvency basis and on an accounting basis.
- The investment return was -3.5% for the month for a representative pension plan portfolio, driven by negative returns in equity markets and an increase in bond yields. The return for 2022 for the plan was -12.5%.
- The Canadian equity index finished the month with a weak return of -4.9%. Returns for Canadian bond indices were negative as yields increased for bonds of all durations. Short-term Government of Canada bond yields increased by 0.17% during the month, whereas long-term Government of Canada bond yields increased by approximately 0.27%.
- Market expectations for long-term inflation (the break-even inflation rate) were approximately 2.09% at the end of December, which represents a 0.22% increase from the end of November.
- The accounting pension expense index saw a decrease in December due to an increase in the accounting discount rate during this period. It is well below the beginning of year index value.



In December, the global developed and emerging equity markets index, the MSCI ACWI, returned -4.0% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of -4.9%.

Returns for Canadian bond indices were negative as yields increased in December. Non-indexed short-term Government of Canada bond yields increased by 0.17% during the month and long-term Government of Canada bond yields increased by 0.27%. Corporate credit spreads experienced a slight decrease for bonds with short and mid durations.

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“As the clock ticked to midnight on December 31, 2022, maybe one of the most welcome New Year traditions was resetting year to date returns to zero. 2022 was a very difficult year for financial markets with almost every asset class falling in value, and for the first time in decades equities and bonds fell at the same time. Despite all of this, many defined benefit pension plans have come out of the market turmoil of 2022 in a strong position, in particular on a solvency basis given the strong link of solvency liabilities to interest rates.” says Murray Wright, an Associate Partner in LifeWorks’ Pension and Benefits Solutions business.

“On the one hand we can and should congratulate many pension plans on getting through this year unscathed. Those with December 31, 2022 funding valuations will more often than not be dealing with ‘nice’ problems like whether or not to take contribution holidays or provide ad-hoc indexation to members. That said, the reality is we move into 2023 with massive amounts of uncertainty on the horizon. The extent to which a potential economic recession has been priced into markets is unclear, and if bond markets are right then the Bank of Canada will need to start bringing interest rates back down to support the economy. If we see negative or even flat equity returns alongside falls in long-term interest rates plan funding positions could reverse very quickly. Add in uncertainty about inflation, new pension super-priority rules, potential changes to Canadian mortality assumptions and the fact that money is no longer cheap for plan sponsors, plans will have to deal with a lot of moving parts in 2023. These are just the risks we already know about. Plans and plan sponsors need to carefully consider their appetite for risk in this fast-moving environment, and perhaps use the breathing room they got in 2022 to take some risk off the table.”

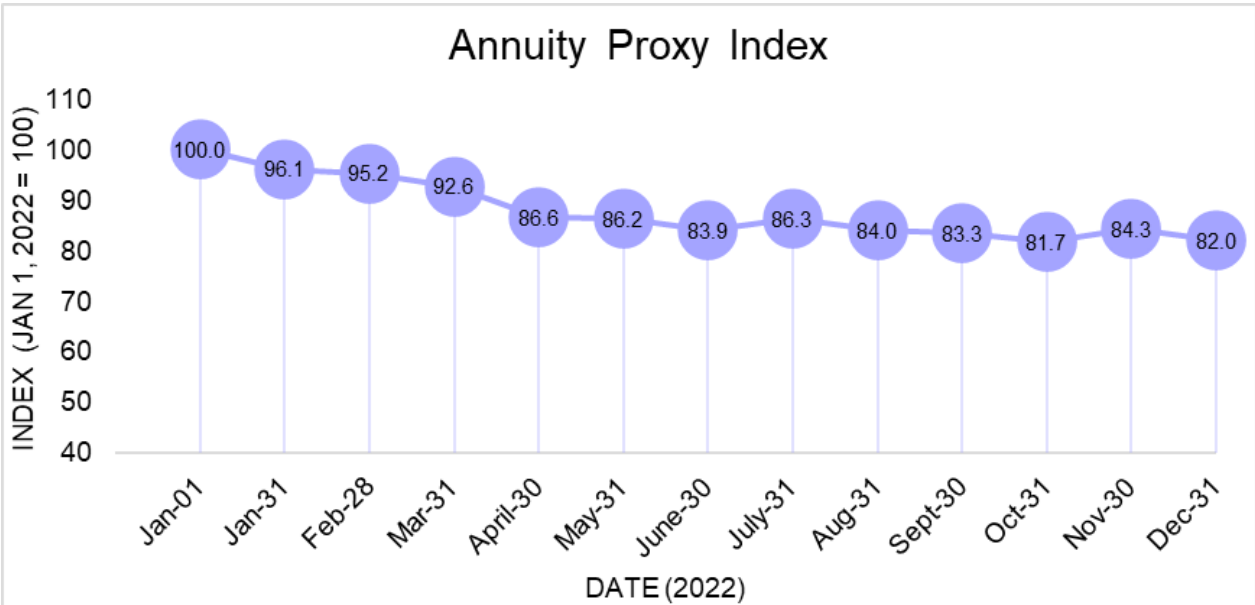
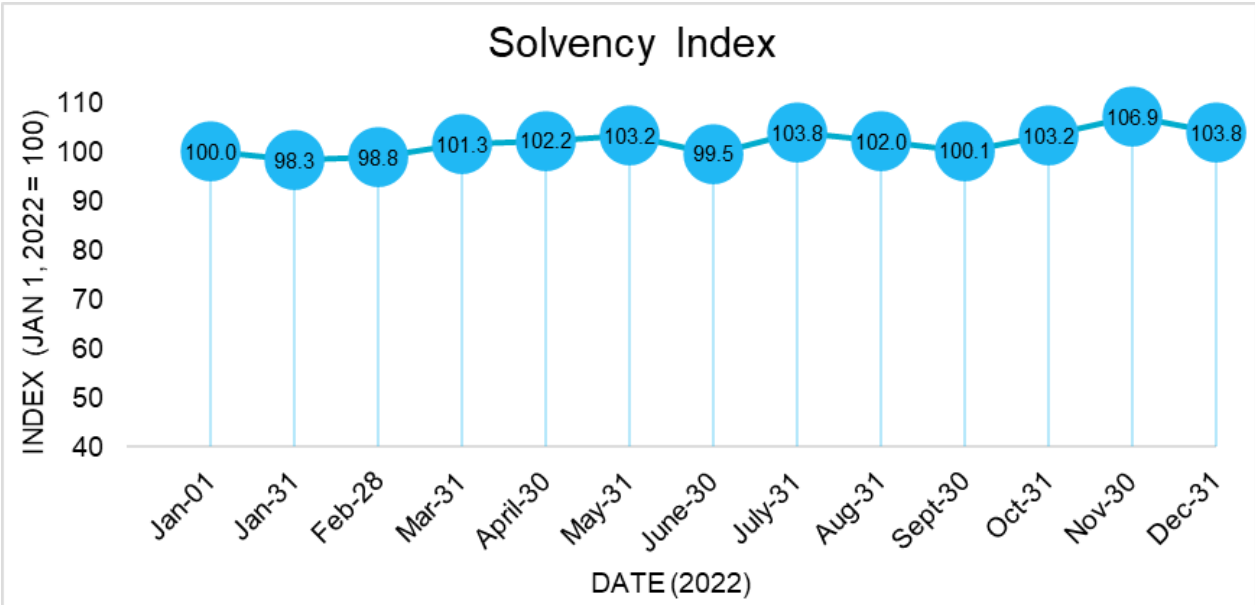
The graphs below show the month-to-month evolution of each index.

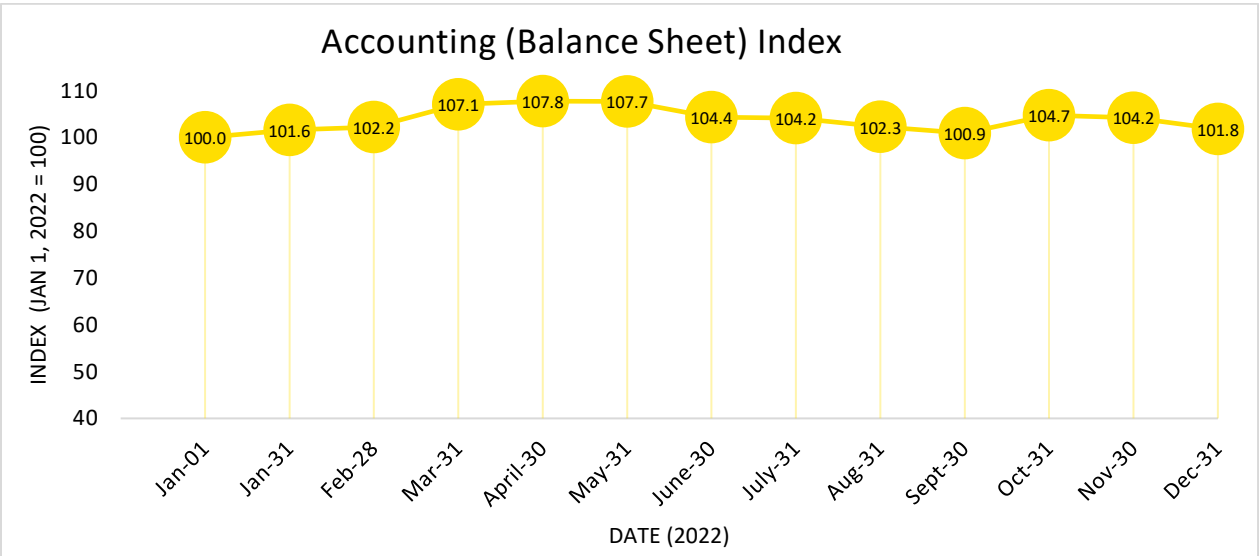
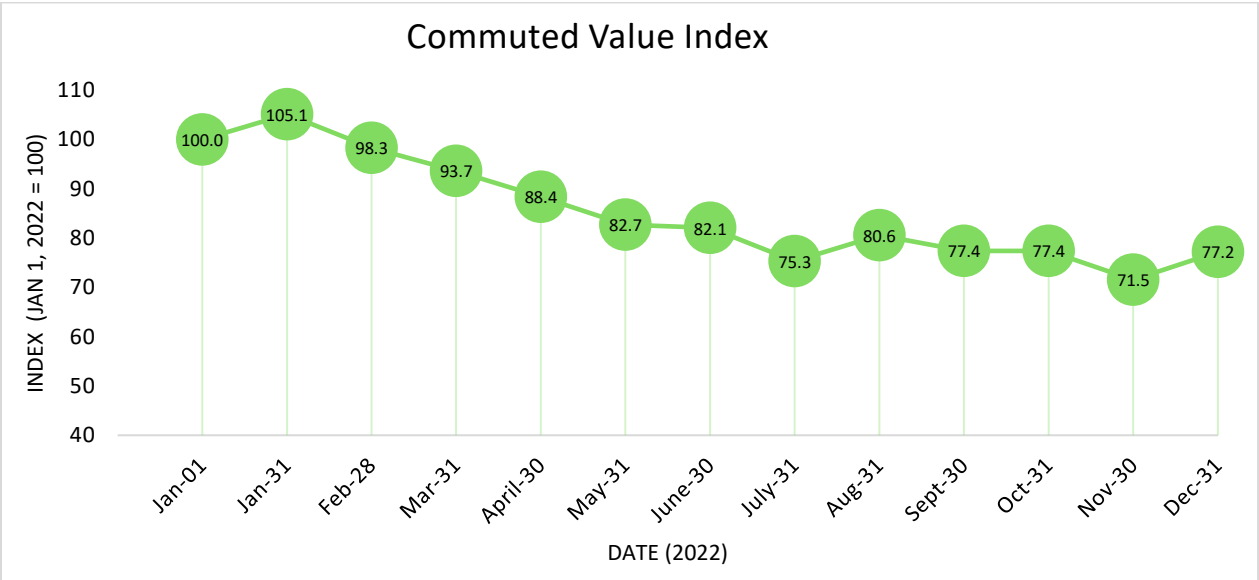
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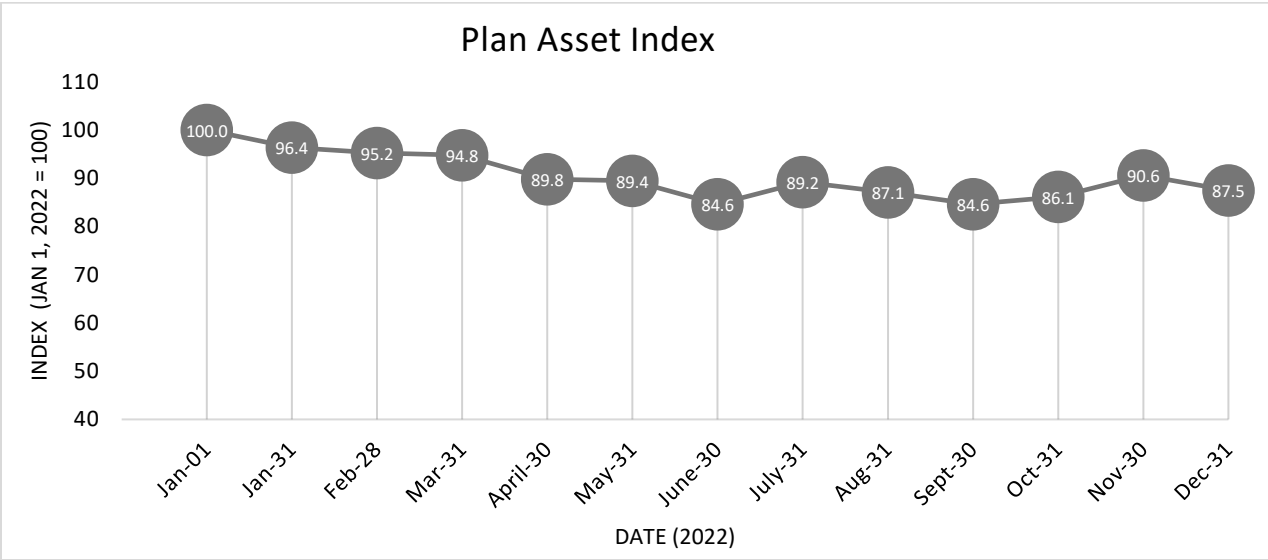
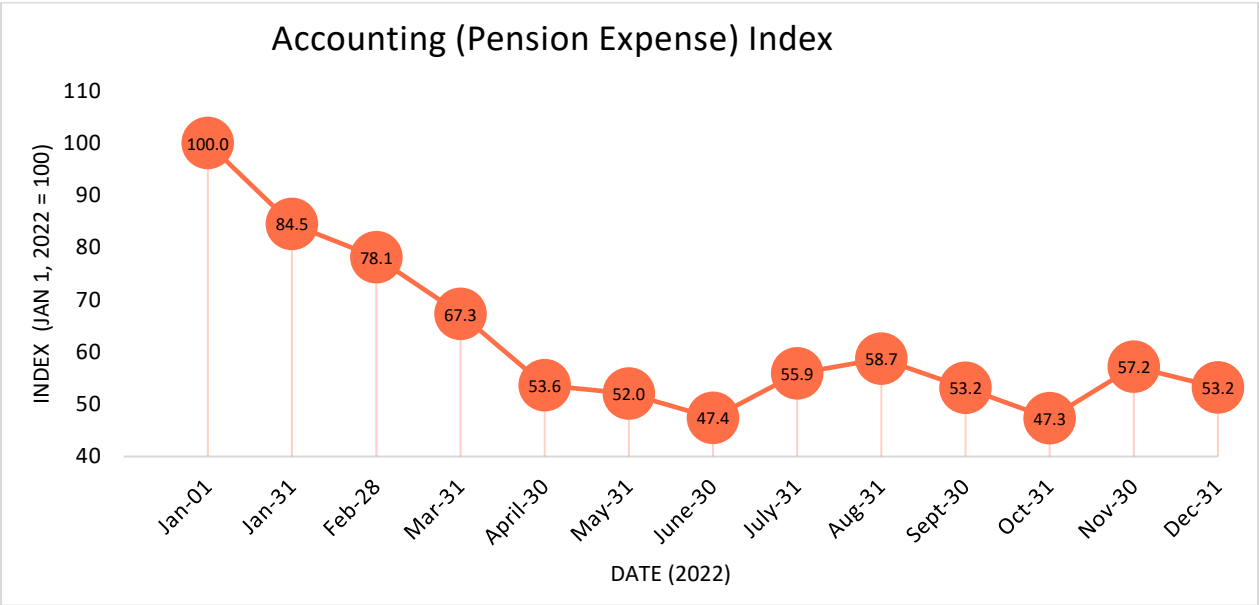
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium since the start of the year for obligations with a medium duration
Commuted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