



Morneau Shepell Pension Indices
February 28, 2021

Editorial Team

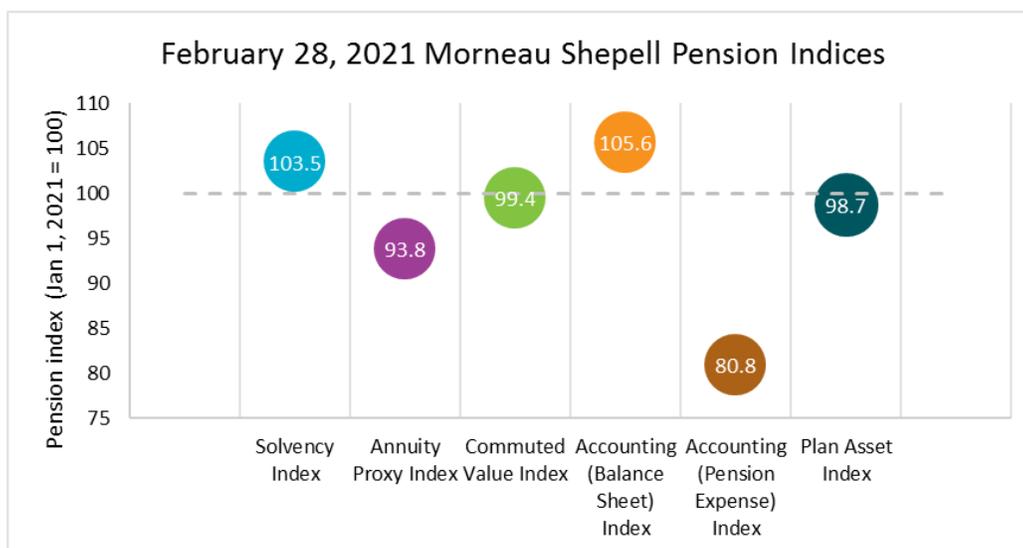
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The Morneau Shepell Pension Indices, released monthly, condense the journey that pension plans have experienced over the last year into a few key statistics. More importantly, they also provide an early indicator of the challenges that are yet to come for plan sponsors and administrators to help with the monitoring and management of their pension plans.

Highlights:

- The funding position for an average pension plan improved compared to December 31, 2020, as measured on both a solvency basis and an accounting basis.
- Increases in bond yields across the yield curve resulted in a fall in the value placed on plan liabilities, as well as a drop in the value of fixed income asset holdings, especially for long-term and real return bonds. The difference in short term and long term yields for government of Canada bonds has not been as high as currently since 2017.
- Plan assets for an average plan were broadly unchanged compared to December 31, 2020. The negative return experienced on fixed income assets was offset by increases in equity markets.
- Commuted values will continue to fall in March 2021 as commuted values are based on interest rates from the prior month.



In February 2021, global equity markets performed well as the world economy continues to recover from the impact of COVID-19. This optimism has also been reflected in long-term interest rates, which have continued to increase. Real-return bonds, which have had negative yields since early 2020 have now returned to positive territory, driven by higher interest rates in general but also an increase in market expectations of future inflation.

In response, solvency and accounting funding positions have improved by approximately 4% in February, largely due to the increases in long-term interest rates. The increase in interest rates has also led to falls in the Commuted Value Index and the Accounting (Pension Expense) Index.

Several plans with de-risking glide paths in place hit their trigger points. These plans are realizing gains to help them reduce future risk. For plans without these types of structured de-risking policies, now is a good time to start looking at whether it's appropriate to 'lock in' some of the favorable experience to date and ensure that future volatility does not undo all of the good progress that plans have made in the last 9 months. We encourage plans to be proactive and consider de-risking in light of the asymmetrical risk profile of their pension plan and the current conditions. The current shape of the yield curve suggests that the favorable

conditions to further remove at least some interest rate risk built into your pension plan are back, says Benoit Labrosse. For plans that are aiming at de-risking over time, extending carefully the duration of your liability hedging assets can certainly provide some downside protection should the yield curve return to an unfavorable shape.

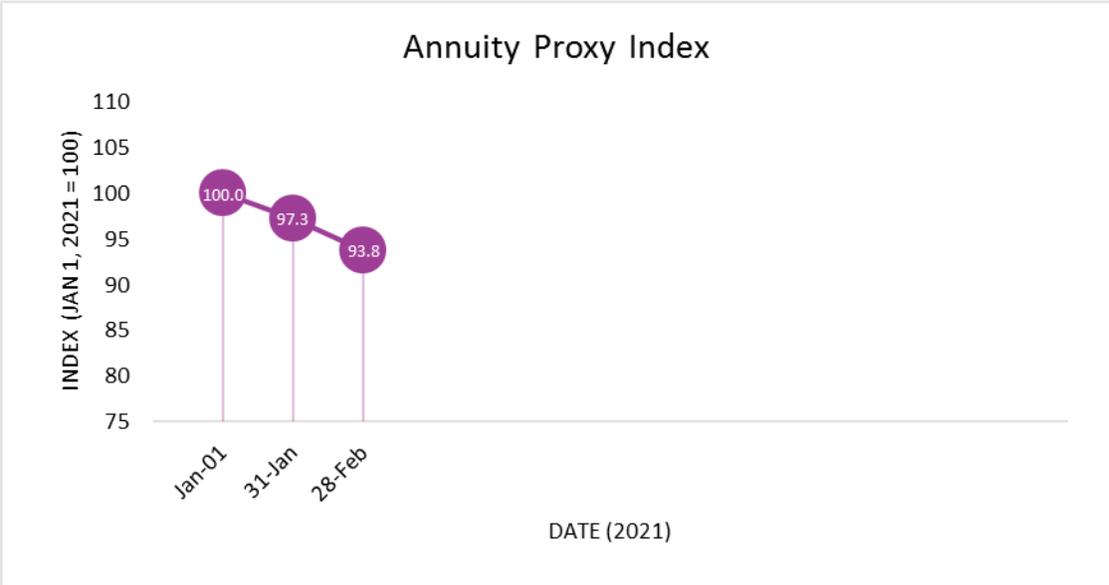
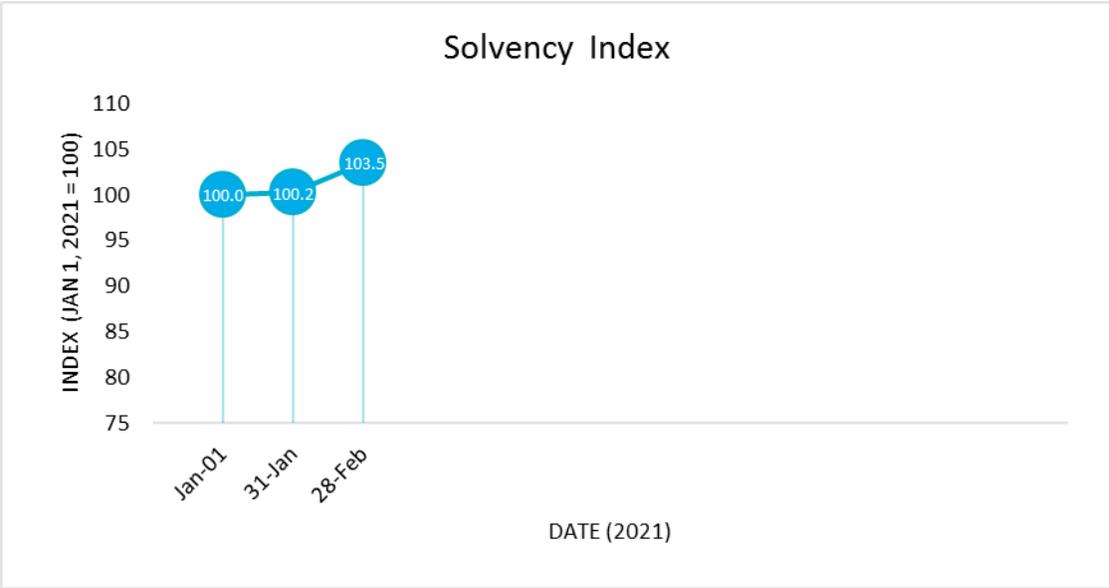
Please refer to graphs below to see a month-to-month evolution of each index.

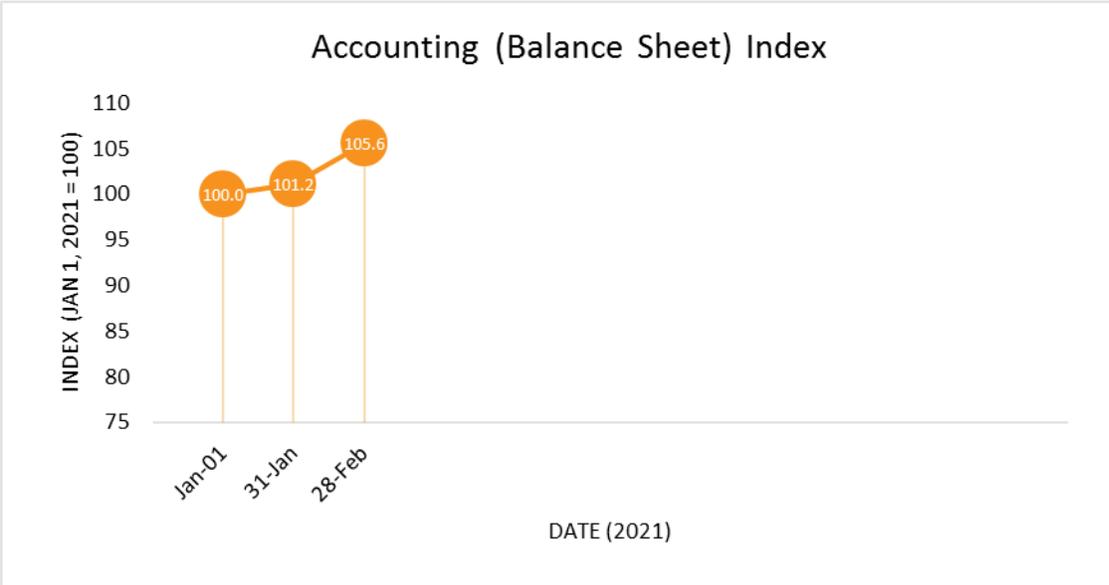
Definitions

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 annuity purchase proxy of an average pension plan since the start of the year
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

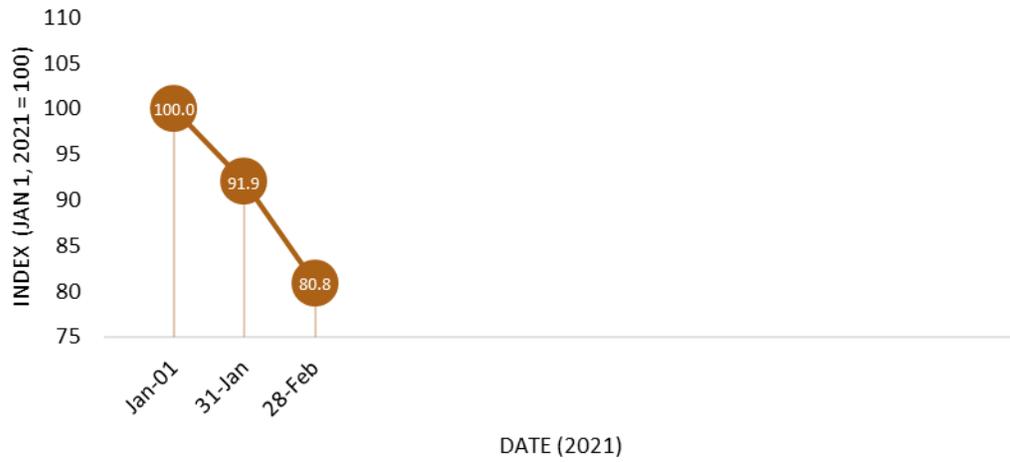
Notes on methodology

- 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 Morneau Shepell 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 a medium duration pension plan.
- The monthly *Solvency Index* reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) guidance for valuations at in effect 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 Morneau Shepell AA Corporate Bond Yield Curve

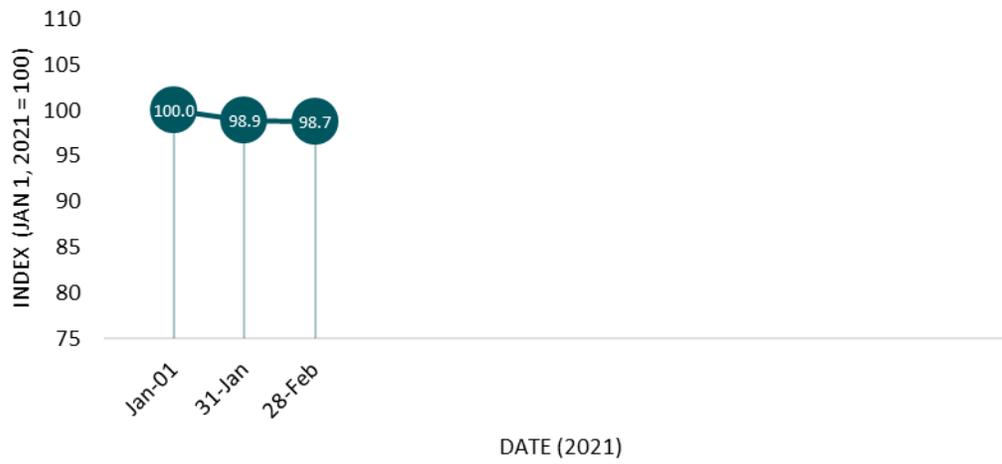




Accounting (Pension Expense) Index



Plan Asset Index



Morneau Shepell is a leading provider of technology-enabled HR services that deliver an integrated approach to employee wellbeing through our cloud-based platform. Our focus is providing world-class solutions to our clients to support the mental, physical, social and financial wellbeing of their people. By improving lives, we improve business. Our approach spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, actuarial and investment services. Morneau Shepell employs approximately 6,000 employees who work with some 24,000 client organizations that use our services in 162 countries. Morneau Shepell is a publicly traded company on the Toronto Stock Exchange (TSX: MSI). For more information, visit morneaushepell.com.

