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# Pension Indices by TELUS Health.

November 30, 2024



The Pension Indices by TELUS Health, 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

During November, the funded status of a typical pension plan increased on a solvency basis and on an accounting basis.

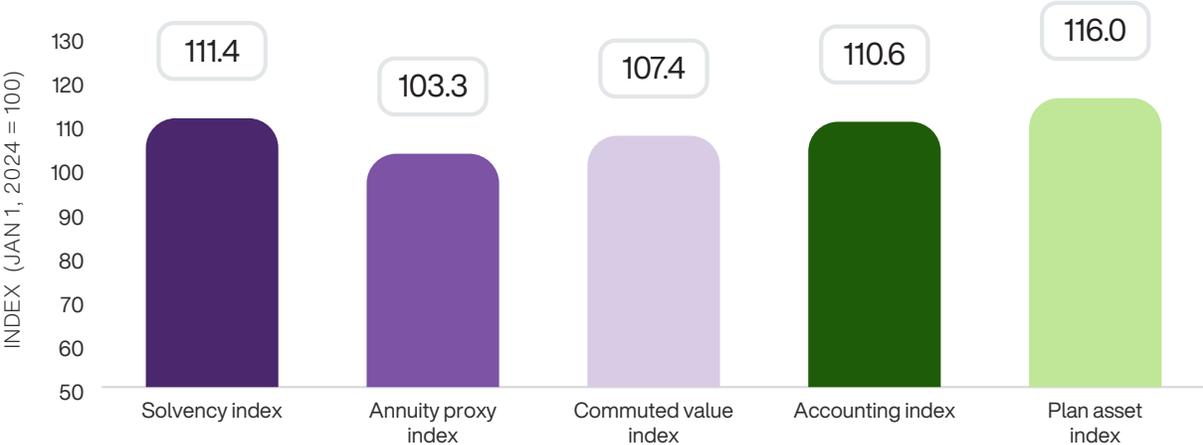
The investment return for a representative pension plan portfolio was 4.2% for the month, driven by robust performances in both the bond and equity markets.

The global developed and emerging equity markets index, the MSCI ACWI, returned 4.2% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a strong return of 6.4%.

Short-term Government of Canada bond yields decreased by approximately 0.05% while the long-term Government of Canada bond yields decreased by approximately 0.15% over the month of November. Credit spreads for short-term, mid-term and long-term corporate bonds decreased by approximately 0.08% during the month of November.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.72% at the end of November, decreasing by 0.03% since the end of October.

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“The increase in the funded ratio of a typical pension plan of more than 10% on both a solvency and accounting basis during the first 11 months of 2024 may come as a surprise to some, especially since the Bank of Canada has decreased its overnight rate by 1.25% so far this year. Pension liabilities are very sensitive to prevailing interest rates with interest rate decreases tending to increase liabilities, which is why such a significant improvement in a typical pension plan’s funded ratios may seem counter-intuitive” says Gavin Benjamin, Partner in TELUS Health’s Consulting team.

“However, there are two key factors that help explain this positive outcome. First, pension plan assets have performed well so far in 2024. The investment return of the typical pension plan’s assets exceeded 15% during the first 11 months of the year, driven by positive returns of all asset classes, especially Canadian and global equities. Second, while short-term interest rates have decreased significantly as a reaction to Bank of Canada monetary policy, long-term interest rates have been less affected. Since pension liabilities are more sensitive to long-term interest rates than short-term rates, the increase in liabilities due to decreases in interest rates has been less pronounced than one might have expected. This serves as a reminder that the effects of financial market changes on the financial position of a pension plan can be complex and may also be very plan specific. Frequent monitoring of a plan’s funded status can help a plan sponsor see through the complexities and better manage the pension risks and opportunities that will emerge over time.”

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 index	Provides an indication of changes in the accounting funding level of an average pension plan 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 TELUS Health Benchmark portfolio, 50% equities and 50% fixed income (2% in 91-day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 15% S&P/TSX, 35% 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.

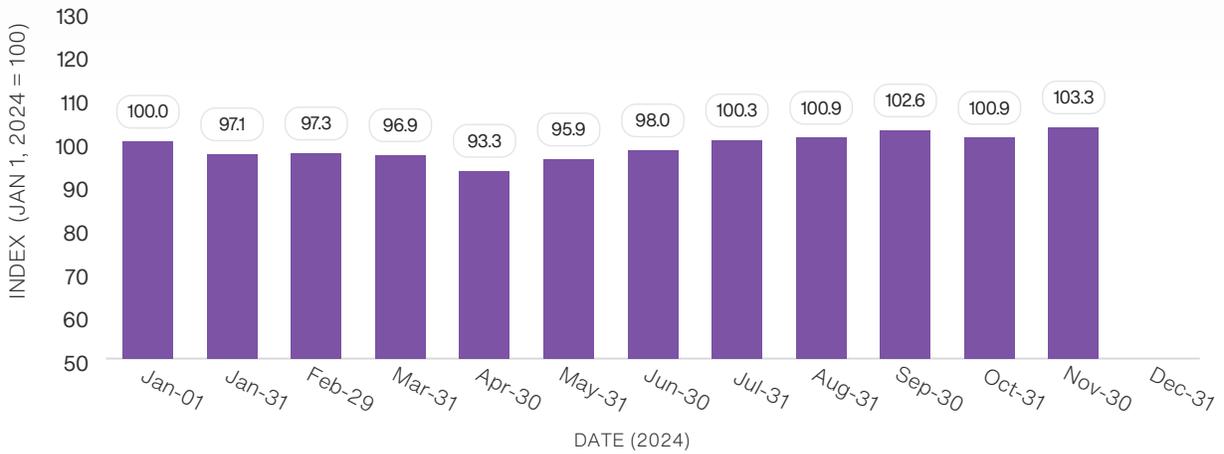
The monthly Accounting Index reflects an estimate of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.



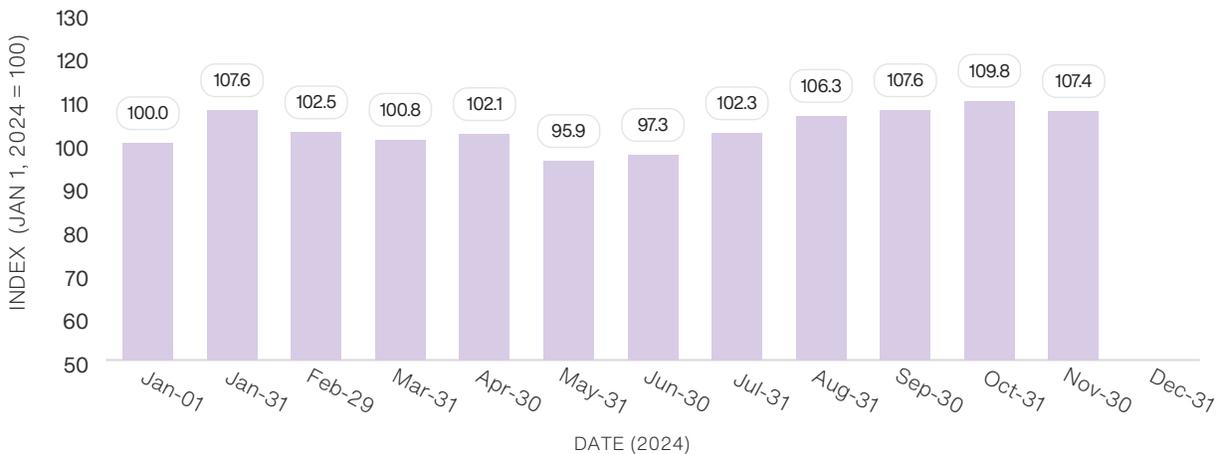
### Solvency index



### Annuity proxy index



### Commuted value index

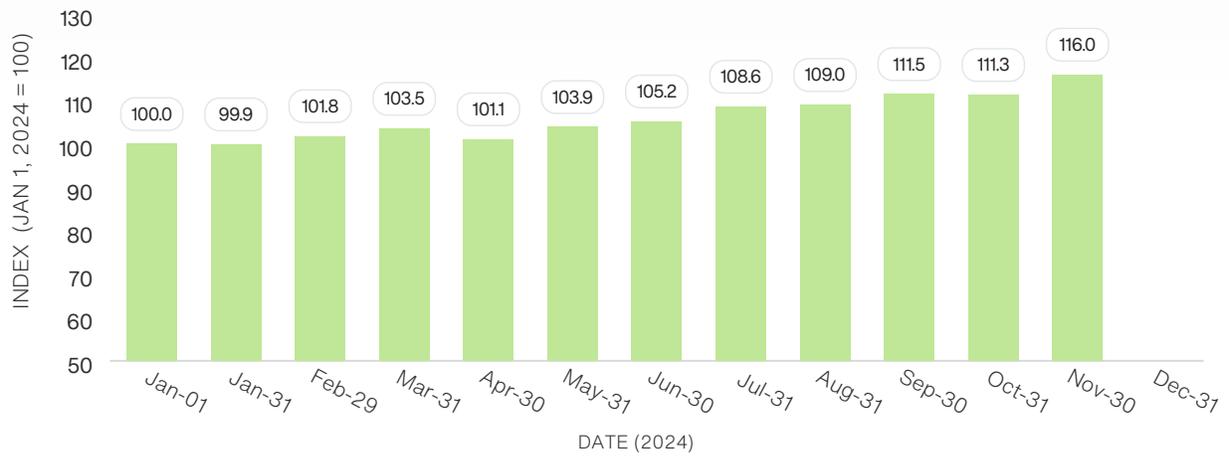




### Accounting index



### Plan asset index



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