



Pension Indices by TELUS Health.

January 31, 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 the month of January, the funded position of a typical pension plan increased on both a solvency basis and an accounting basis.

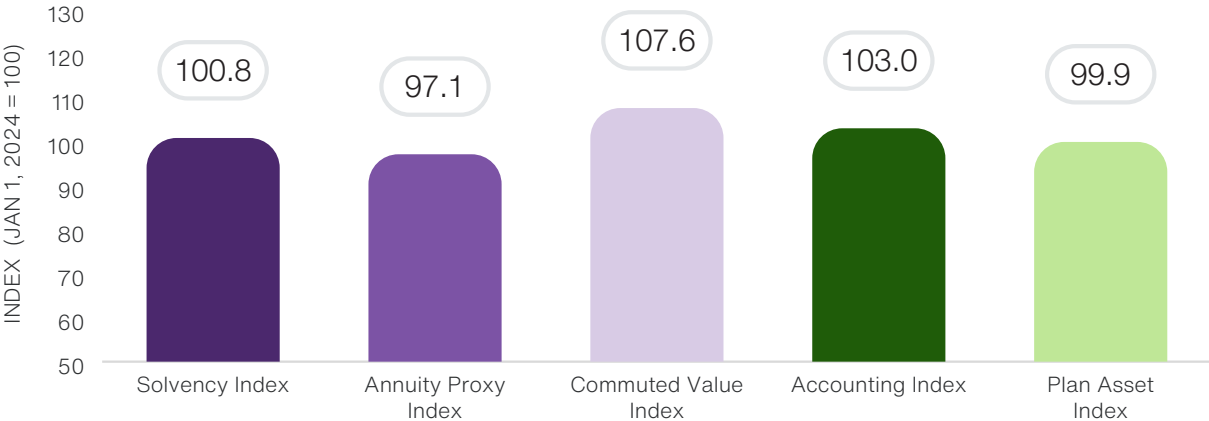
The investment return was -0.1% for the month for a representative pension plan portfolio, positive returns in equity markets were offset by negative returns in bond markets.

The global developed and emerging equity markets index, the MSCI ACWI, returned 1.9% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of 0.6%.

Short-term Government of Canada bond yields increased by approximately 0.12%, whereas long-term Government of Canada bond yields increased by approximately 0.25% over the month of January. Corporate credit spreads decreased by approximately 0.10% during the month of January for short-term and medium-term bonds. Corporate credit spreads for long-term bonds did not change materially.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.64% at the end of January, increasing very slightly since the end of December.

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“Pension plan sponsors will have a wide range of new year’s resolutions going into 2024. The one that seems high up the list for many sponsors is pension risk transfer through the group annuity market, where we are seeing a sprint start in Q1 with lots of market activity.” says Normand Poirier, Principal in TELUS Health’s Pension Risk Transfer practice.

Pension plan sponsors that are considering pension risk transfer need to start their preparations as soon as possible, as they may have to join a long queue of sponsors looking to the annuity market to support their de-risking strategies. There are lots of actions that can be taken in the meantime, including data clean up, education for decision makers and ensuring the plan’s investment strategy is optimized so that annuitization remains affordable, and that the right assets will be available to pay the annuity premium when the time comes to transact.”

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.

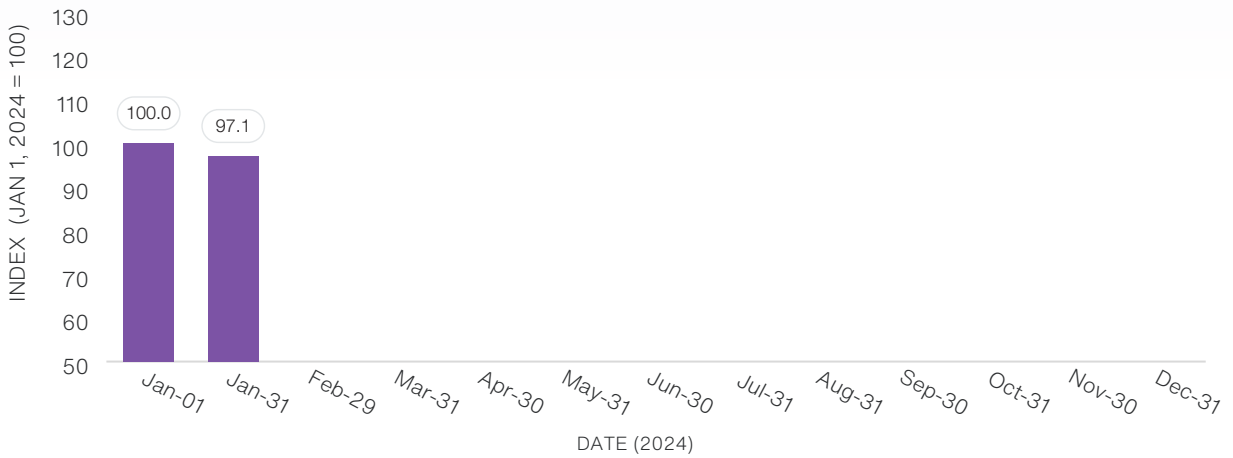
The monthly Commuted Value Index reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA's actuarial Standards of Practice.

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

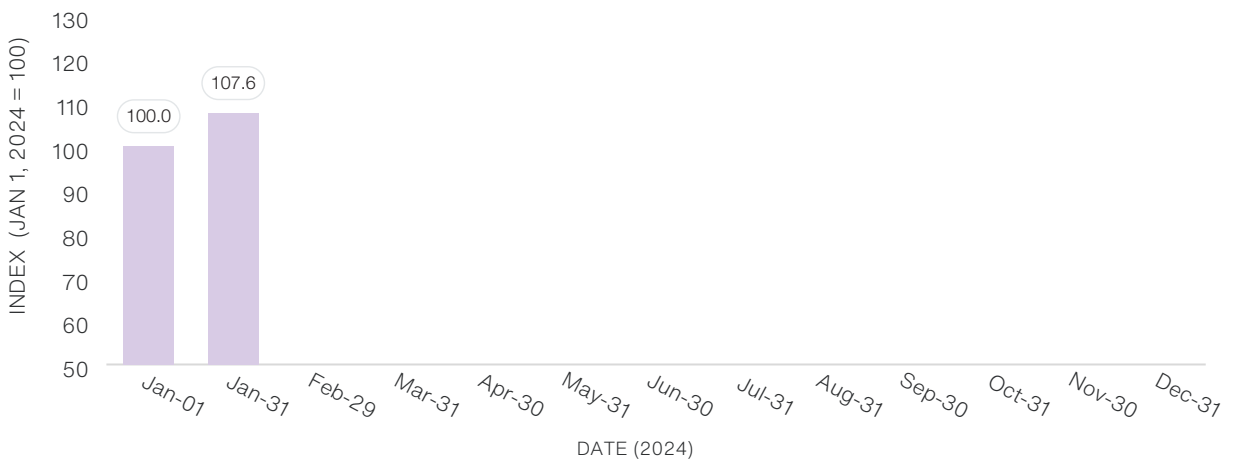
Solvency index



Annuity proxy index



Commuted value index





Accounting index



Plan asset index



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