



Pension Indices by TELUS Health.

May 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 May, the funded position of a typical pension plan increased on a solvency basis but decreased on an accounting basis.

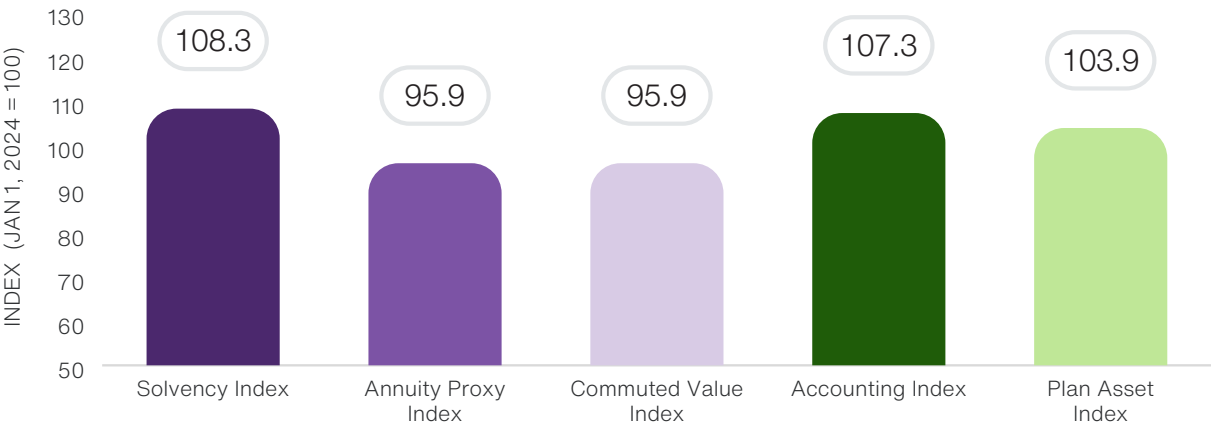
The investment return was 2.7% for the month for a representative pension plan portfolio, driven mainly by positive returns in both the equity and bond markets.

The global developed and emerging equity markets index, the MSCI ACWI, returned 3.3% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of 2.8% as well.

Short-term Government of Canada bond yields decreased by approximately 0.17%, and long-term Government of Canada bond yields decreased by approximately 0.21% over the month of May. Credit spreads for corporate bonds did not change materially during May.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.82% at the end of May, decreasing by 0.04% since the end of April.

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“In May, there was a noticeable decrease in long-term bond yields, which typically leads to a lower discount rate and, consequently, an increase in plan liabilities. Then on June 5, 2024, the Bank of Canada made its first rate cut since the early days of the pandemic. The Bank reduced its policy rate by 0.25% and signaled that additional cuts may be coming in 2024” says Murray Wright, Associate Partner in TELUS Health’s Consulting practice.

Despite anticipation of further rate cuts, the relationship between central bank policy and long-term bond yields impacting pension liabilities is more difficult to predict, particularly in an environment of significant economic and financial market uncertainty. Pension plan sponsors should carefully consider whether they want to retain material levels of interest rate risk in their plan, or whether they should pivot to protect themselves against unexpected interest rate movements going forward. With the average funded status of pension plans continuing to show strength, plan sponsors contemplating a risk reduction strategy may find the current market conditions opportune.”

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 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.

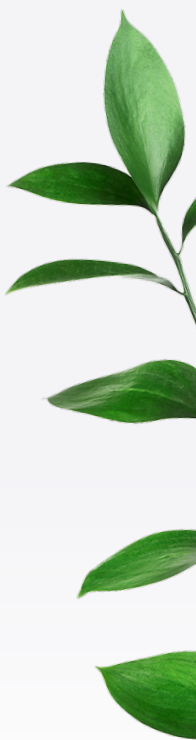
The monthly Asset Index is calculated based on a TELUS Health Benchmark portfolio, 50% equities and 50% fixed income (2% in 91-day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 15% S&P/TSX, 35% MSCI ACWI).

The plan liabilities are for a medium duration pension plan.

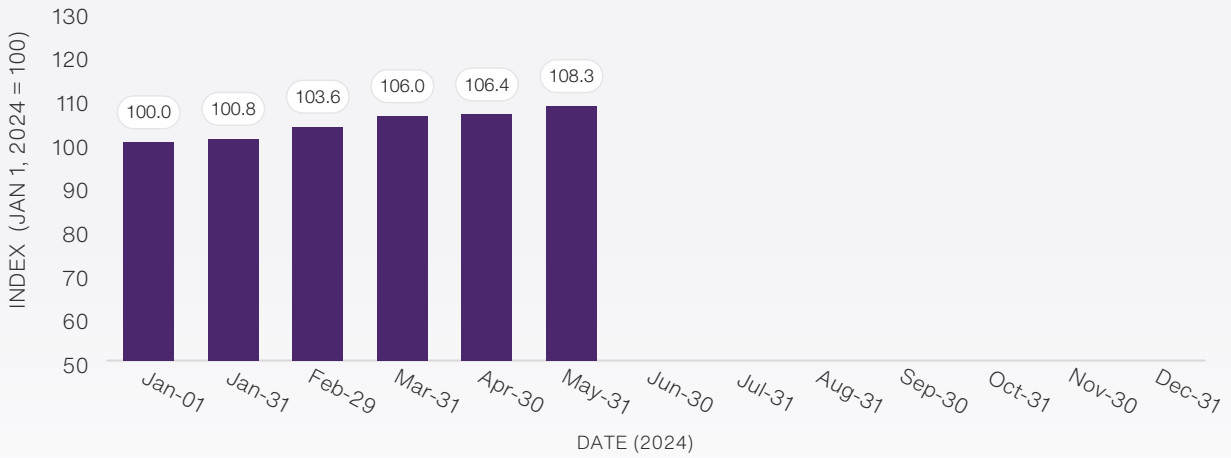
The monthly Solvency Index reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.

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.

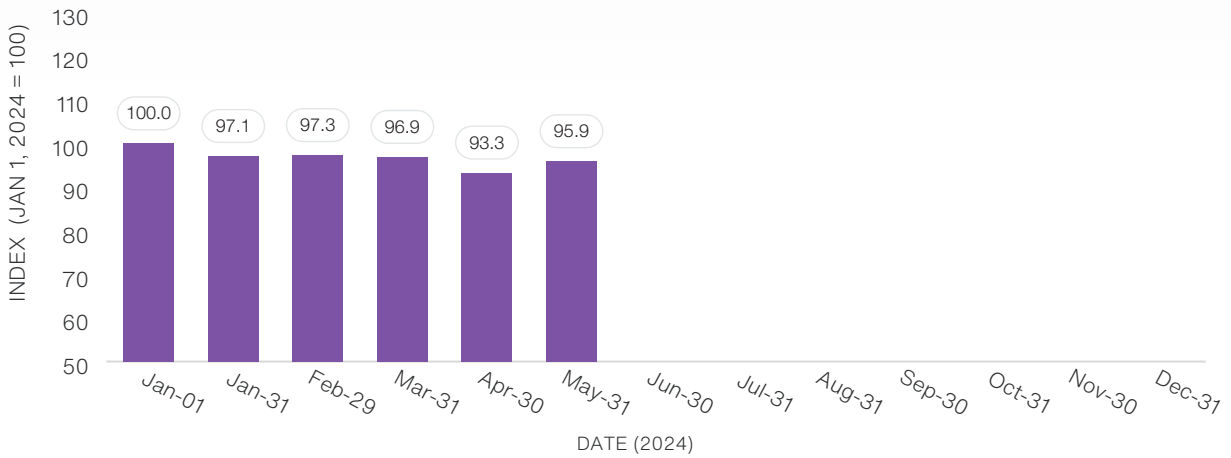
The monthly Accounting Index reflects an estimate of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.



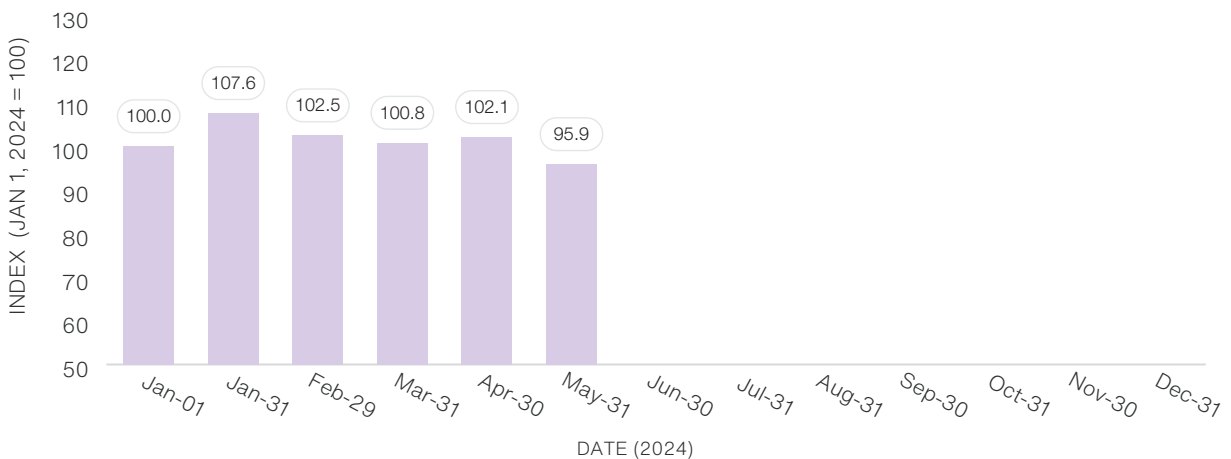
Solvency index



Annuity proxy index

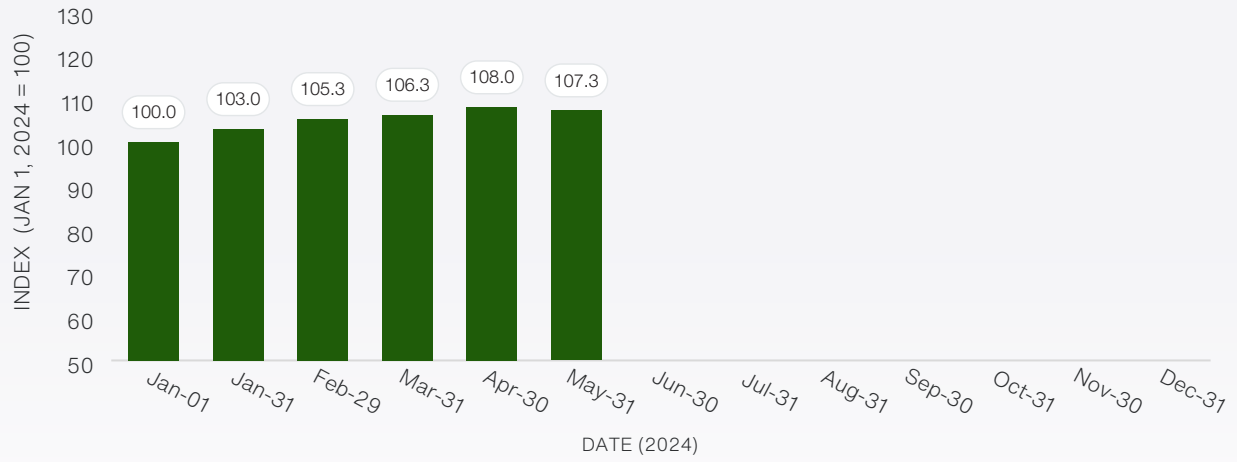


Commuted value index

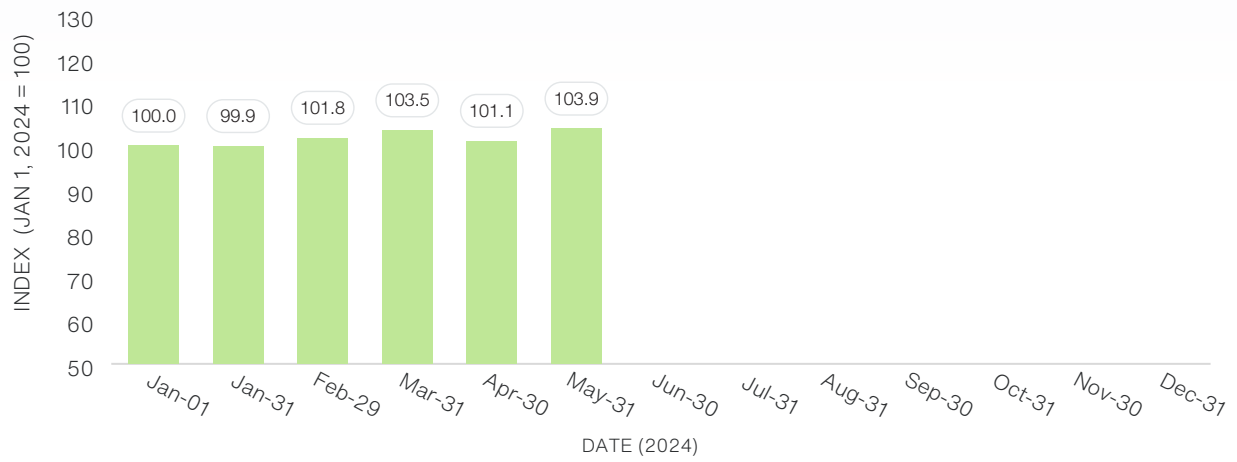




Accounting index



Plan asset index



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