



Pension Indices by TELUS Health.

July 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 July, the funded position of a typical pension plan increased on a solvency basis and on an accounting basis.

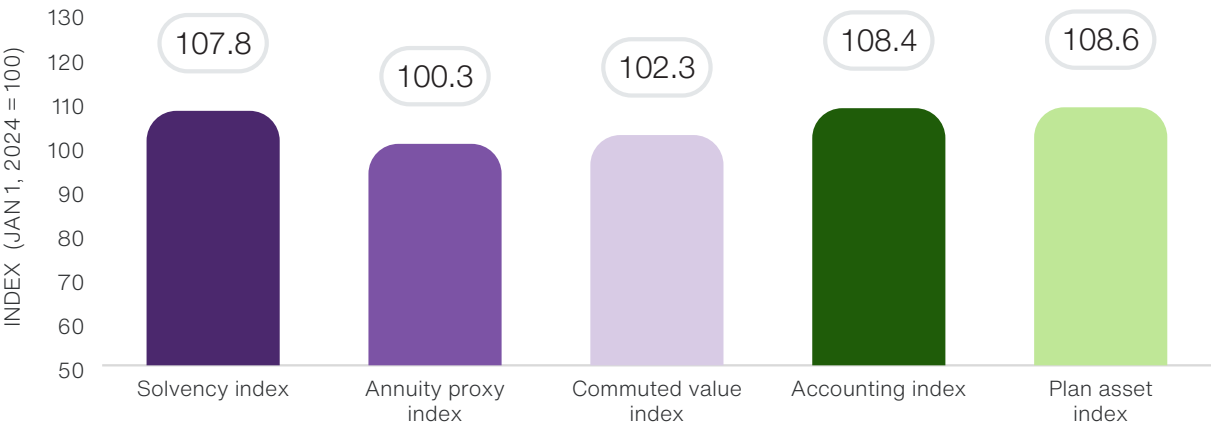
The investment return was 3.2% for the month for a representative pension plan portfolio, driven mainly by positive returns in equity markets as well as bond markets.

The global developed and emerging equity markets index, the MSCI ACWI, returned 2.6% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a strong return of 5.9%.

Short-term Government of Canada bond yields decreased by approximately 0.53%, and long-term Government of Canada bond yields decreased by approximately 0.17% over the month of July. Credit spreads for corporate bonds did not change materially during July.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.78% at the end of July, decreasing by 0.02% since the end of June.

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“July saw a return to form for pension funding levels with small improvements in solvency and accounting funded positions. As we moved into August all eyes were on the Central Banks and monetary policy decisions. Over a 32-hour period from the end of July into August we had decisions from the Bank of Japan, Bank of England and the Federal Reserve, with all three taking different actions. The Federal Reserve held steady, the Bank of Japan raised rates and the Bank of England cut rates. Divergence in monetary policy can create volatility and this came through markets in the following days.” says Gavin Benjamin, Partner in TELUS Health’s Consulting practice.

“We will wait to see how the Bank of Canada sets its monetary policy in the coming months, but any continued divergence from the Federal Reserve needs to be carefully monitored. Pension plans need to continue discussions on risk management and strategy to ensure the risks posed by the pension plan are right-sized for the sponsor’s ability to take on risk. We cannot predict what is going to happen with interest rates and equity markets, but it is clear there is lots of room for significant volatility. There are a variety of approaches that can be taken to help mitigate the impact of any shocks or surprises so that pension plans no longer need to be fully exposed if the tide turns.”

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.

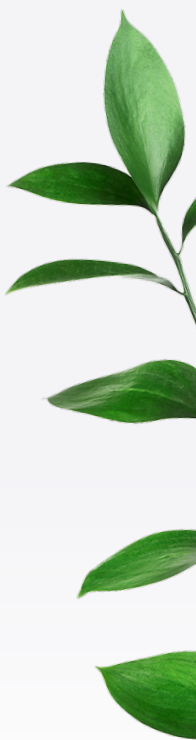
The monthly asset index is calculated based on a TELUS Health Benchmark portfolio, 50% equities and 50% fixed income (2% in 91-day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 15% S&P/TSX, 35% MSCI ACWI).

The plan liabilities are for a medium duration pension plan.

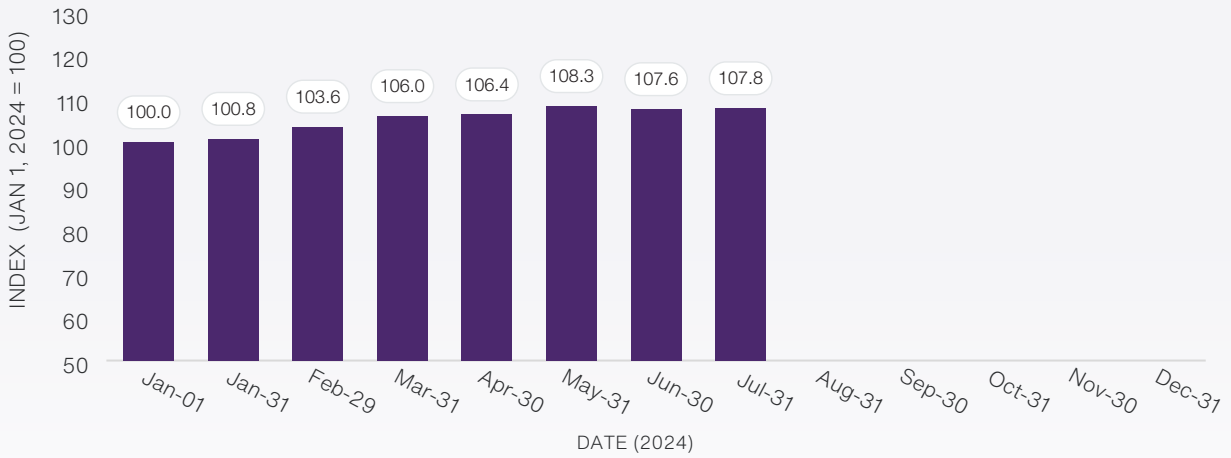
The monthly solvency index reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.

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.

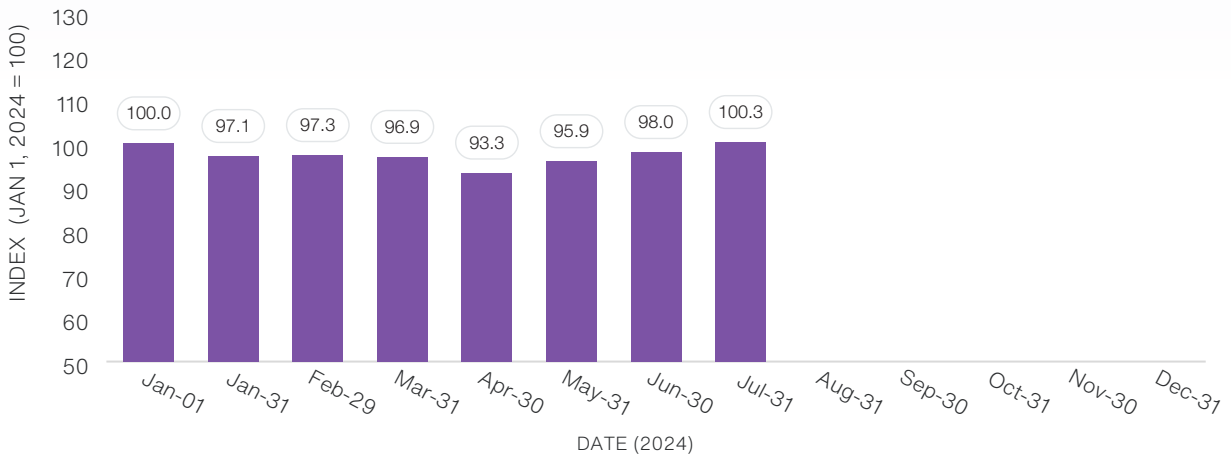
The monthly accounting index reflects an estimate of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.



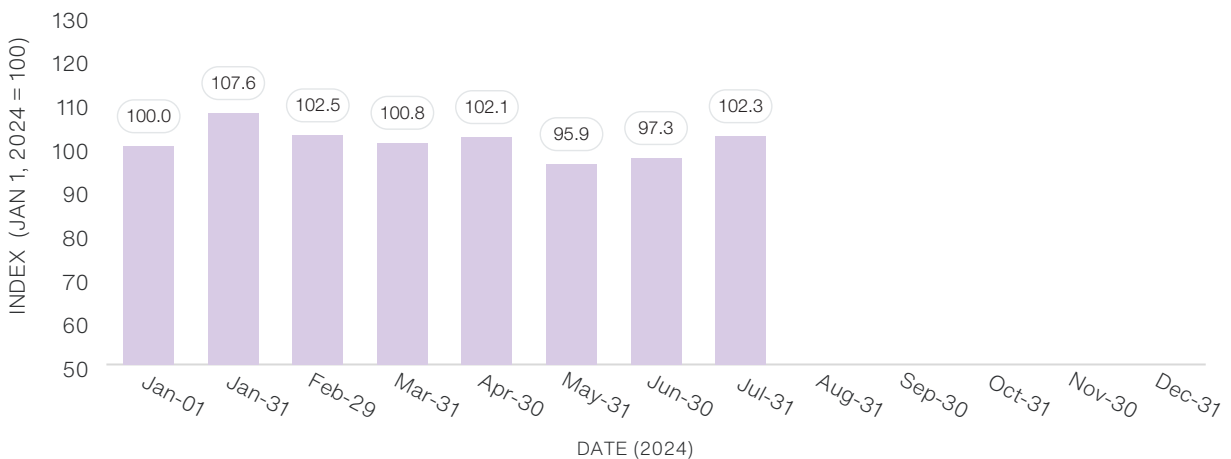
Solvency index



Annuity proxy index

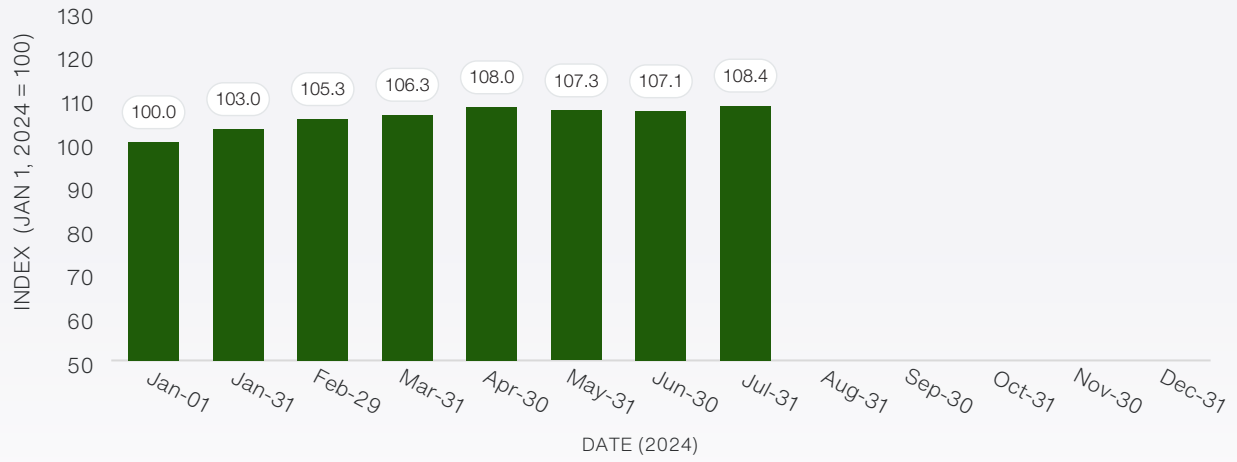


Commuted value index

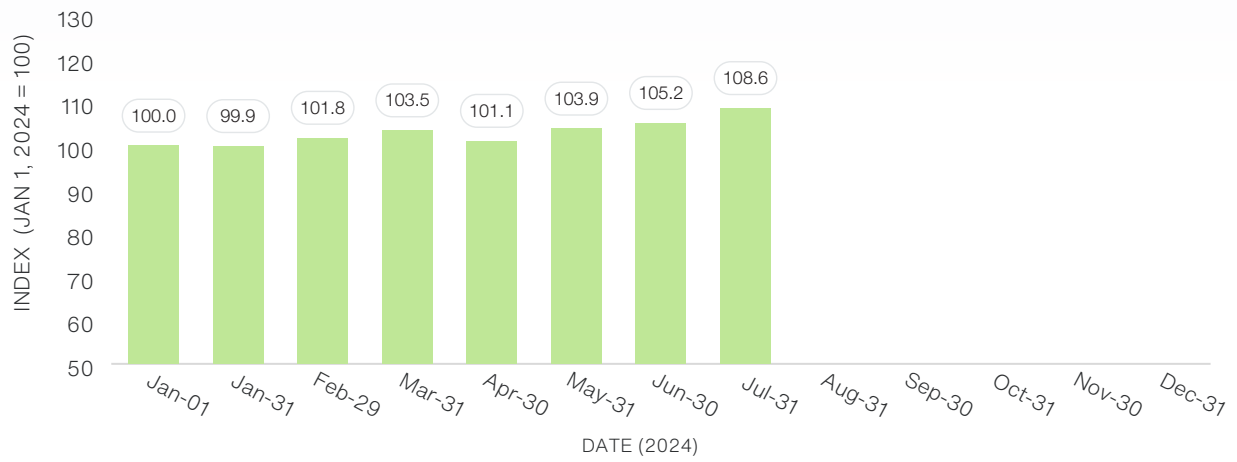




Accounting index



Plan asset index



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