Pension Indices
by TELUS Health.

October 31, 2024

TELUS® Health

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 October, 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 -0.2% for the month, primarily due to the negative performance in the bond market.

The global developed and emerging equity markets index, the MSCI ACWI, returned 0.9% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, also finished the month with a return of 0.9%.

Short-term Government of Canada bond yields and long-term Government of Canada bond yields increased by approximately 0.15% over the month of October. Credit spreads for mid-term and long-term corporate bonds decreased during the month of October.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.75% at the end of October, increasing by 0.11% since the end of September.

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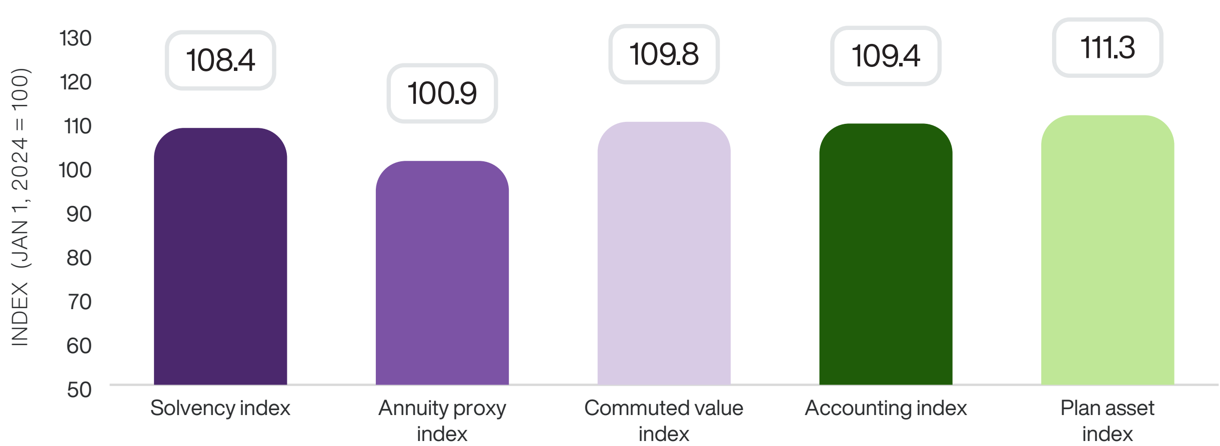


“Pension funding levels showed modest improvement in October, with slight increases in both solvency and accounting funded positions. For a typical pension plan, funding levels were approximately 8-9% higher than at the start of the year. On October 23, 2024, the Bank of Canada implemented a larger than usual rate cut, reducing its policy rate by 0.50% to 3.75%. This significant move has led to speculation among market observers that a similar cut may follow in December, particularly as inflation has fallen to near the Bank’s 2% target” says Andrea Knoll, Partner and West Region Lead of the Consulting practice at TELUS Health.

“This significant rate cut, coupled with the possibility of further reductions, could have notable implications for pension plans. While lower interest rates typically lead to increased plan liabilities, the impact on overall funded status will depend on how equity markets and other asset classes, as well as long-term bond yields, respond to this monetary policy shift. Plan sponsors should be aware that the current economic environment presents both opportunities and challenges. With many pension plans maintaining strong funded positions, this could be an opportune time to reassess risk management strategies. Particularly, plan sponsors might consider whether to maintain their current interest rate risk exposure or implement strategies to protect against potential volatility in rates.”

“Furthermore, the potential divergence between economic indicators and central bank forecasts underscores the importance of robust scenario planning. Plan sponsors would be wise to stress-test their portfolios against various economic outcomes, including scenarios of prolonged low interest rates or sudden market corrections. As we approach the end of the year, it’s crucial for plan sponsors to review their long-term funding strategies in light of these recent developments. While the funded status of most plans remains strong, the recent volatility serves as a reminder of the need for vigilant risk management and strategic planning.”

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).

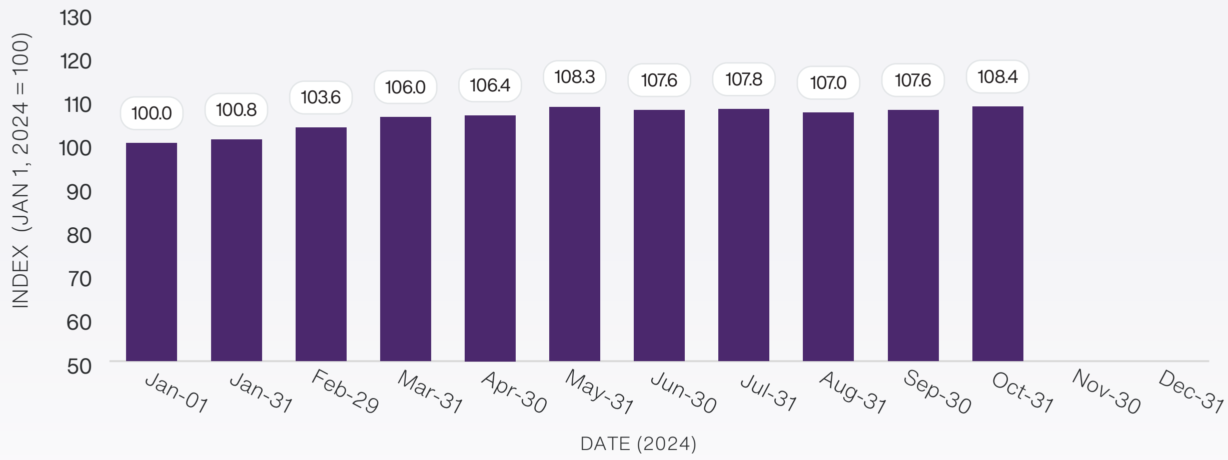
The plan liabilities are for a medium duration pension plan.

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.

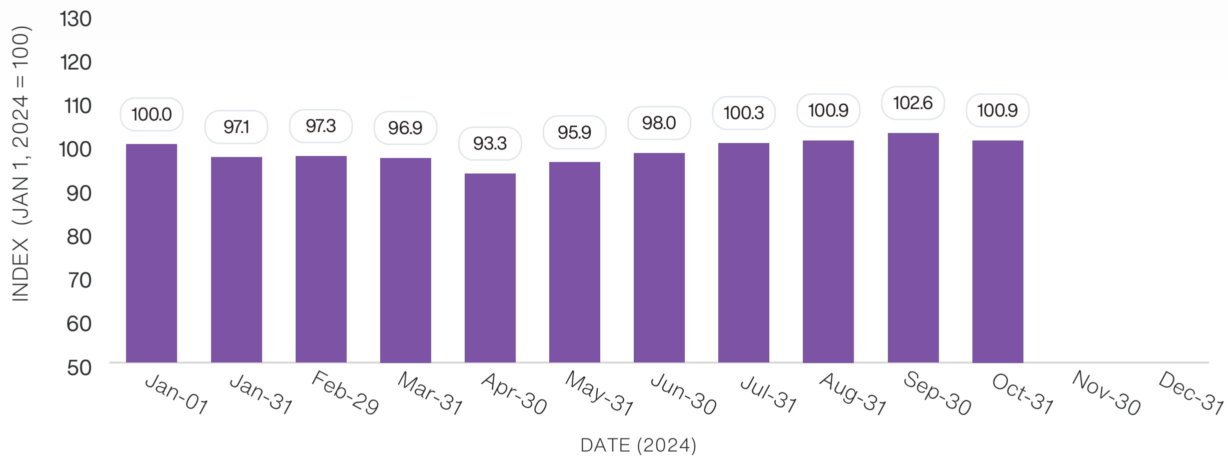
The monthly Commuted Value Index reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA's actuarial Standards of Practice.

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

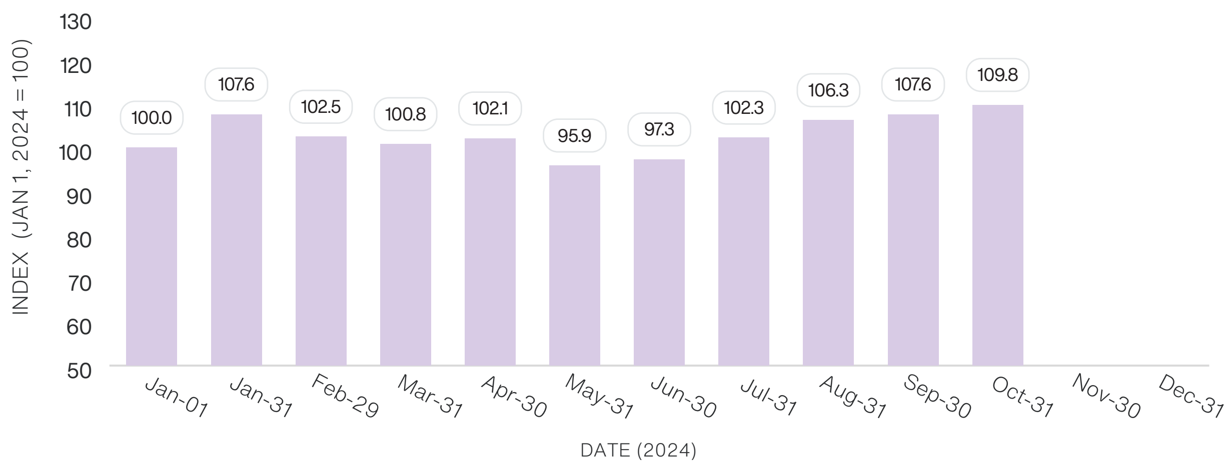
Solvency index



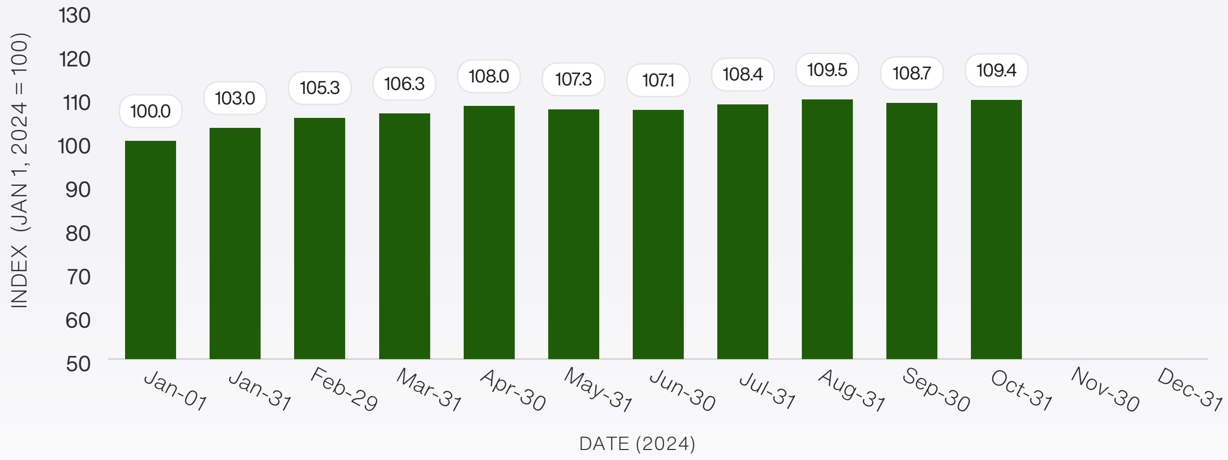
Annuity proxy index



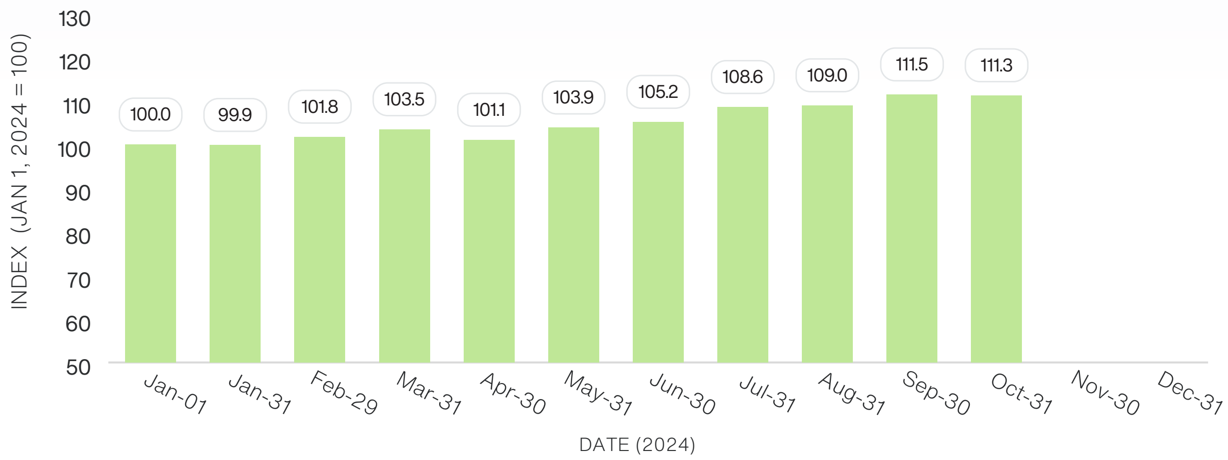
Commuted value index



Accounting index



Plan asset index



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