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# Pension Indices by TELUS Health.

July 31, 2023

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**

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

The investment return was 0.6% for the month for a representative pension plan portfolio, driven by mainly positive returns in equity markets.

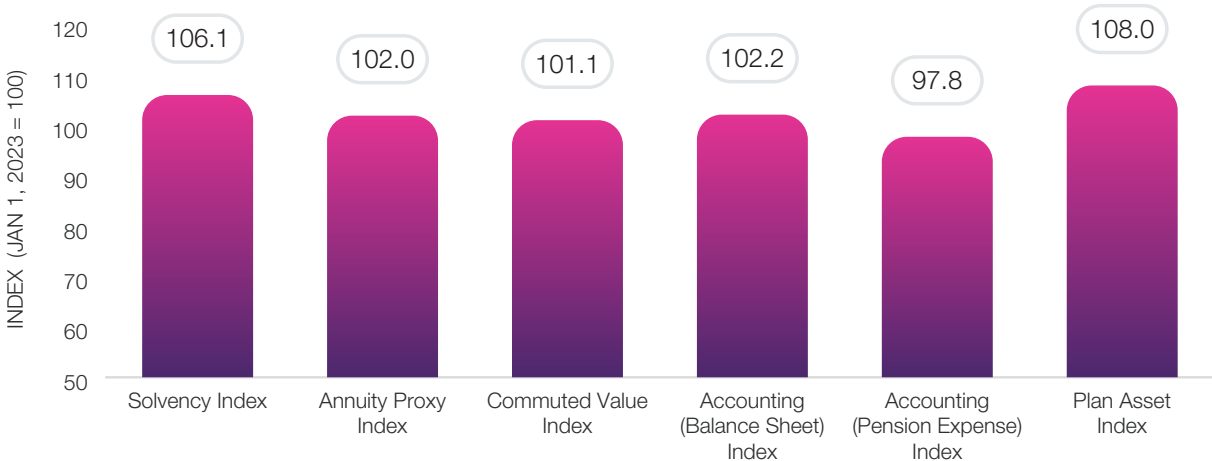
The global developed and emerging equity markets index, the MSCI ACWI, returned 3.1% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of 2.6%.

Short-term and long-term Government of Canada bond yields both increased by approximately 0.20%. Corporate credit spreads decreased by roughly 0.05% to 0.10% since last month.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.67% at the end of July, which represents a 0.03% decrease from the end of June.

The accounting pension expense index saw a decrease in July mainly due to an increase in the accounting discount rates during this period.

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“The Bank of Canada announced yet another increase in its policy interest rate in July. The three increases so far in 2023 have led to a 0.75% increase in short-term interest rates since the start of the year. At the same time, long-term federal bond yields are almost identical to the start of the year, which has led to a very heavily inverted yield curve where long-term interest rates are far below short-term interest rates. We haven’t seen the yield curve this inverted since 1990.” says Murray Wright, Associate Partner in TELUS Health’s Retirement and Benefits Solutions practice.

“A deep inversion of the yield curve has a number of implications for pension plans. The most commonly cited one is that yield curve inversions have historically been a strong predictor of recessions. The economy has been remarkably resilient in the face of the huge interest rate rises, but there is usually a lag between the curve inverting and a recession starting. That said, there appears to be a potential path for central banks to engineer a soft landing and avoid a recession.

“As the yield curve shifts, regardless of a potential recession, pension plan sponsors should continue to reassess their strategic asset allocation and risk management strategies, and in particular ensure that any liability hedging strategies being used are working as intended.”

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 (balance sheet) index.   | Provides an indication of changes in the accounting funding level of an average pension plan since the start of the year.                       |
| Accounting (pension expense) index. | Provides an indication of changes in the following year's pension expense 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 per cent equities and 50 per cent fixed income (2 per cent in 91-day T-Bills, 24 per cent FTSE TMX Canada Universe, 24 per cent FTSE TMX Canada LT, 15 per cent S&P/TSX, 35 per cent MSCI ACWI).

The plan liabilities are for a medium duration pension plan.

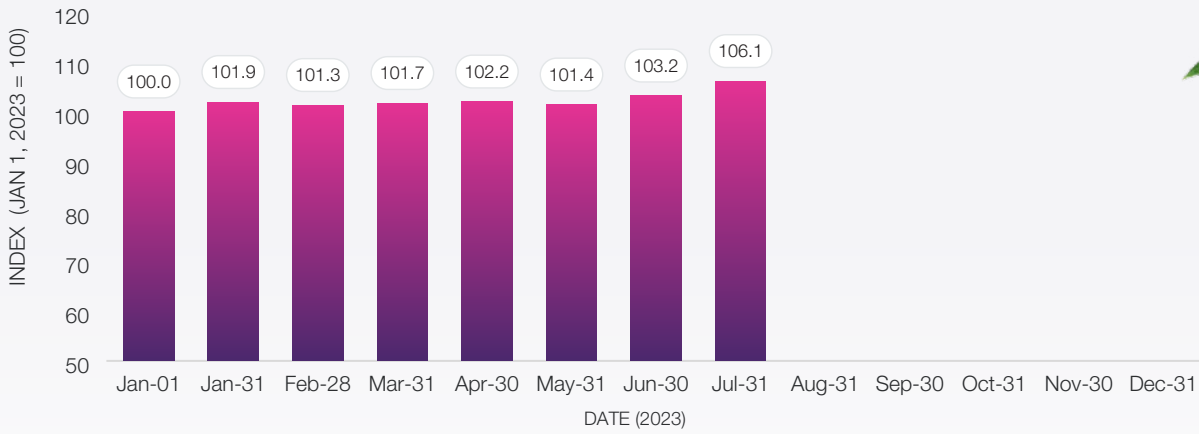
The monthly Solvency Index reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.

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.

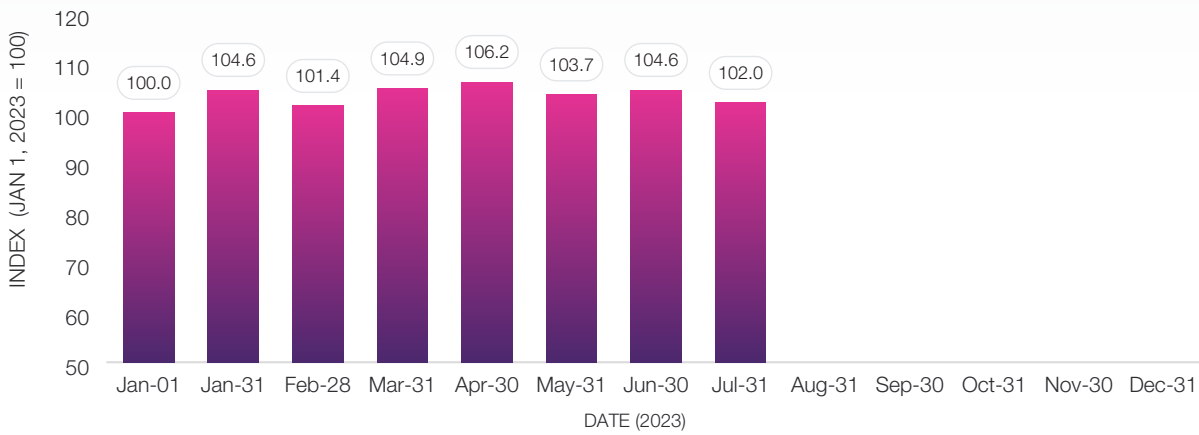
The monthly Accounting Indices reflect estimates of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.



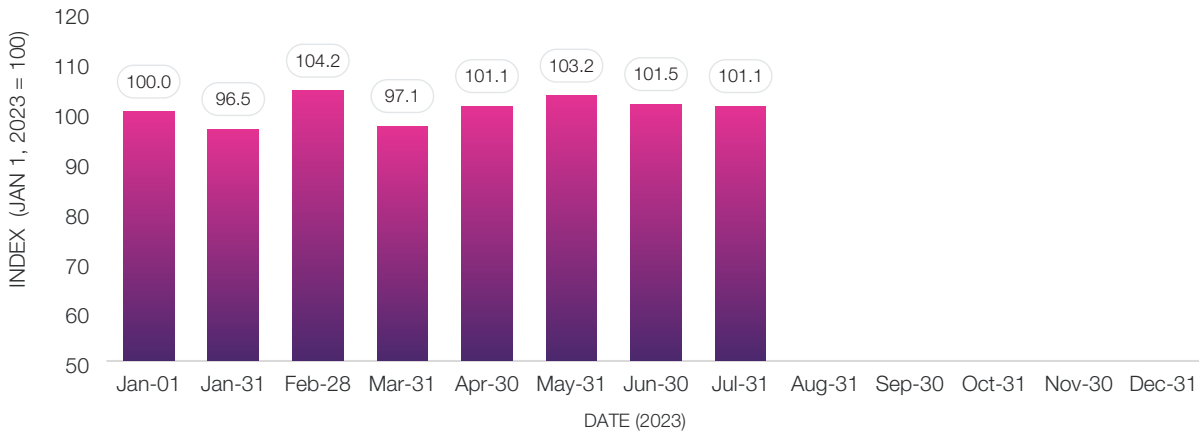
### Solvency index.



### Annuity proxy index.

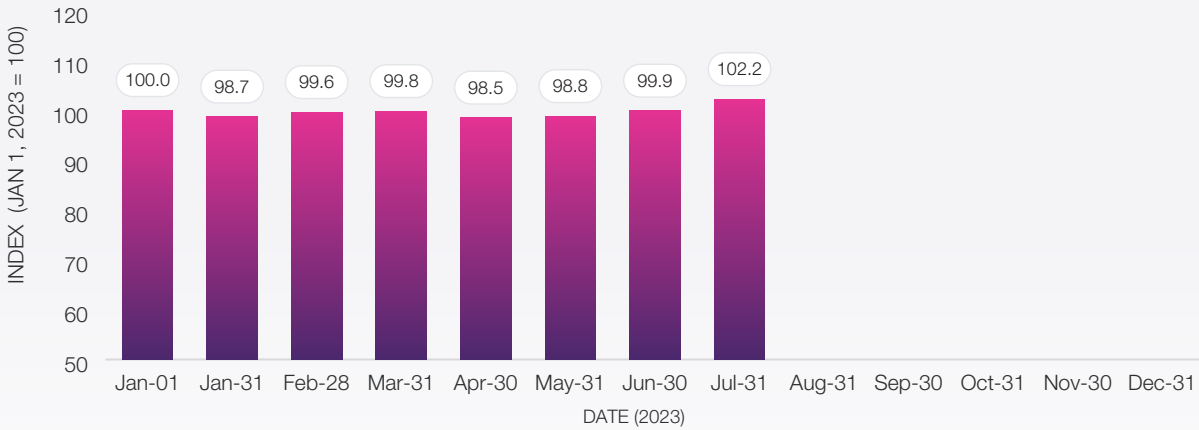


### Commuted value index.

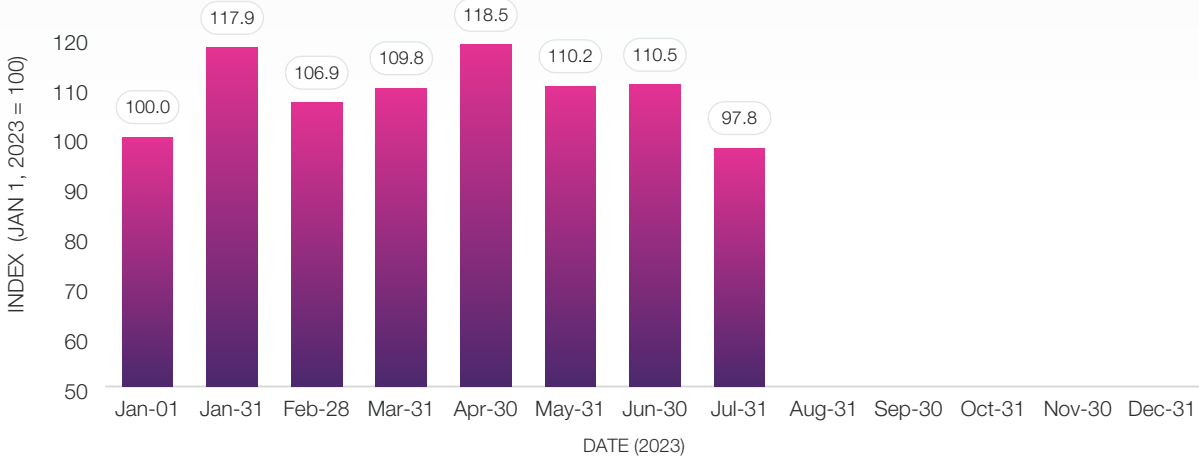




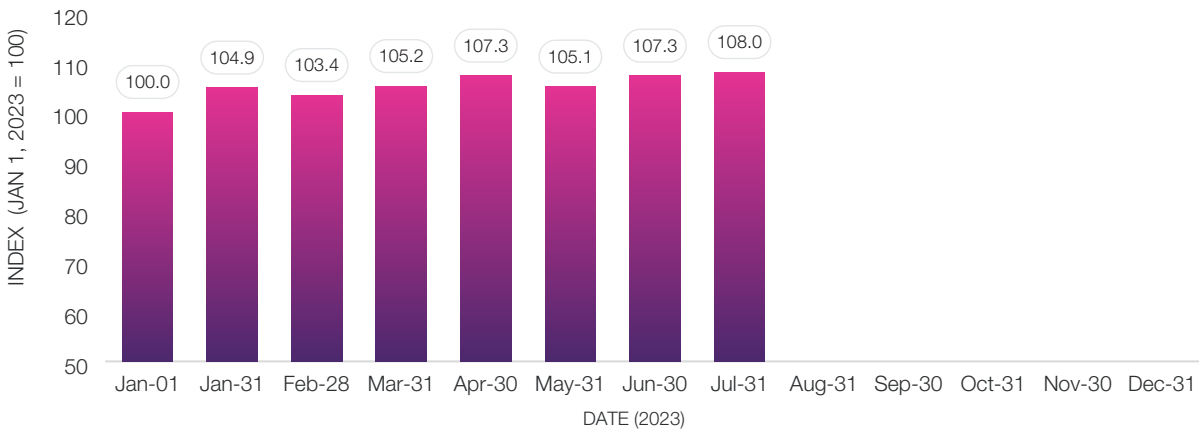
### Accounting (balance sheet) index.



### Accounting (pension expense) index.



### Plan asset index.



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