



Pension Indices by TELUS Health.

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

The investment return was 1.8% for the month for a representative pension plan portfolio, driven by mainly positive returns in equity markets and a decrease in bond yields.

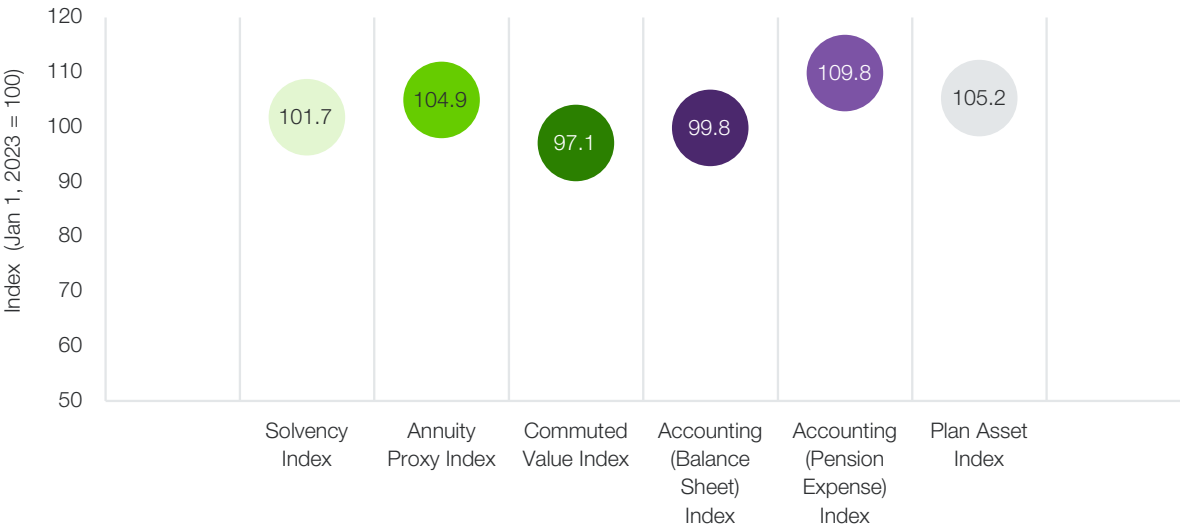
The global developed and emerging equity markets index, the MSCI ACWI, returned 2.5% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of -0.2%.

Returns for Canadian bond indices were positive as yields decreased. Short-term Government of Canada bond yields decreased by 0.47% during the month and long-term Government of Canada bond yields decreased by 0.18%. Corporate credit spreads saw an increase in March.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.68% at the end of March, which represents a 0.22% decrease from the end of February.

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

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“Understandably, there is a lot of focus on the volatility and uncertainty in the financial markets and what they mean for the financial health of DB pension plans” says Gavin Benjamin, Partner in the Retirement and Benefits Solutions practice at TELUS Health.

“However, pension plans are also facing significant demographic uncertainty. Despite the advent of the COVID vaccines in late 2020, in both 2021 and 2022 the actual number of deaths exceeded the expected number by about 8% in the general Canadian population, which is both significant and somewhat surprising. However, the difference between actual and expected number of deaths varied significantly by province and one would expect even more variation when drilling down to the experience of individual pension plans. Also, the Canadian Institute of Actuaries is currently conducting a mortality improvement research project, which could over the next year or two lead to a change to the mortality improvement assumptions used by pension actuaries.

In addition to mortality uncertainty, the significant number of resignations and retirements that have occurred since the start of the COVID pandemic, and the resulting shortage of workers in many industries, create additional uncertainty regarding the effect of member terminations and retirements on pension financials.

Along with managing the many risks of pension plans, it is important not to lose sight of demographic risk, particularly in this environment of heightened uncertainty. Similar to other risks, demographic risk should be measured and managed in order to enhance both the short-term and long-term sustainability of pension plans.”

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 (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% 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.

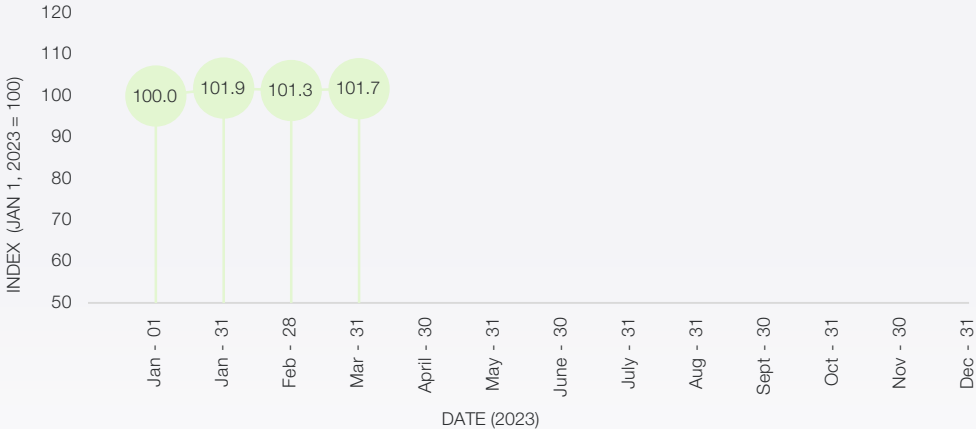
The monthly Commuted Value Index reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA's actuarial Standards of Practice.

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

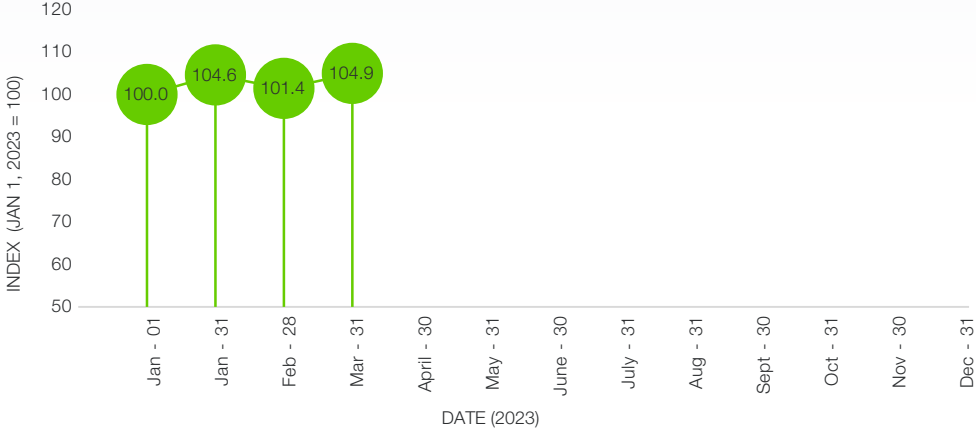




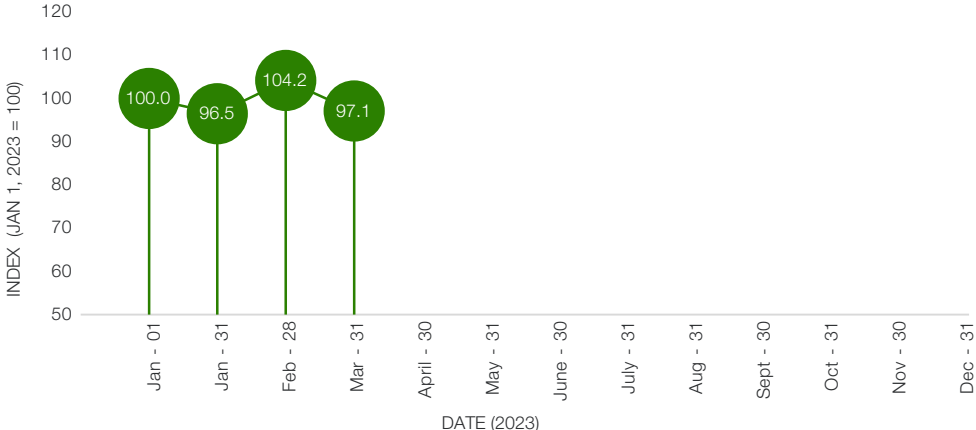
Solvency index.



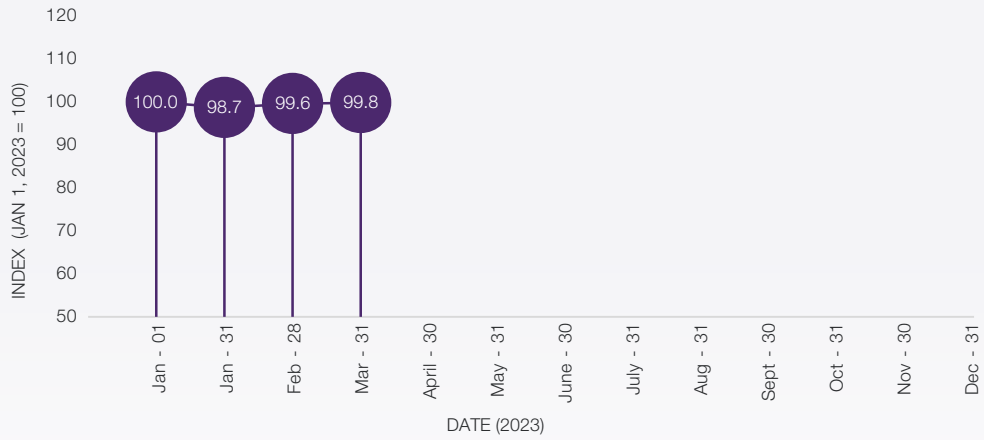
Annuity proxy index.



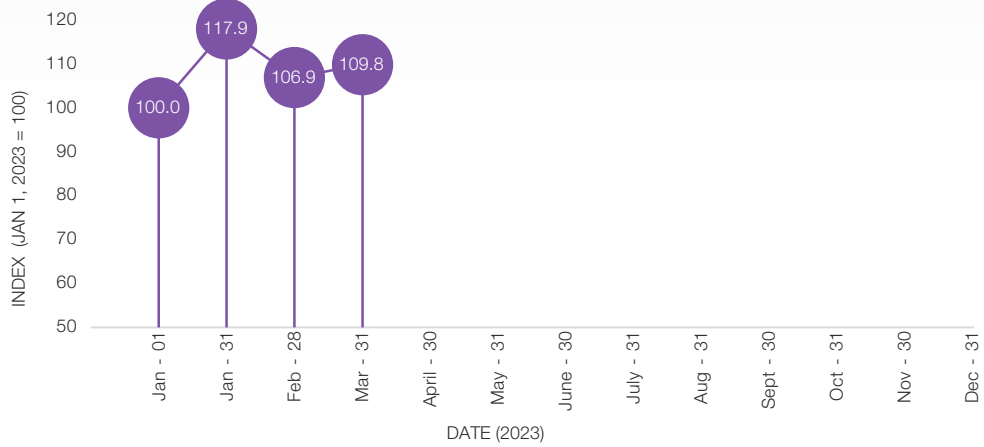
Commuted value index.



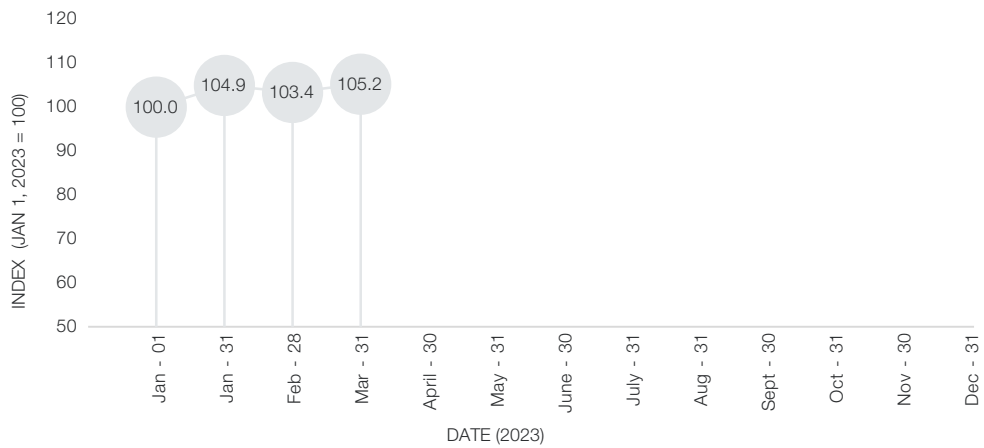
Accounting (balance sheet) index.



Accounting (pension expense) index.



Plan asset index.



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