



Pension Indices by TELUS Health.

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

The investment return was -0.6% for the month for a representative pension plan portfolio, driven by negative returns in both the equity and bond markets.

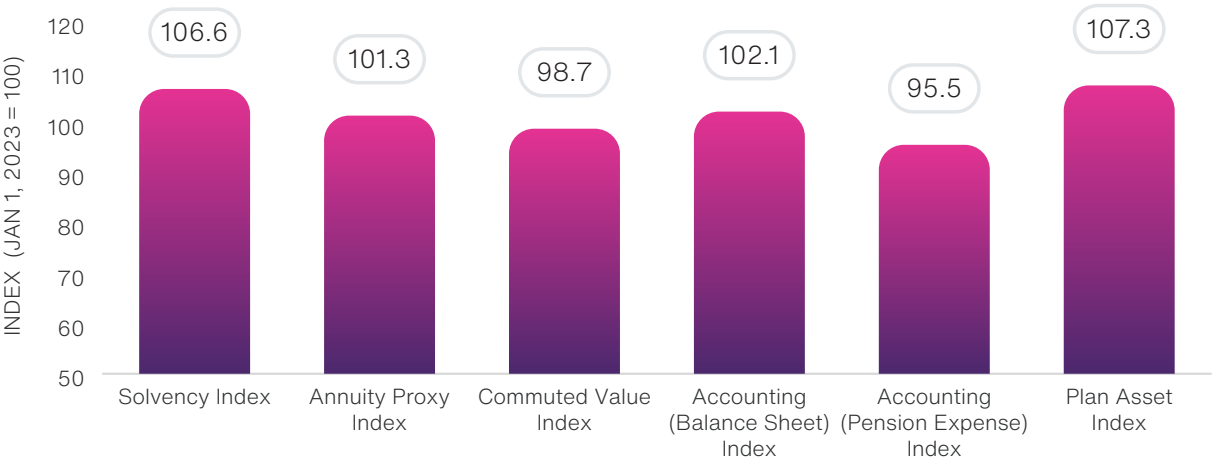
The global developed and emerging equity markets index, the MSCI ACWI, returned -0.1% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of -1.4%.

Short-term Government of Canada bond yields decreased by approximately 0.03%, whereas long-term Government of Canada bond yields increased by approximately 0.09% over the month of August. Corporate credit spreads increased during the month of August.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.67% at the end of August, remaining unchanged from the end of July.

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

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“The average funded status of pension plans remained strong in August. With solvency ratios at or close to the highest levels seen in decades, pension plan sponsors may want to seize the opportunity to lock in gains by taking risk off the table.” says Andrea Knoll, Partner and West Region Lead in TELUS Health’s Retirement and Benefits Solutions practice.

“As the economy responds to the rate hikes by the Bank of Canada earlier this year, plan sponsors should ensure that their risk management strategies are appropriate to absorb unwanted funded status volatility in the coming months as sustained inflation and fears of a recession impact monetary policy decisions and market volatility.”

“Plan sponsors and administrators can take advantage of current market conditions by ensuring that financial risks are well managed, thereby allowing ample attention to broader risk management issues. The Canadian Association of Pension Supervisory Authorities (“CAPSA”) has released a new draft pension risk guideline for consultation that continues to emphasize the expectation that pension regulators are placing on plan administrators to fulfill their fiduciary duties related to plan governance with increasing focus on Environmental, Social and Governance (“ESG”) issues as well as cyber security risks.”

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).

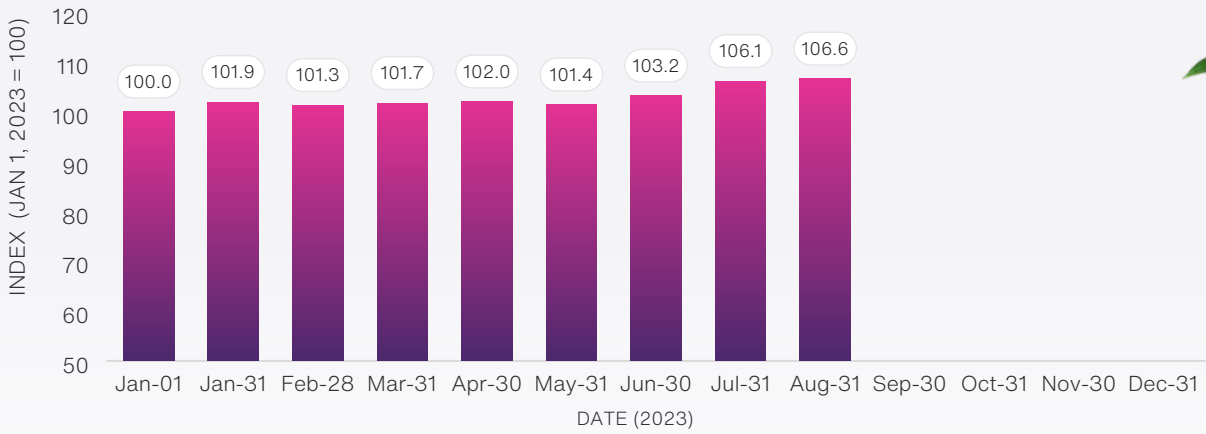
The plan liabilities are for a medium duration pension plan.

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.

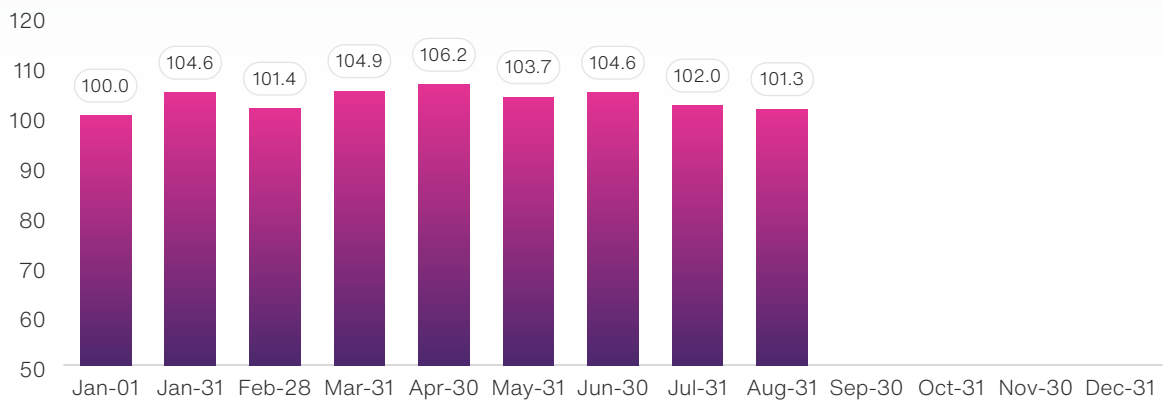
The monthly Commuted Value Index reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA's actuarial Standards of Practice.

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

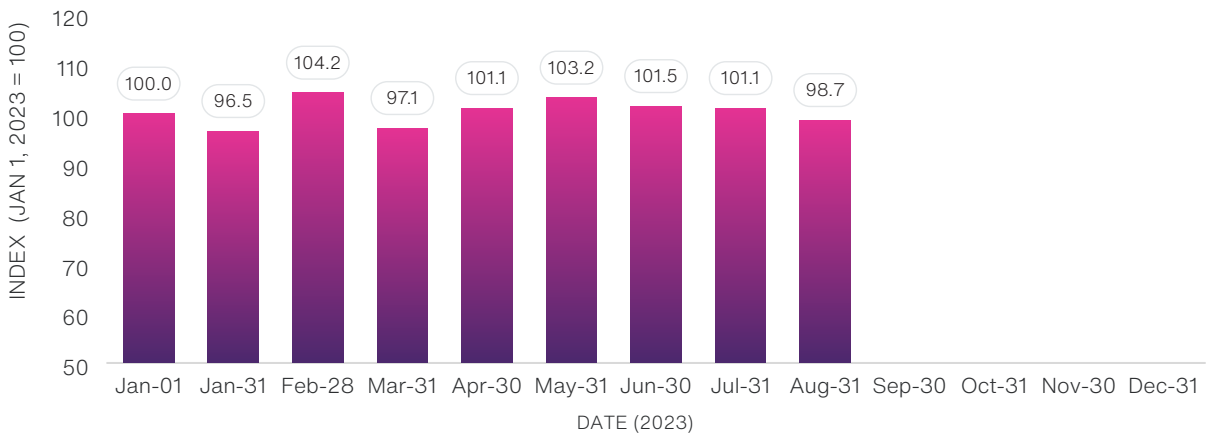
Solvency index.



Annuity proxy index.

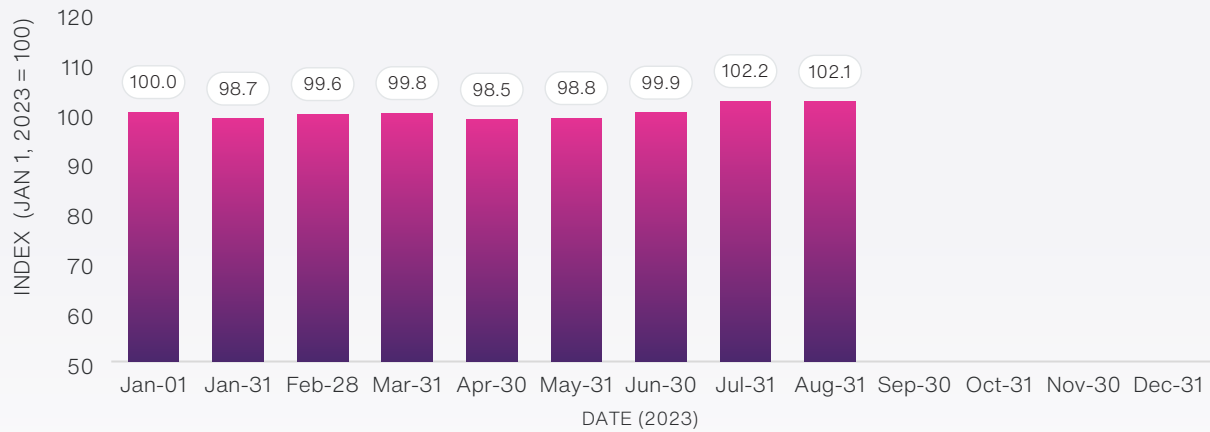


Commuted value index.

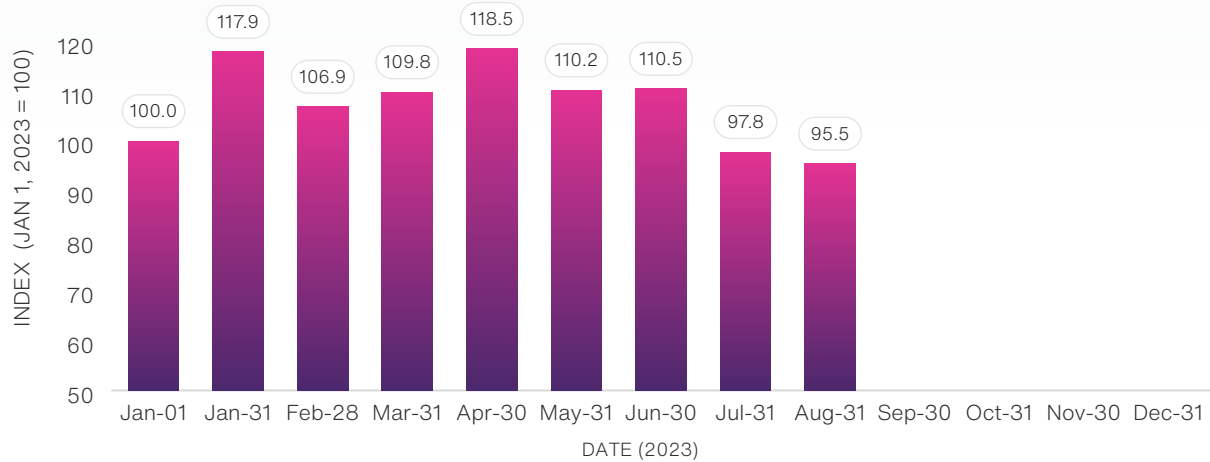




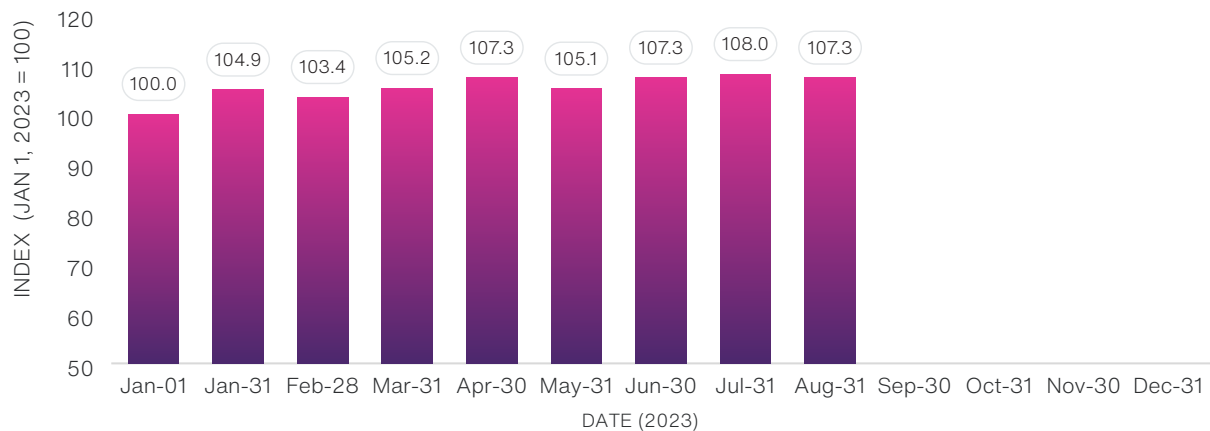
Accounting (balance sheet) index.



Accounting (pension expense) index.



Plan asset index.



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