# Pension Indices
by TELUS Health.

December 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

During the month of December, the funded position of a typical pension plan decreased on both a solvency basis and an accounting basis.

The investment return was 3.9% for the month for a representative pension plan portfolio, driven by positive returns in both equity and bond markets.

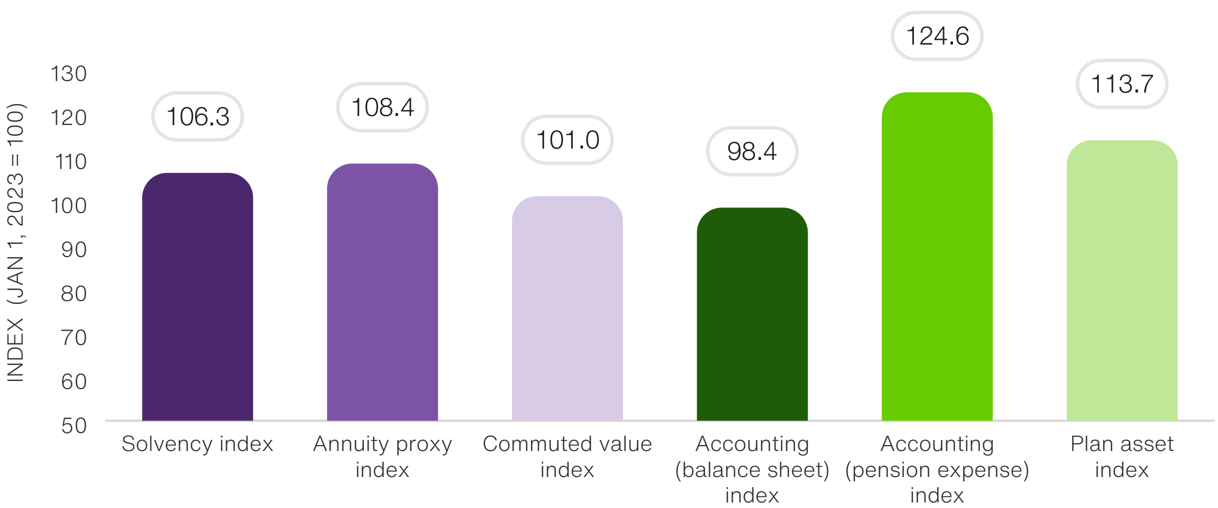
The global developed and emerging equity markets index, the MSCI ACWI, returned 1.9% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of 3.9%.

Short-term Government of Canada bond yields decreased by approximately 0.32%, whereas long-term Government of Canada bond yields decreased by approximately 0.34% over the month of December. Corporate credit spreads decreased by approximately 0.10% to 0.15% during the month of December for short-term and medium-term bonds. Corporate credit spreads for long-term bonds did not change materially.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.62% at the end of December, which represents a 0.12% decrease from the end of November.

The accounting pension expense rose sharply in December as accounting discount rates decreased significantly during this period.

December 31, 2023 Pension Indices by TELUS Health



"Up until September, 2023 seemed like it was going to be a relatively uneventful year for pension plans, at least when compared to the massive movements we saw in 2022." says Andrea Knoll, Partner and West Region Lead in TELUS Health's Retirement and Benefits Solutions practice.

"Then the last 3 months of 2023 made sure we ended the year with lots to think about. Bond yields fell significantly with pension accounting discount rates falling by more than 1% in only 2 months. This means pension plan accounting liabilities will have increased by 10-20% in between the end of October and the end of December. Corporate sponsors of defined benefit pension plans will have seen a huge shift from their Q3 results moving into their year end. This will be most noticeable in the impact on pension expense for 2024, which will have increased materially for most plans when compared to any interim projections. Fortunately, pension plan asset values performed well in the last quarter which will at least partially offset the increase in plan liabilities. The level of volatility in the last few years has highlighted the benefits of using technology to provide regular updates on funding and accounting positions to help avoid surprises and allow sponsors to plan and budget more effectively."

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.

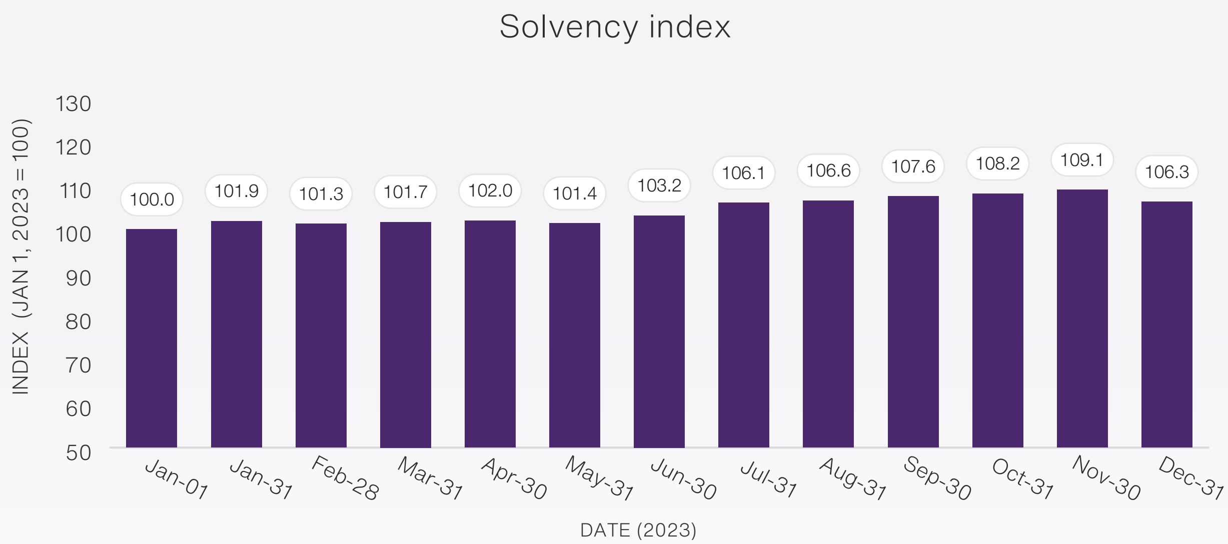
The monthly Asset Index is calculated based on a TELUS Health Benchmark portfolio, 50% equities and 50% fixed income (2% in 91-day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 15% S&P/TSX, 35% MSCI ACWI).

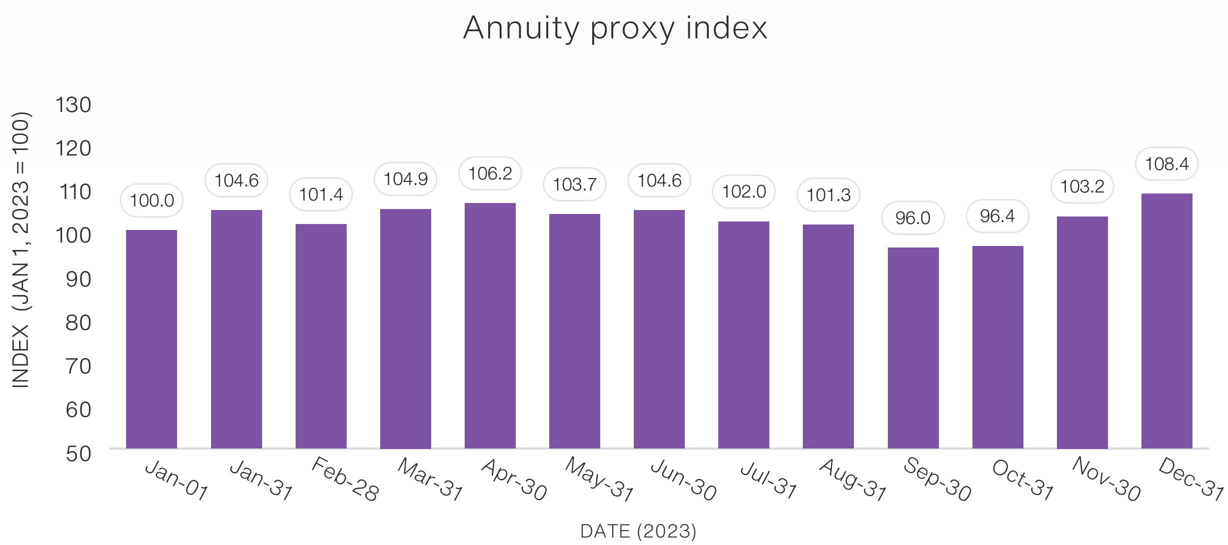
The plan liabilities are for a medium duration pension plan.

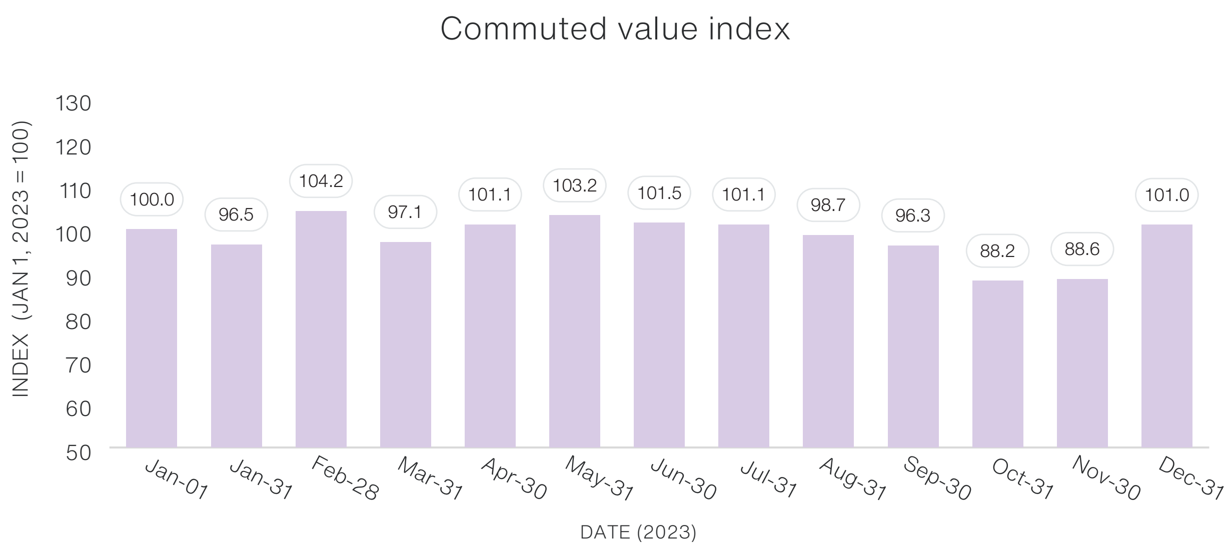
The monthly Solvency Index reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.

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.

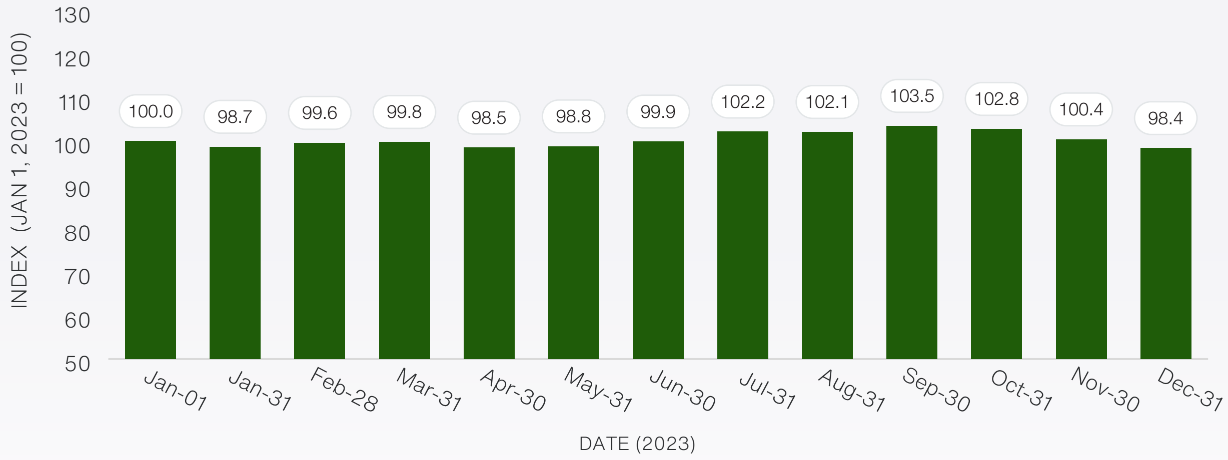
The monthly Accounting Indices reflect estimates of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.


Solvency index
INDEX (JAN 1, 2023 = 100)
130
120
110
100
90
80
70
60
50
100.0
101.9
101.3
101.7
102.0
101.4
103.2
106.1
106.6
107.6
108.2
109.1
106.3
Jan-01
Jan-31
Feb-28
Mar-31
Apr-30
May-31
Jun-30
Jul-31
Aug-31
Sep-30
Oct-31
Nov-30
Dec-31
DATE (2023)

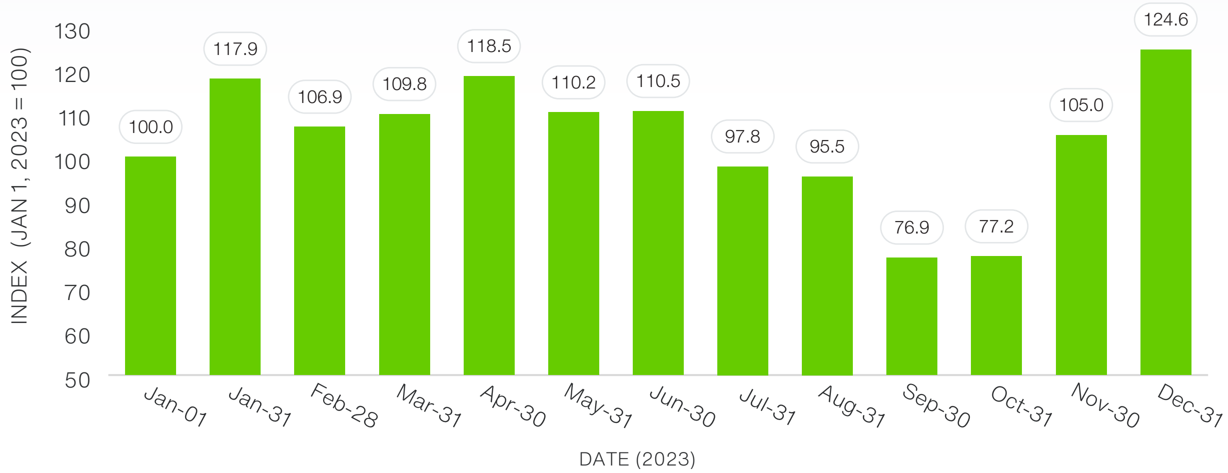

Annuity proxy index
INDEX (JAN 1, 2023 = 100)
130
120
110
100
90
80
70
60
50
100.0
104.6
101.4
104.9
106.2
103.7
104.6
102.0
101.3
96.0
96.4
103.2
108.4
Jan-01
Jan-31
Feb-28
Mar-31
Apr-30
May-31
Jun-30
Jul-31
Aug-31
Sep-30
Oct-31
Nov-30
Dec-31
DATE (2023)


Commuted value index
INDEX (JAN 1, 2023 = 100)
130
120
110
100
90
80
70
60
50
100.0
96.5
104.2
97.1
101.1
103.2
101.5
101.1
98.7
96.3
88.2
88.6
101.0
Jan-01
Jan-31
Feb-28
Mar-31
Apr-30
May-31
Jun-30
Jul-31
Aug-31
Sep-30
Oct-31
Nov-30
Dec-31
DATE (2023)

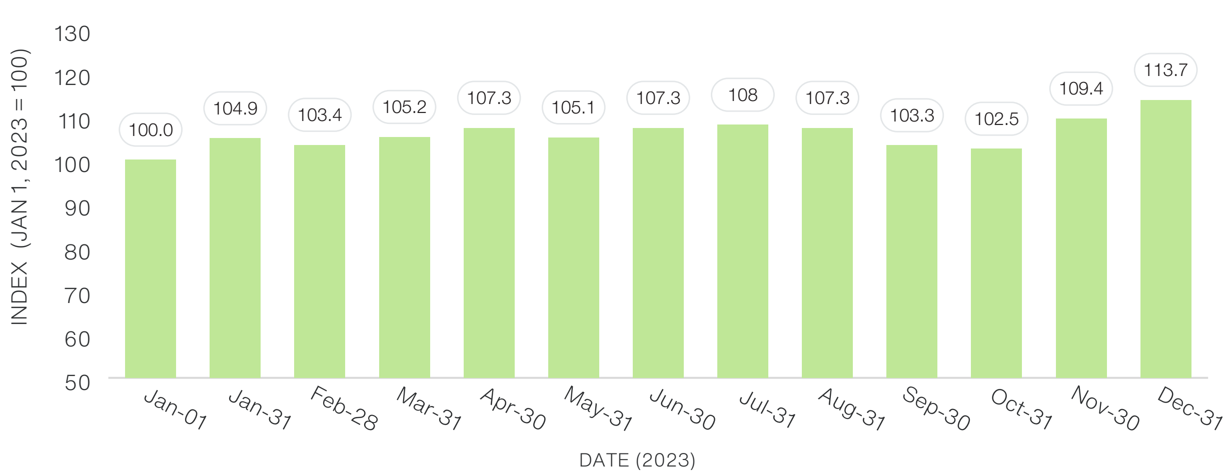
## Accounting (balance sheet) index




## Accounting (pension expense) index




## Plan asset index



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