



Pension Indices by TELUS Health.

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

The investment return was -0.8% for the month for a representative pension plan portfolio, driven by negative returns in the equity markets.

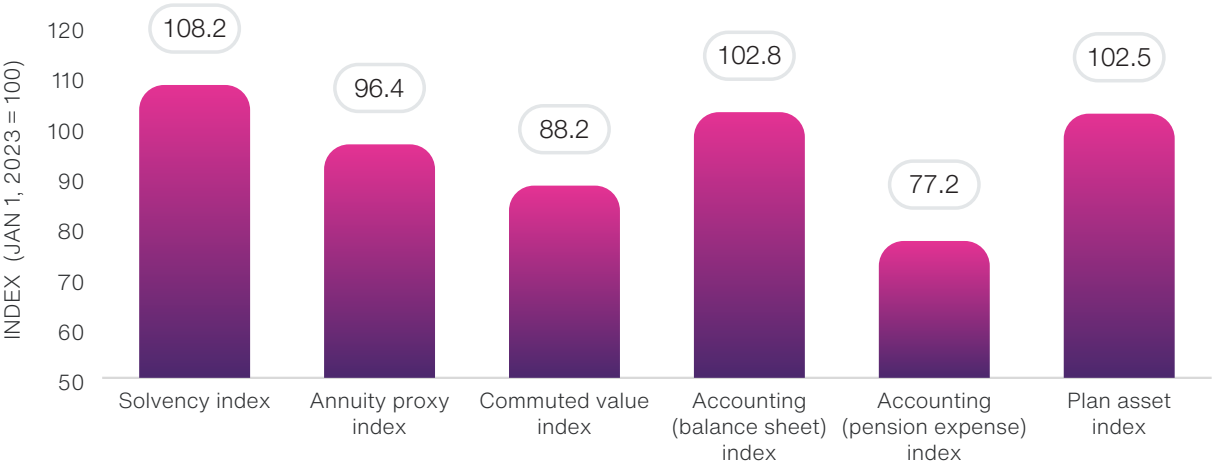
The global developed and emerging equity markets index, the MSCI ACWI, returned -0.4% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of -3.2%.

Short-term Government of Canada bond yields decreased by approximately 0.24%, whereas long-term Government of Canada bond yields increased by approximately 0.04% over the month of October. Corporate credit spreads did not change materially during the month of October.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.74% at the end of October, which represents a 0.01% decrease from the end of September.

The accounting pension expense was largely unchanged in October as accounting discount rates were stable during this period.

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“The funded status of a typical pension plan remained strong in October. With solvency ratios continuing their upward trajectory, pension plan sponsors are increasingly turning their minds to surplus management.” says Andrea Knoll, Partner and West Region Lead in TELUS Health’s Retirement and Benefits Solutions practice.

“The BC Financial Services Authority published its annual report in October, reporting that pension plans under their remit have improved member benefits at a rate not seen in decades, with more than 25% of target benefit plans and 10% of defined benefit plans improving member benefits in 2022.

As we approach 2024 amidst projections by the Bank of Canada that inflation will remain above the 2% target until 2025, plan sponsors and administrators should ensure that their governance policies and objectives remain appropriate and take into consideration the evolving market environment. While funded statuses remain strong, plan sponsors also have the opportunity to take advantage of novel risk management strategies that can be designed to balance priorities around intergenerational equity, benefit security, and plan sustainability.”

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.

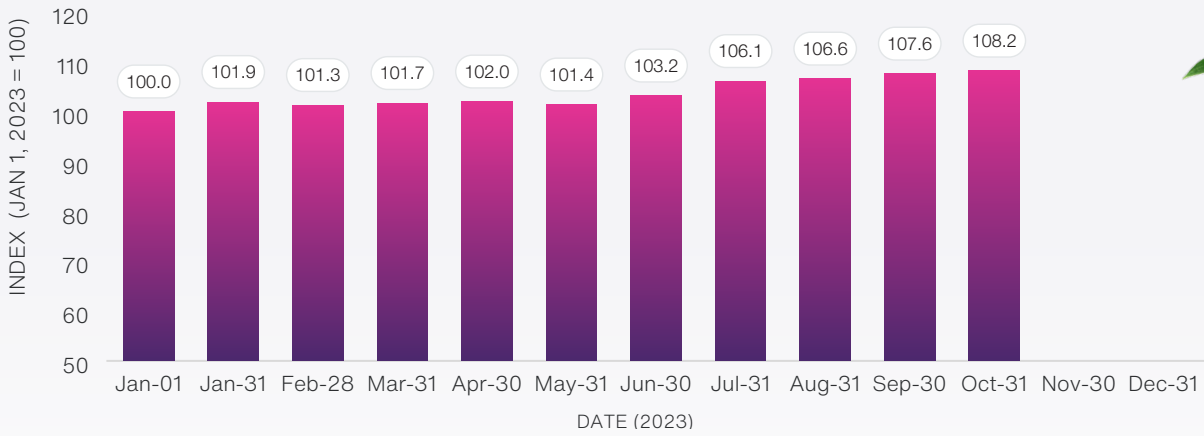
The monthly Solvency Index reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.

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.

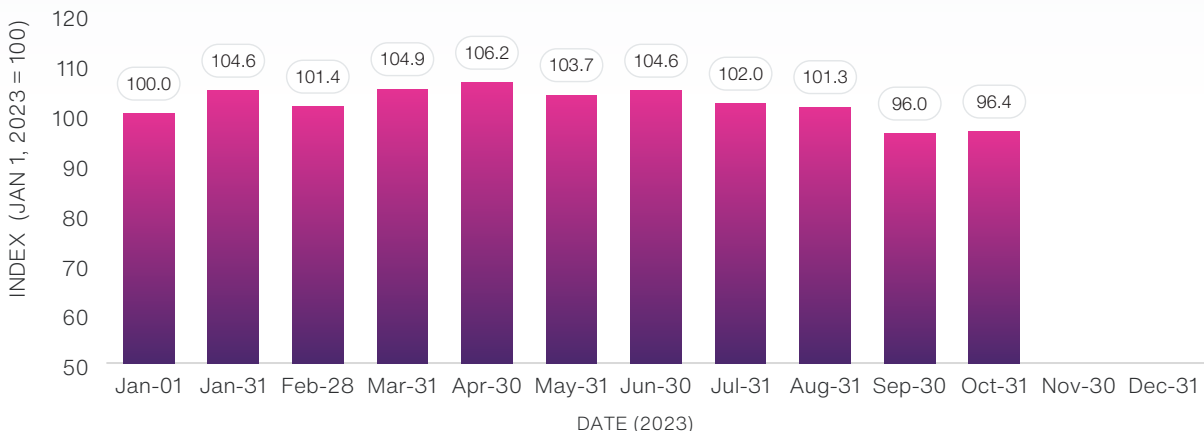
The monthly Accounting Indices reflect estimates of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.

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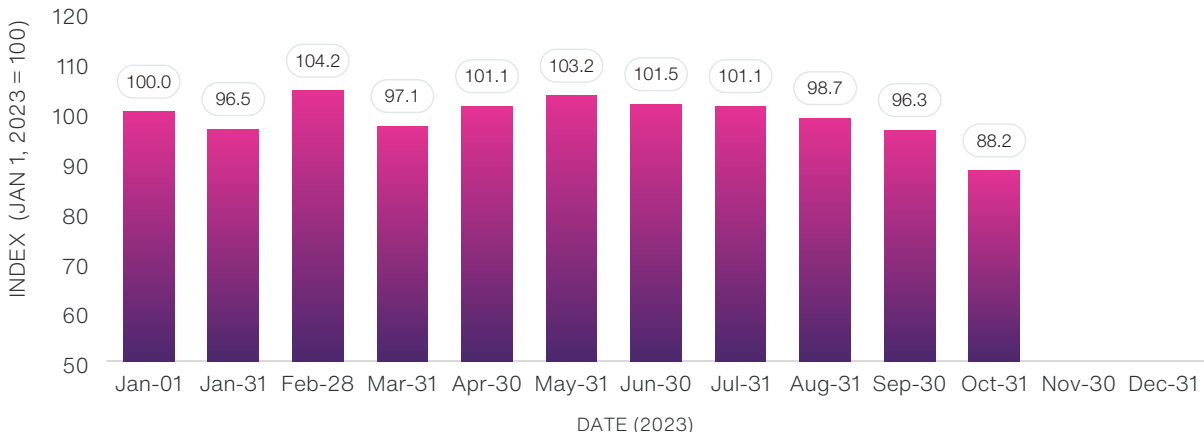
Solvency index.



Annuity proxy index.

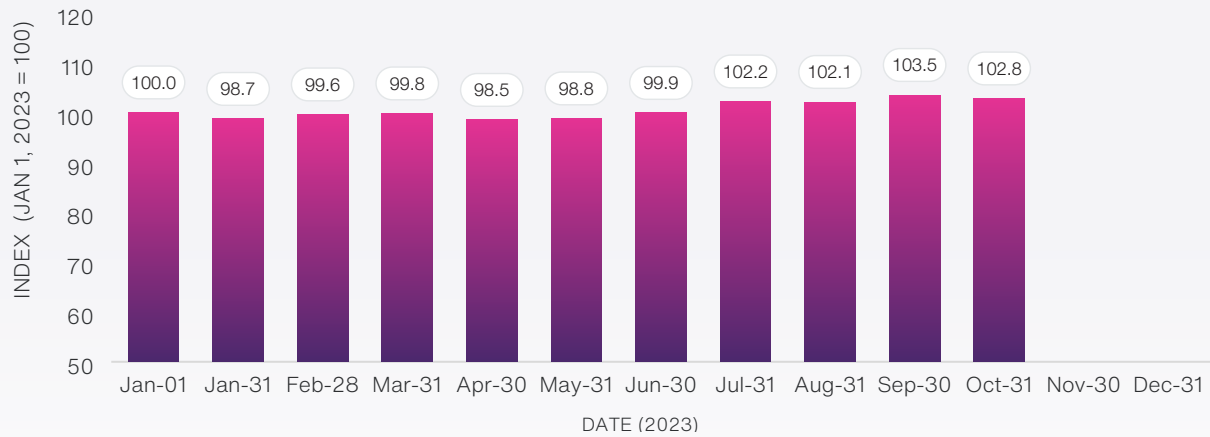


Commuted value index.

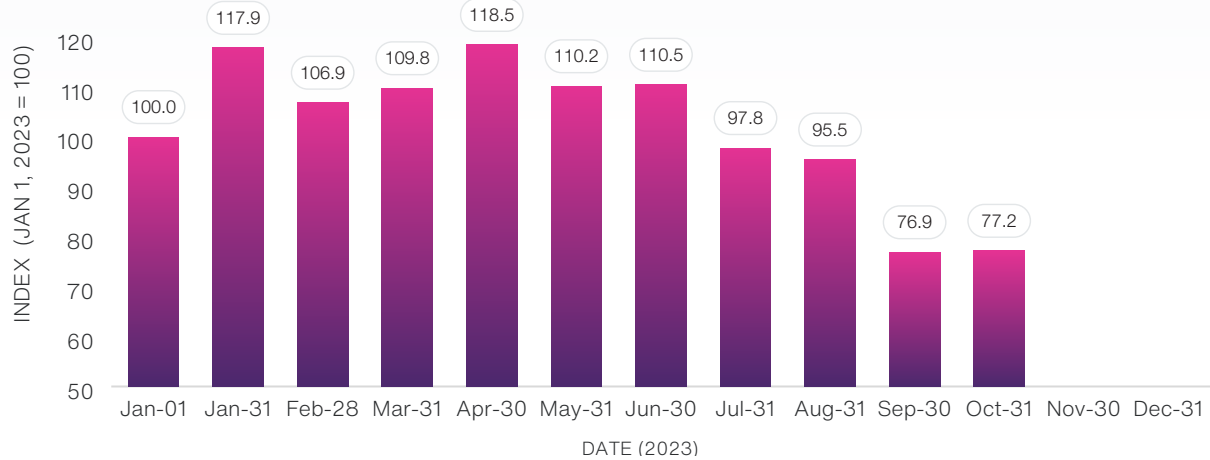




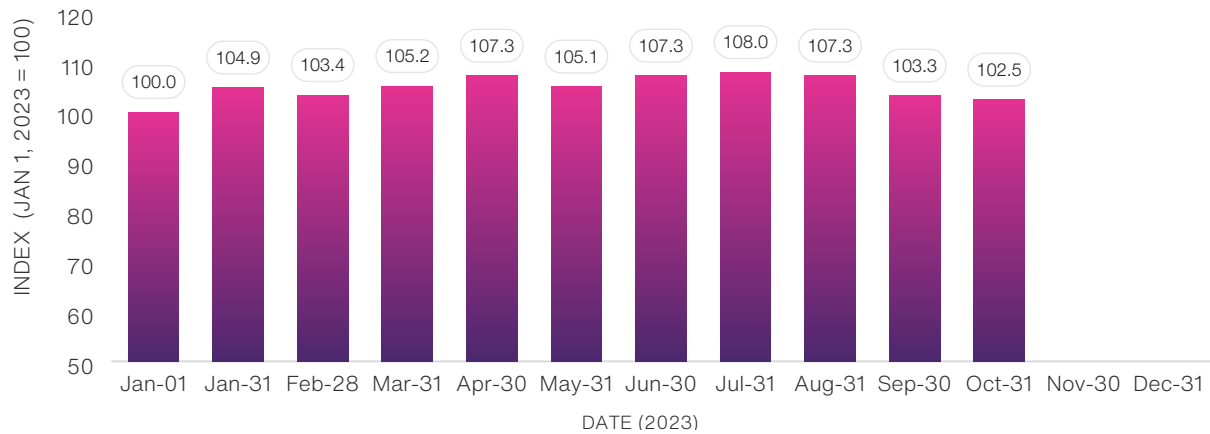
Accounting (balance sheet) index.



Accounting (pension expense) index.



Plan asset index.



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