Pension Indices
by TELUS Health.

September 30, 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 September, the funded position of a typical pension plan increased on both a solvency basis and an accounting basis.

The investment return was -3.8% 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 -4.2% in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of -3.3%.

Short-term Government of Canada bond yields increased by approximately 0.23%, whereas long-term Government of Canada bond yields increased by approximately 0.43% over the month of September. Corporate credit spreads did not change materially during the month of September.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.75% at the end of September, which represents a 0.08% increase from the end of August.

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

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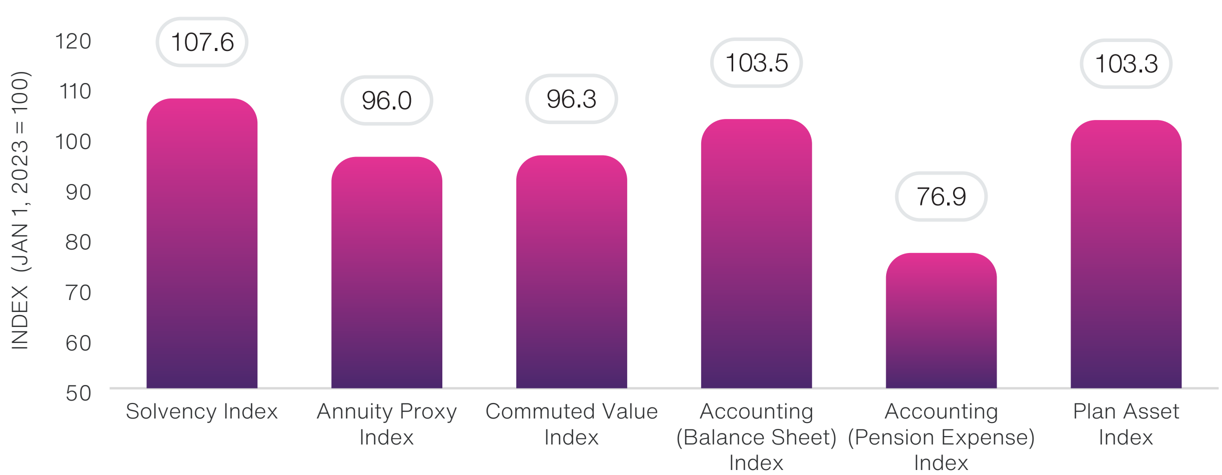


“At the end of September, long-term bond yields were at the highest levels we have seen in over a decade following a 0.40% to 0.50% increase in the month. This follows a realization from the bond markets that the central banks may hold course on higher interest rates for longer to address inflation that remains stubbornly high in some countries.” says Murray Wright, Associate Partner in TELUS Health’s Retirement and Benefits Solutions practice.

“This will lead to further improvements in accounting and solvency funding levels for many Canadian pension plans, with the impact depending on a plan’s investment strategy and demographic characteristics. It is, however, a clear reminder that it is very difficult to predict the path of long-term interest rates, particularly in an environment of significant economic and financial market uncertainty. Despite the massive increases in long-term bond yields, the Canadian yield curve is still inverted with short-term rates being above long-term rates. There is also often no clear link between central bank policy and the long-term bond yields that drive pension liabilities, so pension plan sponsors should continue to consider whether they want to retain material levels of interest rate risk in their plan, or whether they should pivot to protect themselves against unexpected interest rate movements going forward”.

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).

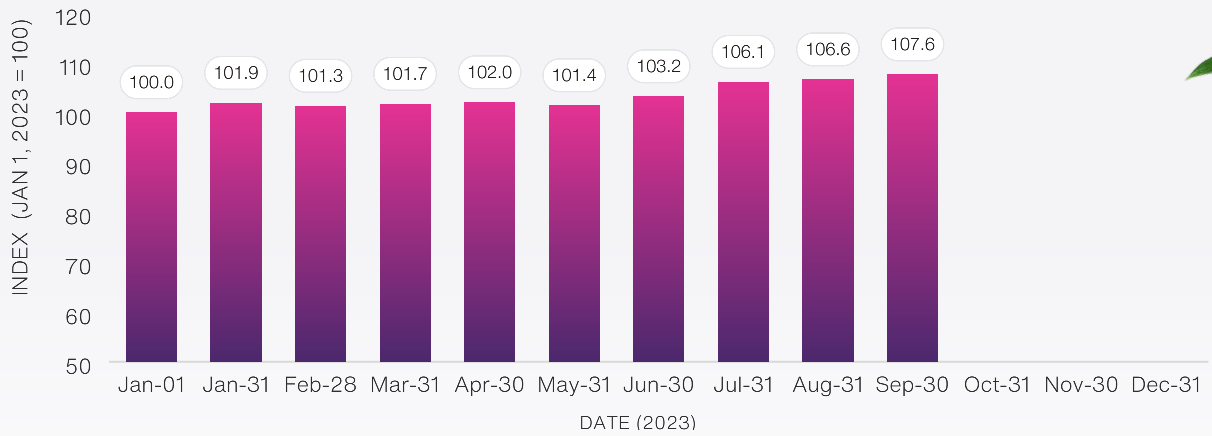
The plan liabilities are for a medium duration pension plan.

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.

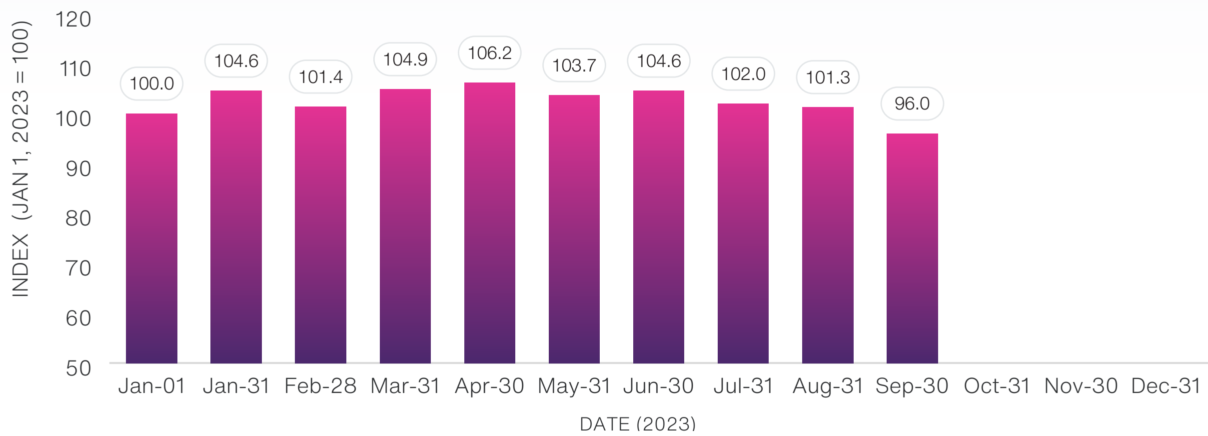
The monthly Commuted Value Index reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA’s actuarial Standards of Practice.

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

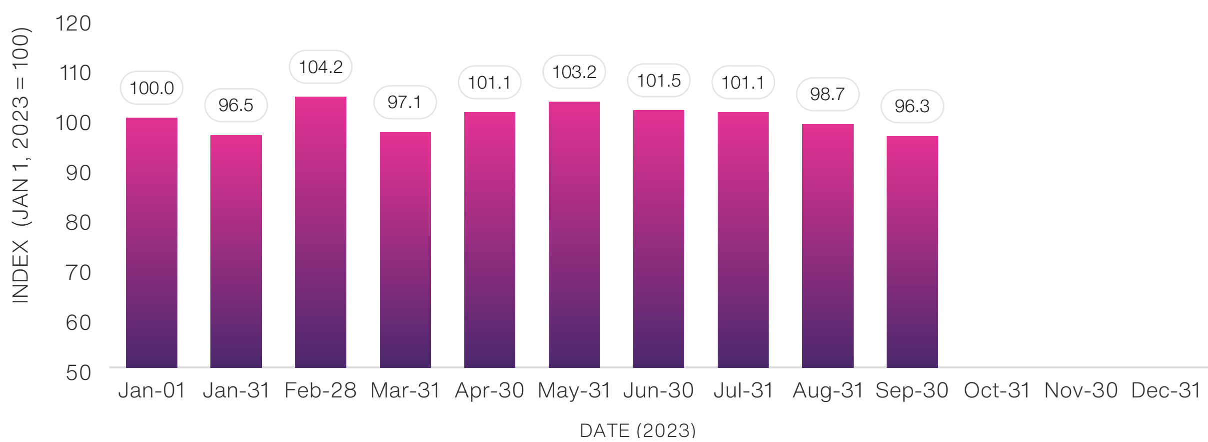
Solvency index.



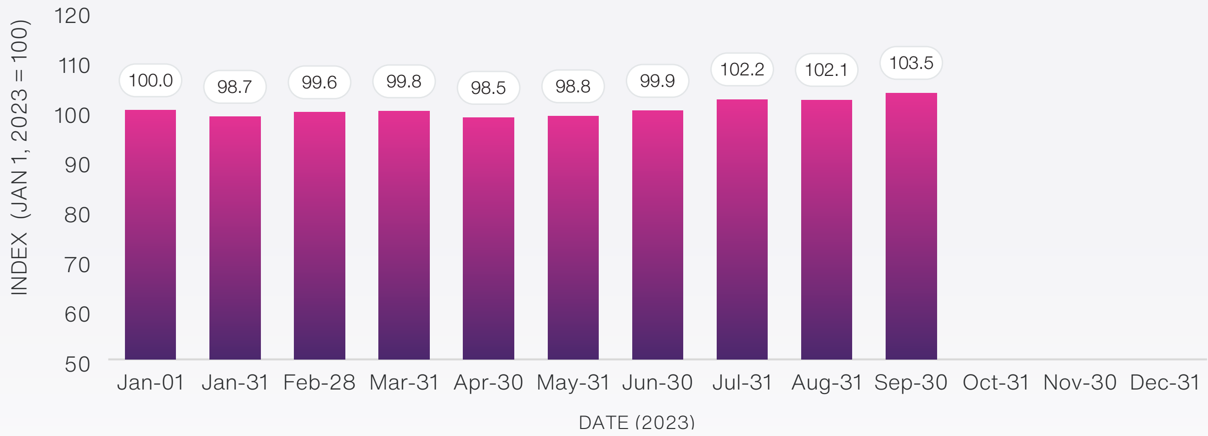
Annuity proxy index.



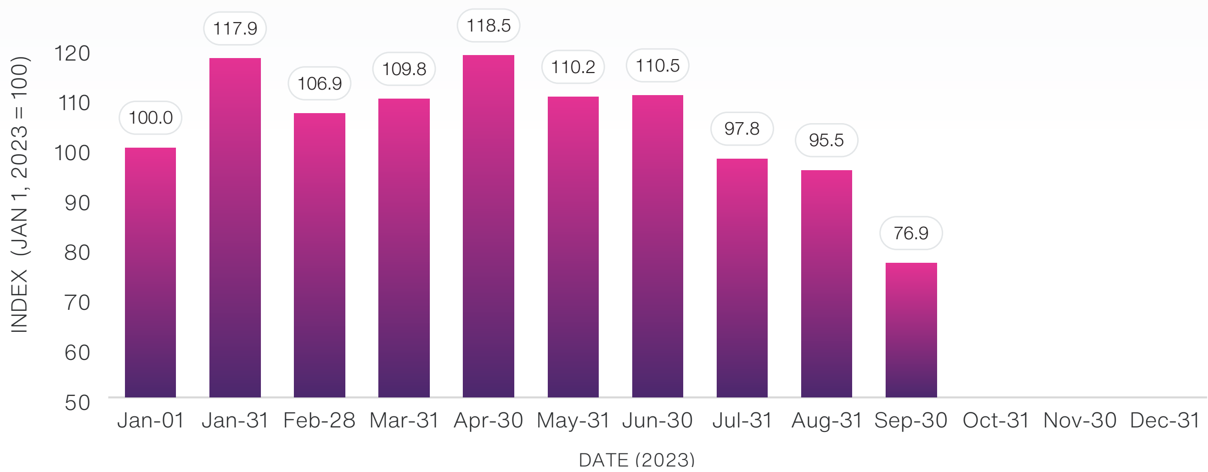
Commuted value index.



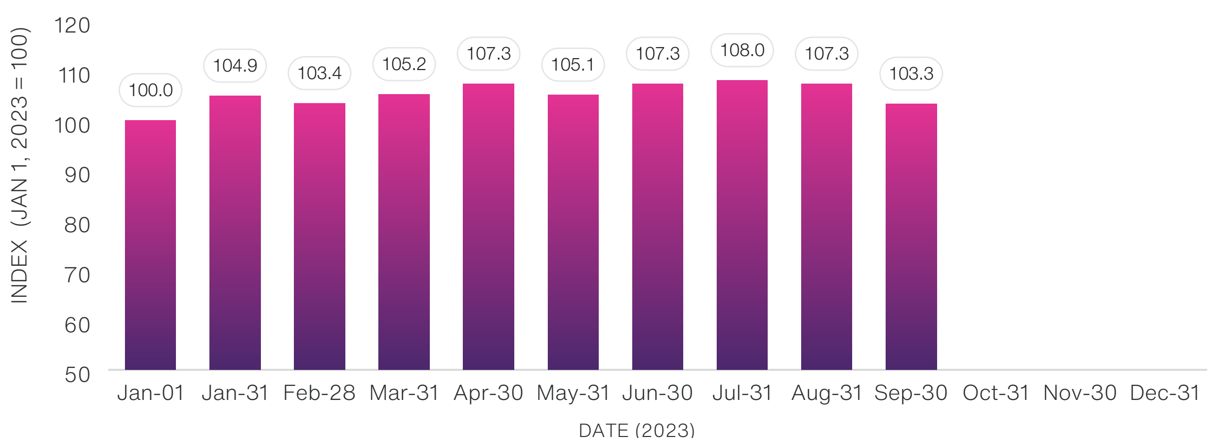
Accounting (balance sheet) index.



Accounting (pension expense) index.



Plan asset index.



Editorial Team

Gavin Benjamin
Partner,
Retirement and Benefits Solutions
(437) 703-8286
gavin.benjamin@telushealth.com

Andrea Knoll
Partner,
Retirement and Benefits Solutions
(778) 327-5370
andrea.knoll@telushealth.com

Murray Wright
Associate Partner,
Retirement and Benefits Solutions
(604) 649-0409
murray.wright@telushealth.com