



Pension Indices by TELUS Health.

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

The investment return was 2.1 per cent for the month for a representative pension plan portfolio, driven by mainly positive returns in equity markets.

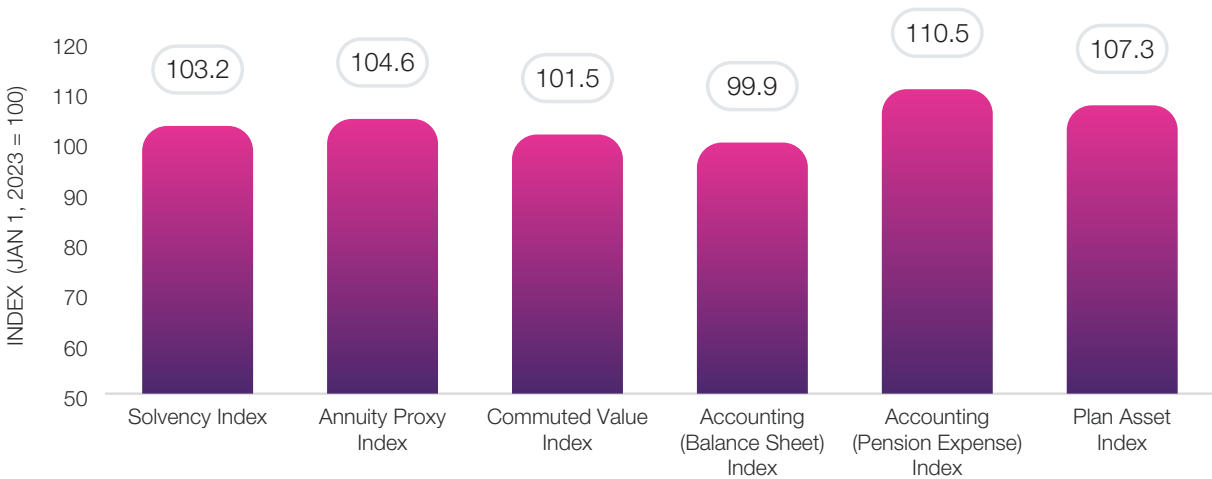
The global developed and emerging equity markets index, the MSCI ACWI, returned 3.0 per cent in Canadian dollar terms. The Canadian equity index, the S&P/TSX Composite, finished the month with a return of 3.4 per cent.

Short-term Government of Canada bond yields increased by 0.36 per cent during the month while long-term Government of Canada bond yields decreased by 0.05 per cent. Corporate credit spreads have remained relatively stable since last month.

Market expectations for long-term inflation (the break-even inflation rate) were approximately 1.70 per cent at the end of June, which represents a 0.07 per cent decrease from the end of May.

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

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“In June, the Bank of Canada raised its policy rate by 0.25 per cent to 4.75 per cent, its first increase since it paused hiking rates after the January increase. The increase reflected the Bank’s view that additional monetary tightening was needed to bring supply and demand back into balance and reduce inflation to the 2 per cent target” says Gavin Benjamin, Partner in TELUS Health’s Retirement and Benefits Solutions practice.

“Although headline year-over-year inflation was 3.4 per cent in May, which is significantly lower than the high point over the past 18 months of 8.1 per cent experienced in June 2022, the May CPI figure excluding gasoline was still 4.4 per cent and there clearly remains a risk that the battle against inflation in Canada and other key economies may not be over. Pension plan sponsors should ensure that they identify, measure, and manage the risks to their plans from a potential scenario in which inflation continues to be high, and economies and financial markets suffer as a result.”
The graphs 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.
Commutated 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 per cent equities and 50 per cent fixed income (2 per cent in 91-day T-Bills, 24 per cent FTSE TMX Canada Universe, 24 per cent FTSE TMX Canada LT, 15 per cent S&P/TSX, 35 per cent MSCI ACWI).

The plan liabilities are for a medium duration pension plan.

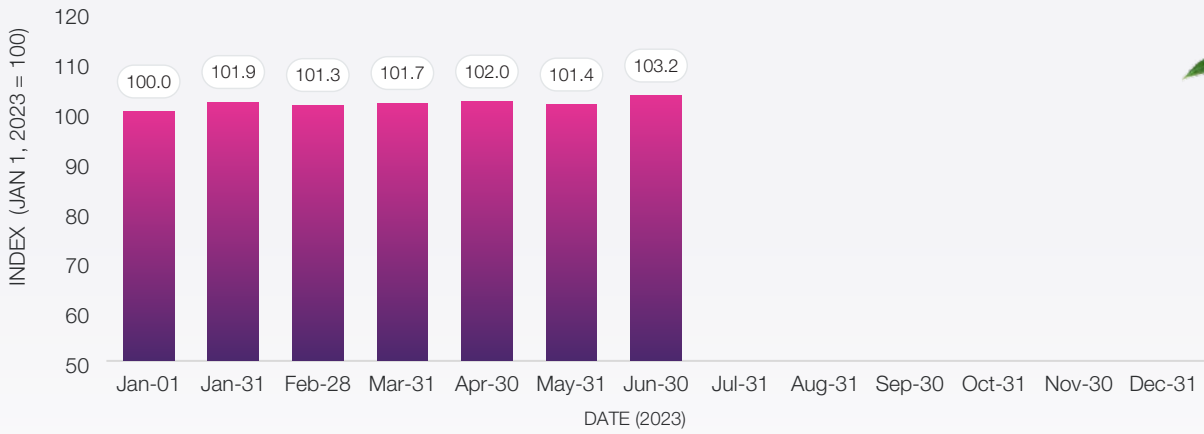
The monthly Solvency Index reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) annuity purchase discount rate guidance at each month end.

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.

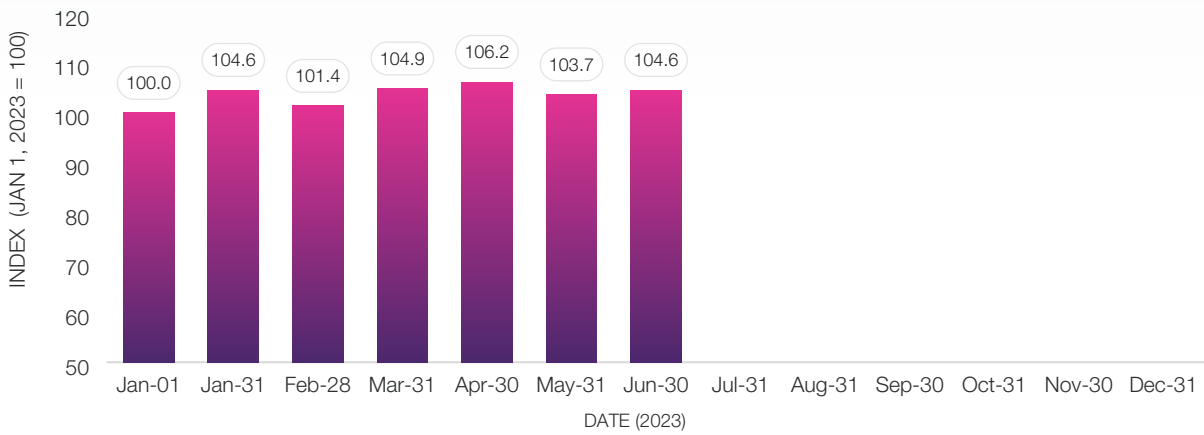
The monthly Accounting Indices reflect estimates of accounting liabilities using a discount rate derived from the TELUS Health AA Corporate Bond Yield Curve.



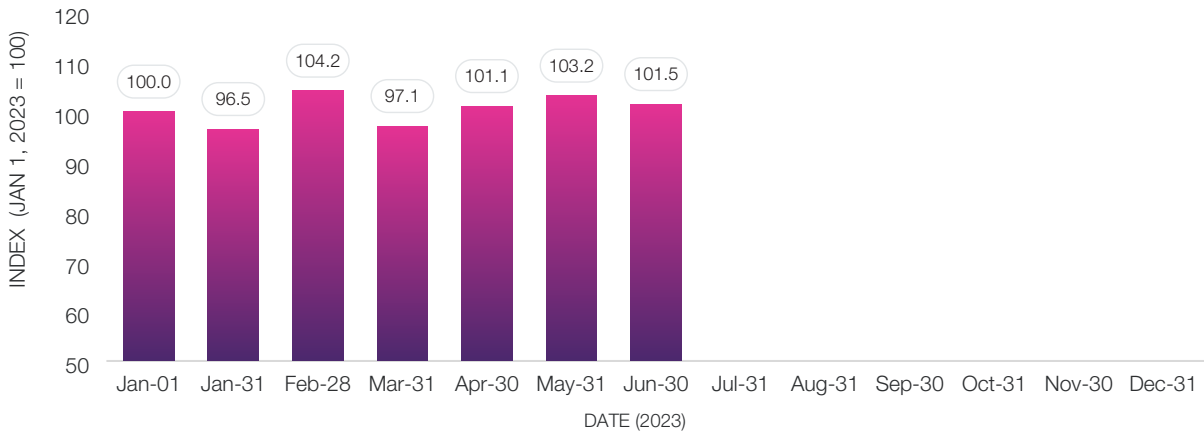
Solvency index.



Annuity proxy index.

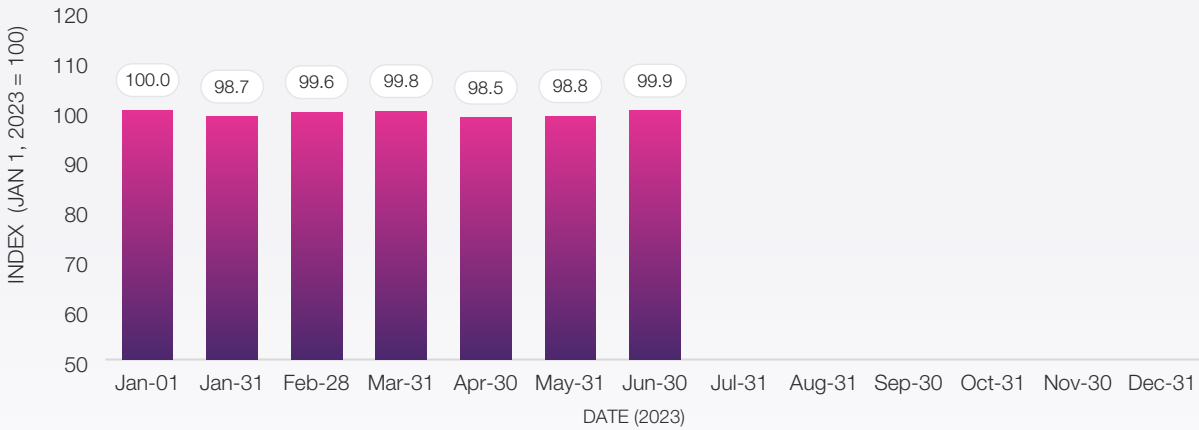


Commuted value index.

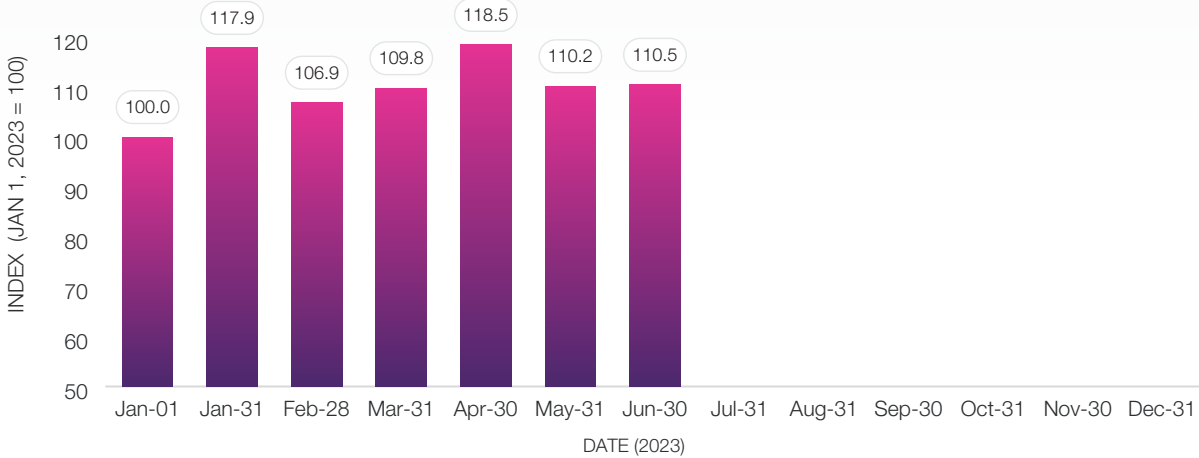




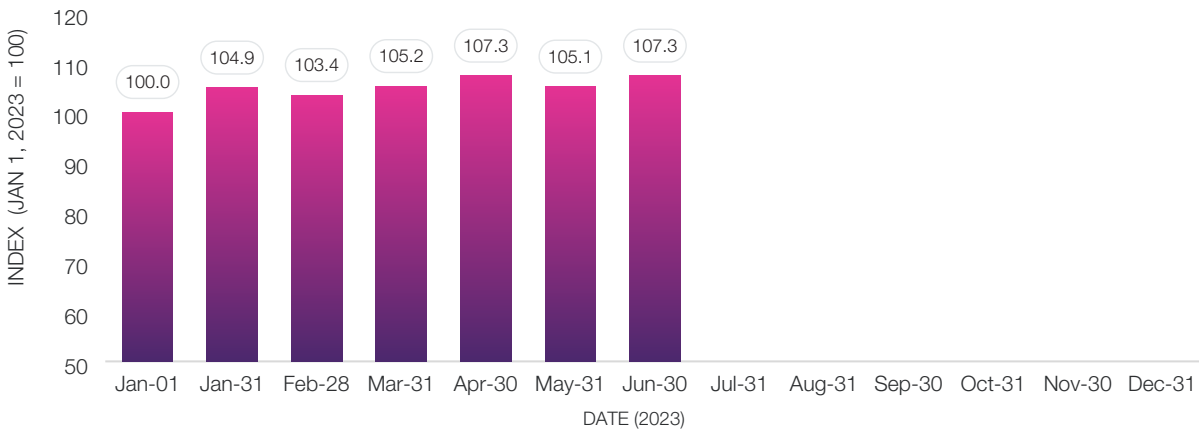
Accounting (balance sheet) index.



Accounting (pension expense) index.



Plan asset index.



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