



**Morneau Shepell Pension Indices**  
January 31, 2021

**Editorial Team**

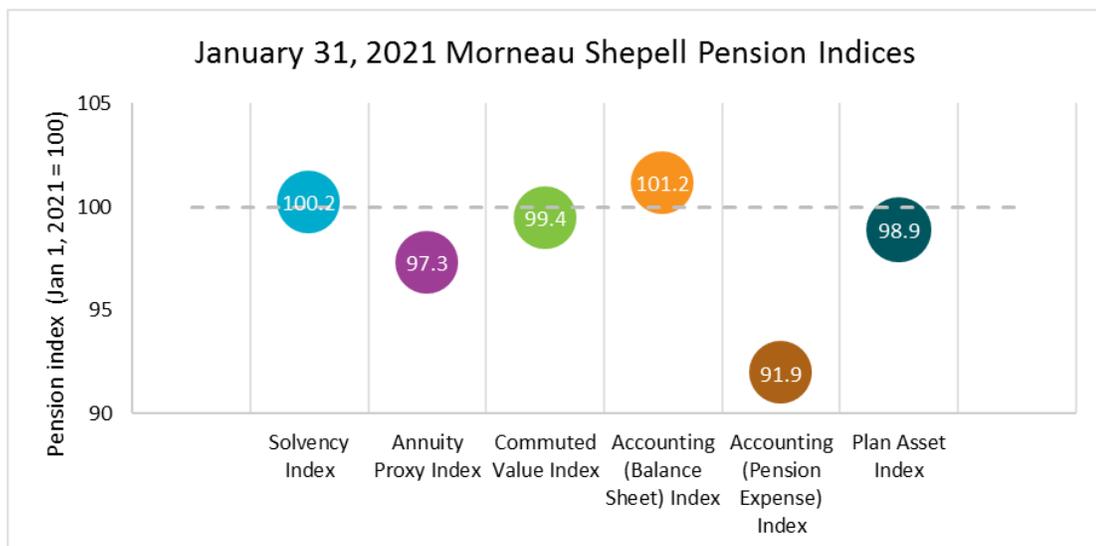
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The Morneau Shepell Pension Indices, released monthly, condense the journey that pension plans have experienced over the last year into a few key statistics. More importantly, they also provide an early indicator of the challenges that are yet to come for plan sponsors and administrators to help with the monitoring and management of their pension plans.

## Highlights:

- The funding position for an average pension plan improved slightly compared to December 31, 2020, as measured on both a solvency basis and an accounting basis.
- Increases in long-term bond yields resulted in a fall in the value placed on plan liabilities, as well as a drop in the value of long-term fixed income asset holdings.
- Plan assets for an average plan decreased slightly compared to December 31, 2020. The negative return experienced on fixed income assets was partially offset by increases in emerging markets equities.
- The cost of purchasing annuities decreased since the New Year due to increases in long-term bond yields, but commuted values increased for the same period. This is because commuted values are based on interest rates from the prior month. We will see a reduction in the Commuted Value Index in February 2021.



In January 2021, the Canadian and US equity markets started out strong with the vaccine rollout but have retreated in the second half of the month ending the month in the negative territory. Emerging markets have performed very well with a return of 3.4% for January alone due to heightened optimism. The continued intervention of central banks and fiscal policies have resulted in an increase in long-term interest rates. This steepening of the curve reduced the annuity proxy by about 2.7% in January and, because of the lag in the rates used in the commuted value calculations, will decrease the Commuted Value Index by 3.5% for February. The increase in interest rates meant a negative return for long-term bonds held in pension asset portfolios.

The overall impact on the financial position, both on a solvency and accounting basis was an improvement of roughly 0.2% and 1.2% respectively for the month of January. Credit spreads have remained fairly stable which means that spreads from the December 31, 2020 annuity purchase proxy remain appropriate. For specific pension plans, actual annuity purchase prices will vary with the plan demographics as well as with the insurers' appetite, which can change over time.

Please refer to graphs below to see a month-to-month evolution of each index.

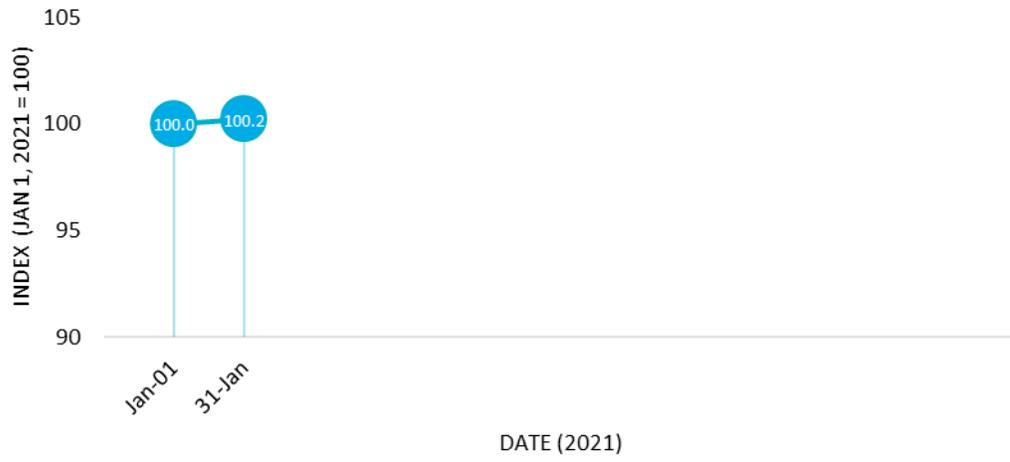
## Definitions

<b>Solvency Index</b>	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
<b>Annuity Proxy Index</b>	Provides an indication of changes in the annuity purchase proxy of an average pension plan since the start of the year
<b>Commuted Value Index</b>	Provides an indication of changes in commuted values for members of an average pension plan since the start of the year
<b>Accounting (Balance Sheet) Index</b>	Provides an indication of changes in the accounting funding level of an average pension plan since the start of the year
<b>Accounting (Pension Expense) Index</b>	Provides an indication of changes in the following year's pension expense since the start of the year
<b>Plan Asset Index</b>	Provides an indication of changes in asset levels for an average pension plan since the start of the year

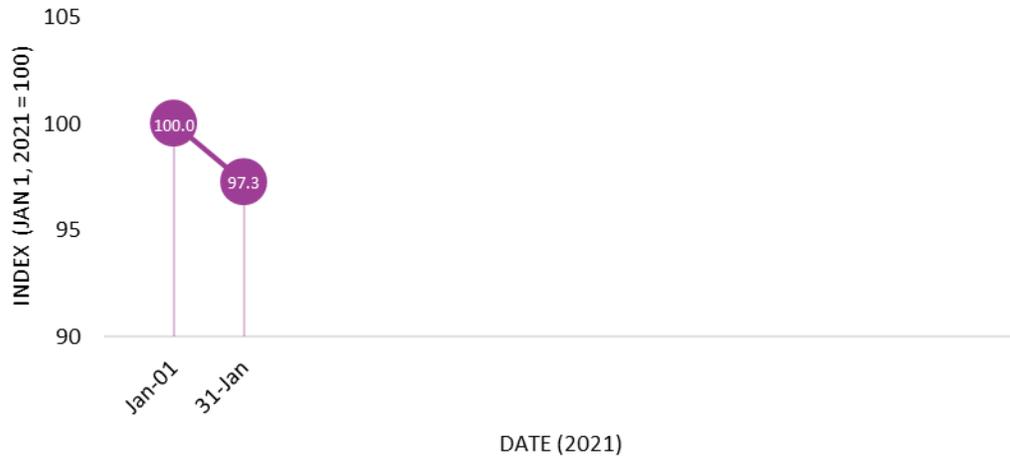
## Notes on methodology

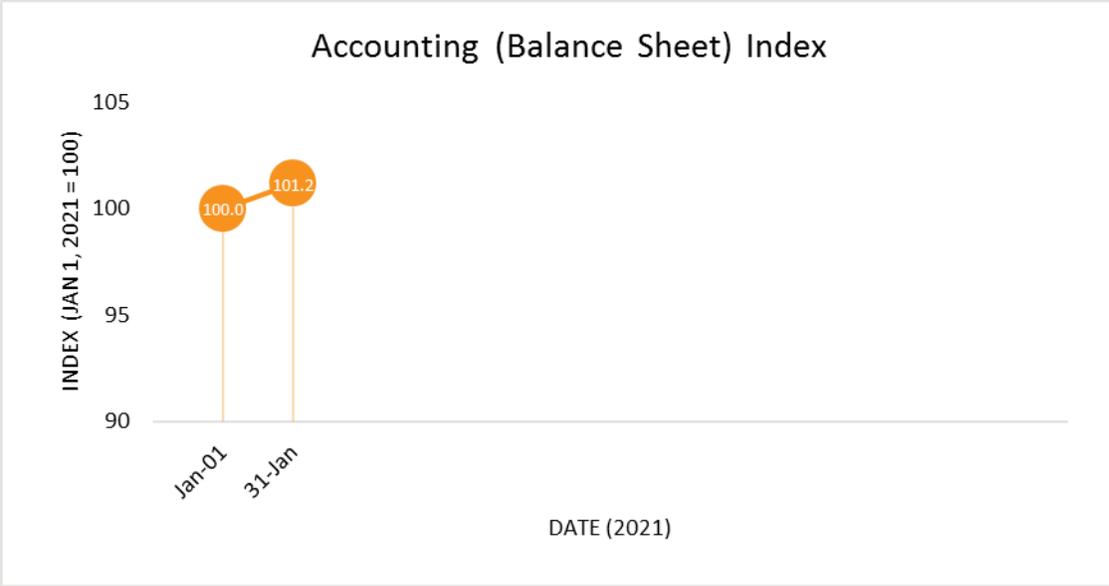
- The indices show the monthly progression of various indicative pension measures since the start of the calendar year.
- Each index is reset to 100 on January 1.
- The monthly *Asset Index* is calculated based on a Morneau Shepell Benchmark portfolio, 50% equities and 50% fixed income (2% in 91 day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 25% S&P/TSX, 25% MSCI ACWI).
- The plan liabilities are a medium duration pension plan.
- The monthly *Solvency Index* reflects estimates of solvency liabilities using the latest available Canadian Institute of Actuaries (CIA) guidance for valuations at in effect 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 Morneau Shepell AA Corporate Bond Yield Curve

### Solvency Index

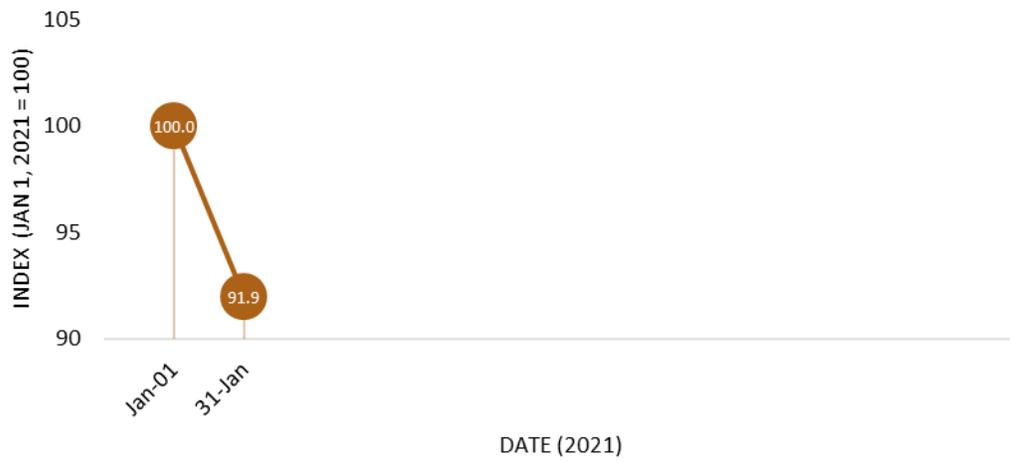


### Annuity Proxy Index

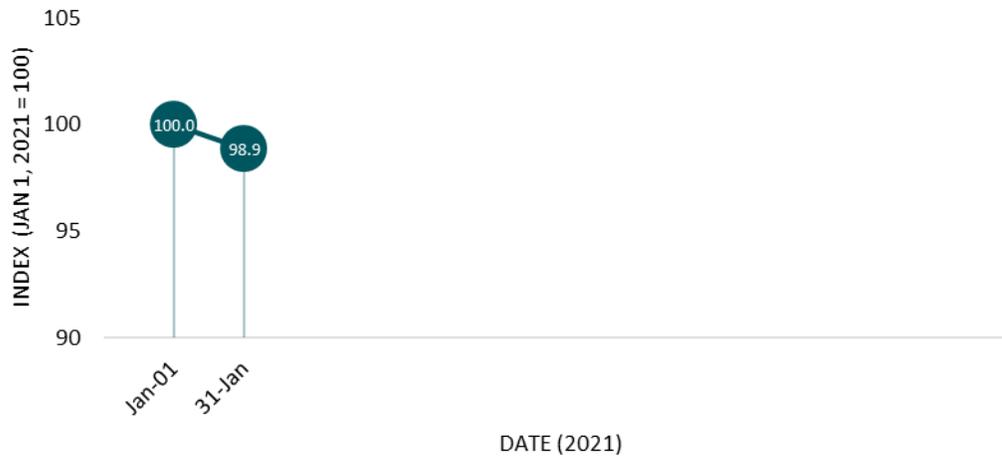




### Accounting (Pension Expense) Index



### Plan Asset Index



Morneau Shepell is a leading provider of technology-enabled HR services that deliver an integrated approach to employee wellbeing through our cloud-based platform. Our focus is providing world-class solutions to our clients to support the mental, physical, social and financial wellbeing of their people. By improving lives, we improve business. Our approach spans services in employee and family assistance, health and wellness, recognition, pension and benefits administration, retirement consulting, actuarial and investment services. Morneau Shepell employs approximately 6,000 employees who work with some 24,000 client organizations that use our services in 162 countries. Morneau Shepell is a publicly traded company on the Toronto Stock Exchange (TSX: MSI). For more information, visit [morneaushepell.com](http://morneaushepell.com).

