Morneau Shepell Pension Indices
March 31, 2021

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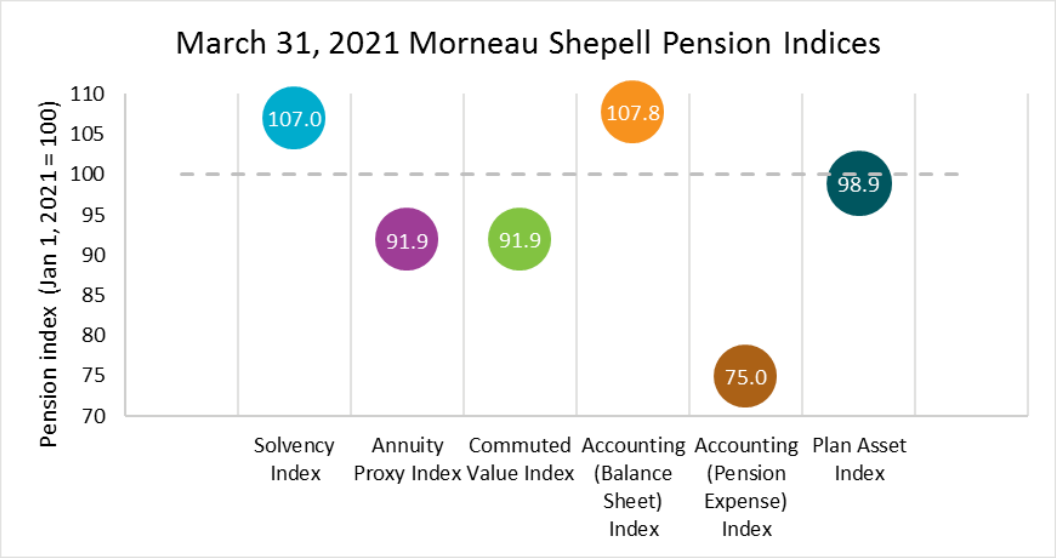
The Morneau Shepell Pension Indices, released monthly, condense the journey that pension plans have experienced during the year into a few key statistics. More importantly, they also provide an early indicator of the challenges and opportunities that are yet to come for plan sponsors and administrators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

Highlights:

- The funded position for an average pension plan continued to improve in March 2021, as measured on both a solvency basis and an accounting basis.
- Continued increases in bond yields caused a drop in pension plan liabilities, as well as negative returns for fixed income asset holdings during the month, especially for long-term bonds. Over recent months, the gap between accounting and annuity purchase discount rates has narrowed (or in some cases has disappeared), which will make an annuity purchase more attractive for some plan sponsors.
- Plan assets for an average plan remain unchanged compared to last month, and have decreased slightly since December 31, 2020. Negative returns experienced by fixed income assets were offset by increases in equity markets.
- Commuted values will continue to fall in April 2021 as commuted values are based on bond yields at the end of the previous month.
- Many DB pension plans are in the best funded position they have been in over a decade.



As of March 31, 2021, many DB pension plans were in the best funded position they have been in over a decade. This is due to a strong rally in equity markets during the past year combined with a sharp increase in bond yields over the past six months.

Equity markets performed well in Q1 2021, as most countries around the world are in the process of rolling out and administering COVID-19 vaccines. This optimism was also reflected in long-term bond yields, which continued to increase during the quarter.

In response, solvency and accounting funded positions for our average plan improved by approximately 4% and 2% respectively in March, largely due to the increases in long-term bond yields. The increase in bond yields has also led to falls in the Commuted Value Index and the Accounting (Pension Expense) Index.

Continuing with last month's trend, several plans with de-risking glide paths in place hit their trigger points and locked in gains to help them reduce future risk. For plans without a formal de-risking policy, now is a good time to assess whether it is appropriate to lock in some of the recent favorable experience and ensure that future volatility does not undo the good financial progress that plans have made over the past nine months.

"The volatility in the first quarter of 2020 was a wake-up call for many plan sponsors and a reminder that the funded status of a pension plan can deteriorate rapidly if the plan has not been de-risked. The rebound in the funded status of many pension plans to levels not seen for over a decade provides a golden opportunity for sponsors to revisit their risk tolerance and adjust the risk profile of their pension plans", says Gavin Benjamin. "Plan sponsors that are not comfortable with the amount of risk in their plans may choose to take significant de-risking action now or to make a modest adjustment to the risk profile of their plans. However, golden de-risking opportunities can be short-lived, and plan sponsors may regret not capitalizing on these opportunities when they arise."

The graphs below show the month-to-month evolution of each index.

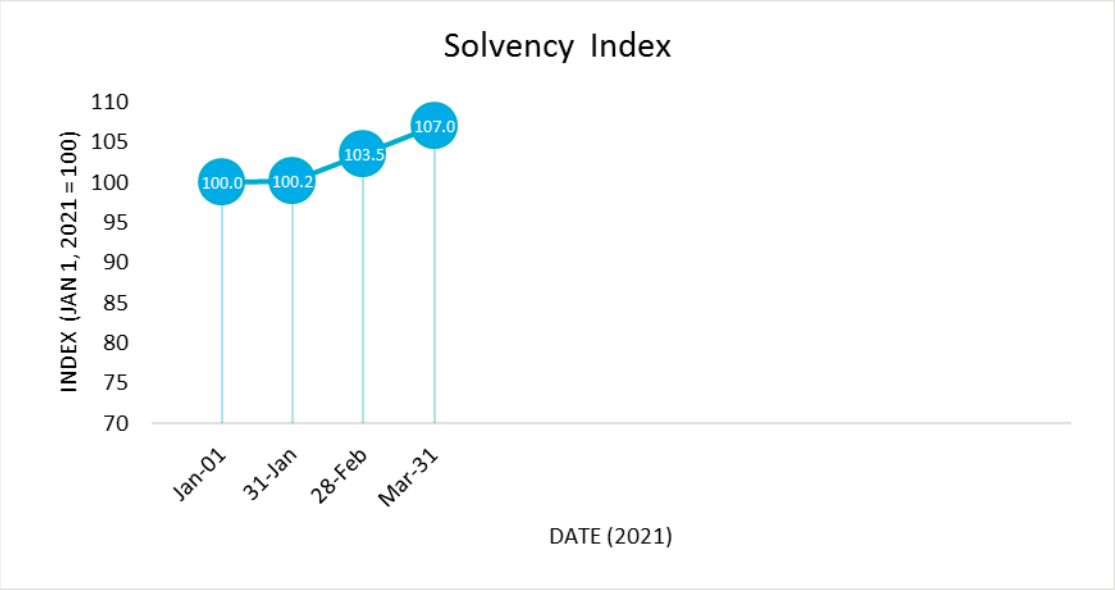
Definitions

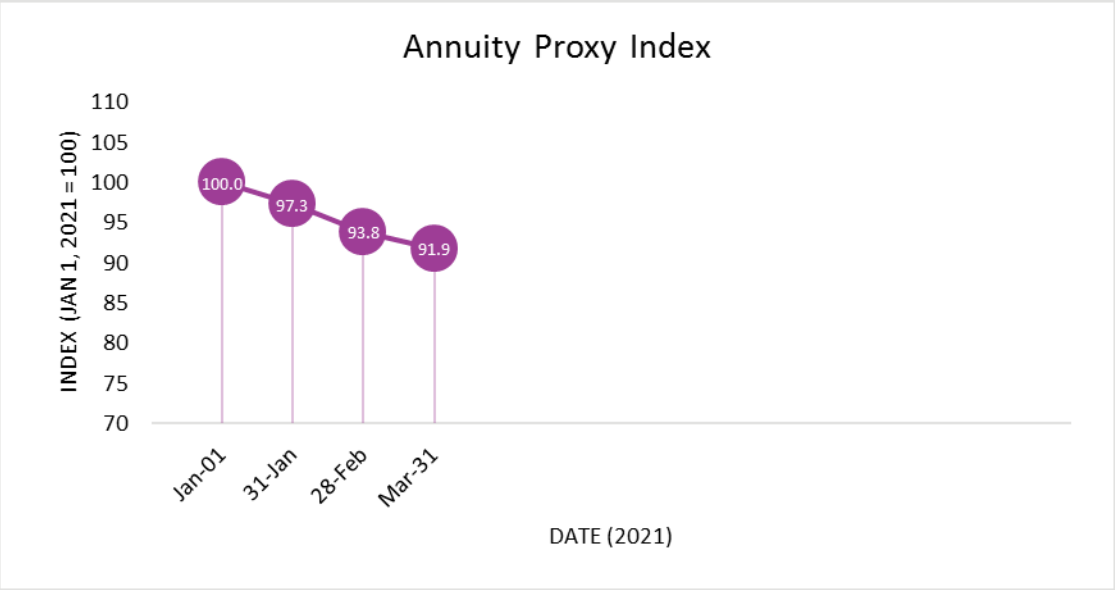
Solvency Index	Provides an indication of changes in the solvency funding level of an average pension plan since the start of the year
Annuity Proxy Index	Provides an indication of changes in the estimated annuity purchase premium for obligations with a medium duration since the start of the year
Commuted 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

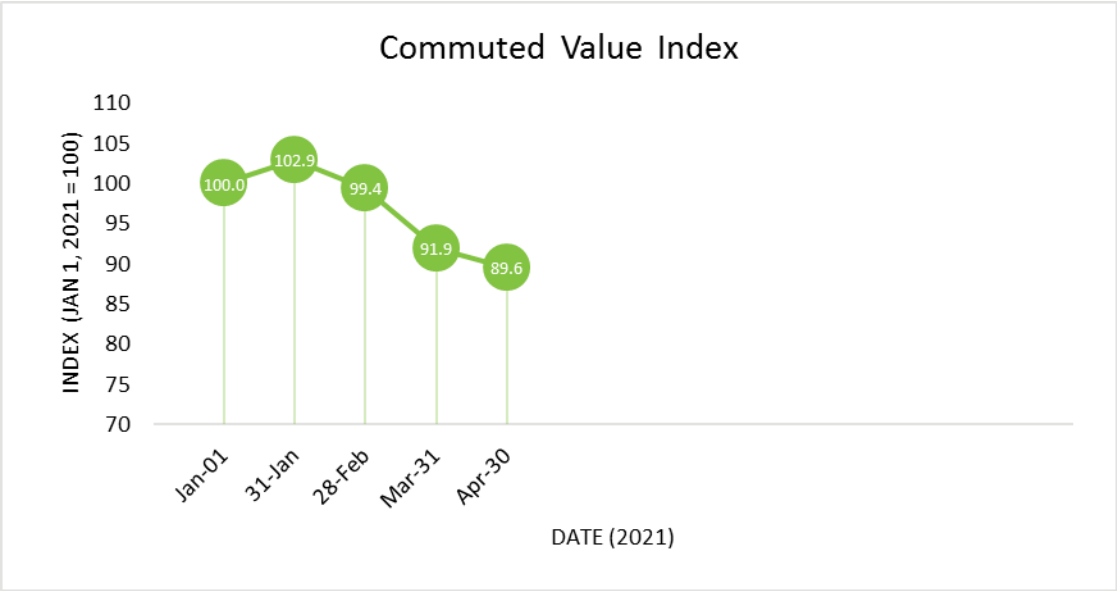
Notes on methodology

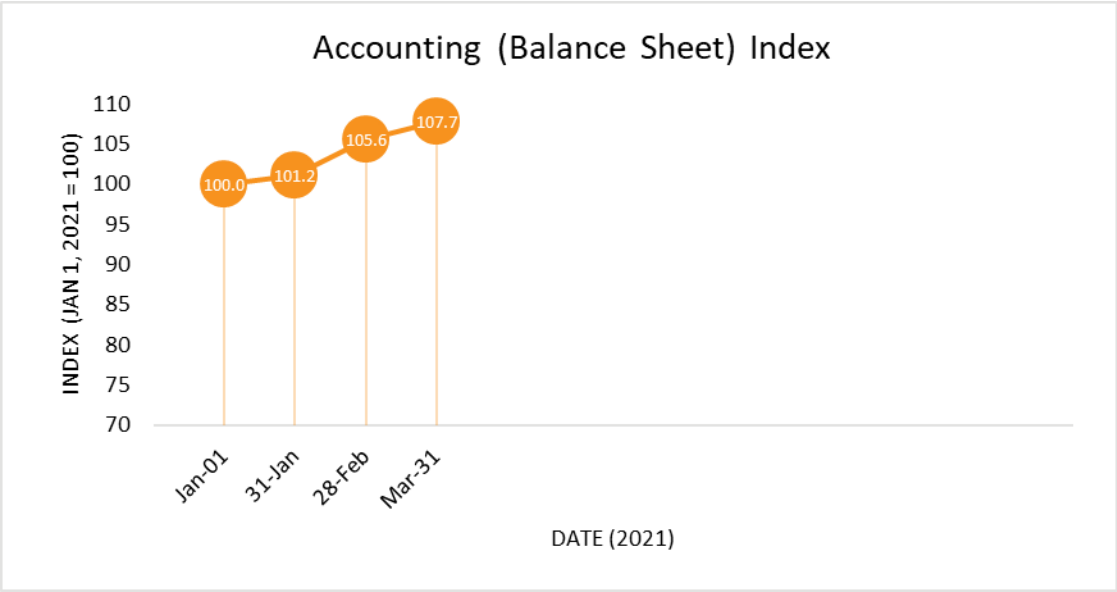
- The indices show the monthly progression of various indicative pension measures since the start of the calendar year.
- Each index is reset to 100 on January 1.
- The monthly *Asset Index* is calculated based on a Morneau Shepell Benchmark portfolio, 50% equities and 50% fixed income (2% in 91 day T-Bills, 24% FTSE TMX Canada Universe, 24% FTSE TMX Canada LT, 25% S&P/TSX, 25% MSCI ACWI).
- The plan liabilities are 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.

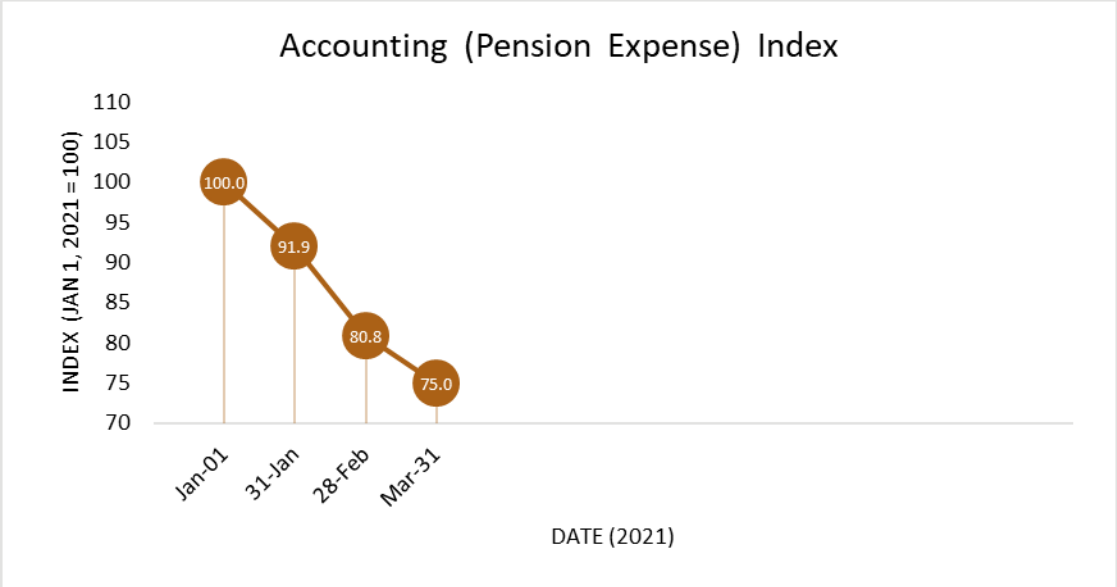
- The monthly *Commuted Value Index* reflects an estimate of a commuted value for an average plan member using the method for calculating commuted values set out in the CIA's actuarial Standards of Practice.
- The monthly Accounting Indices reflect estimates of accounting liabilities using a discount rate derived from the Morneau Shepell AA Corporate Bond Yield Curve

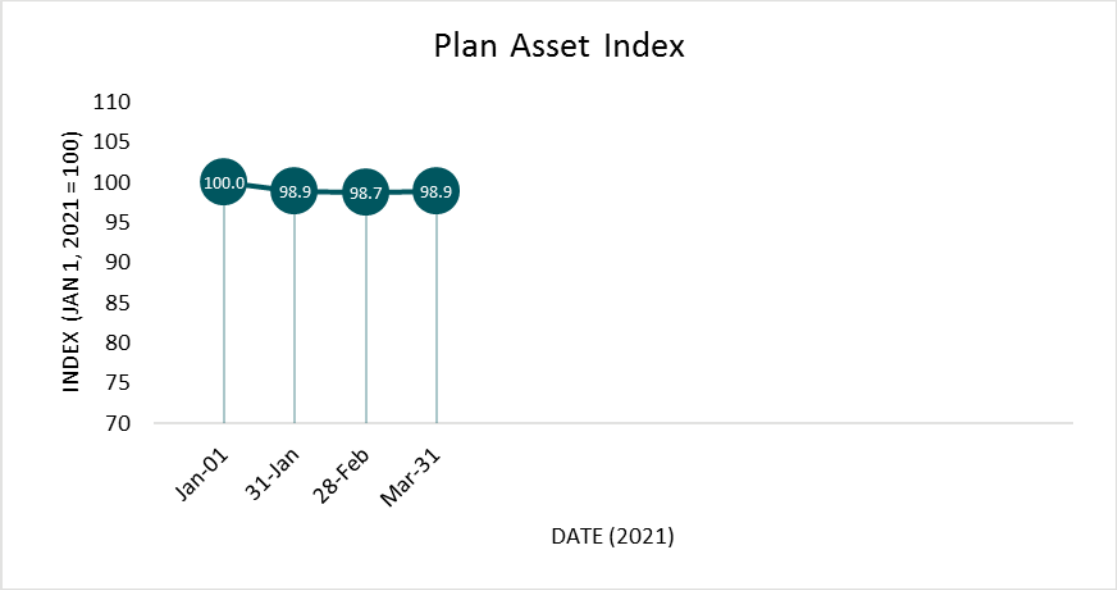





Commuted Value Index
INDEX (JAN 1, 2021 = 100)
110
105
100
95
90
85
80
75
70
100.0
102.9
99.4
91.9
89.6
Jan-01
31-Jan
28-Feb
Mar-31
Apr-30
DATE (2021)


Accounting (Balance Sheet) Index
INDEX (JAN 1, 2021 = 100)
110
105
100
95
90
85
80
75
70
100.0
101.2
105.6
107.7
Jan-01
31-Jan
28-Feb
Mar-31
DATE (2021)


Accounting (Pension Expense) Index
INDEX (JAN 1, 2021 = 100)
110
105
100
95
90
85
80
75
70
100.0
91.9
80.8
75.0
Jan-01
31-Jan
28-Feb
Mar-31
DATE (2021)


Plan Asset Index
INDEX (JAN 1, 2021 = 100)
110
105
100
95
90
85
80
75
70
100.0
98.9
98.7
98.9
Jan-01
31-Jan
28-Feb
Mar-31
DATE (2021)

MORNEAU SHEPELL

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