Canadian Pension Funding Indices

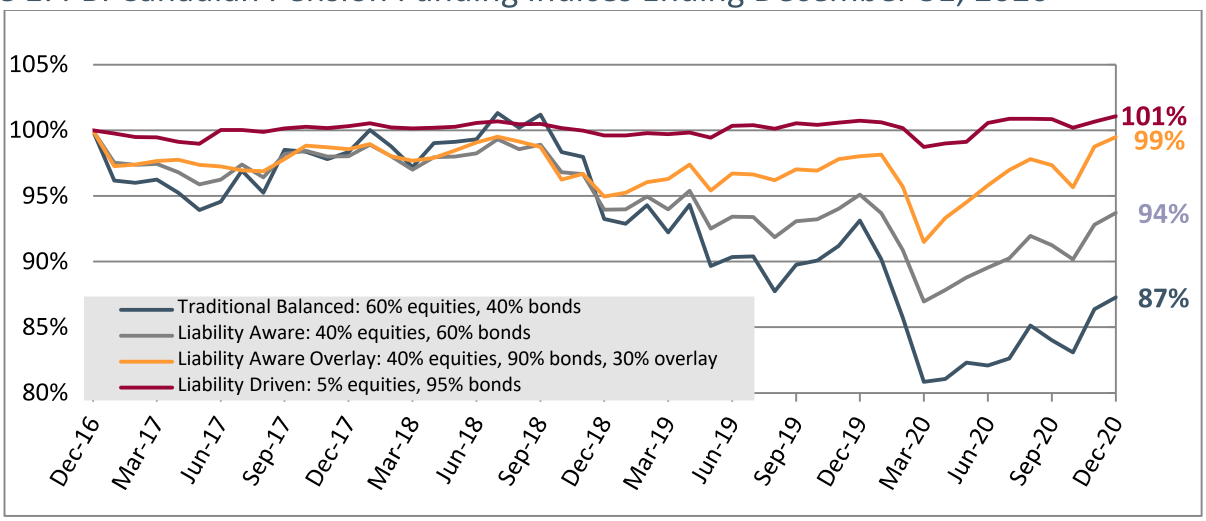
What Happened in Q4 2020?

During Q4, markets continued to rally significantly on the news of a viable COVID-19 vaccine. This translated into a strong increase in funding ratios, which have recovered some of the ground lost in 2020.

Market consensus indicates that interest rates are expected to remain low for a number of years while the economy recovers from the COVID-19 pandemic. PBI expects that a recovery will begin to occur over 2021 and continue well into 2023. This is likely to mean continued low interest rates and loose monetary policy, supporting high equity valuations. All of these factors have resulted in lower long term discount rates, thus increasing the cost of pension liabilities. The market recovery in Q4 has not been enough to offset the impact of lower long term discount rates for many plans.

Table 1 outlines the movements in the PBI Pension Funding Indices based on four asset strategies that vary in the amount of Liability Aware and return-seeking assets embedded in the fund's asset mix.

Table 1: PBI Canadian Pension Funding Indices Ending December 31, 2020



PBI Canadian Pension Funding Indices

The PBI Canadian Pension Funding Indices illustrates the potential impact of market changes on the going concern Funded Ratio[1] of a *Cost Neutral Pension Plan*. The indices illustrate how various asset mix strategies would have performed for the Cost Neutral Pension Plan. The Cost Neutral Plan represent the average demographics of PBI's client database of pension plans (plan duration of 15 years) and where the contributions to fund benefits are equal to the normal cost for the plan; no PfADs, no special payments and no contribution margins are included in determining the indices movements.

About PBI

PBI Actuarial Consultants Ltd. is a dynamic and growing company providing actuarial, administrative, and investment consulting services for pension and benefit plans, as well as various trust funds. PBI serves clients across Canada from offices in Vancouver, Montreal, and Toronto with a focus on multi-employer plans, non-profit, and public sector organizations. **Visit our website at www.pbiactuarial.ca to learn about our services, sign up for our newsletter, or connect with our experts for more information.**

[1] A funded ratio shows how a plan's assets compare to the actuarial assessment of the value of the liabilities. In short, it is the "value of assets" to the "actuarial value of liabilities". Actuaries generally measure the liabilities in two ways, "going concern" and "solvency". We have focused on going concern as it is the measure most applicable to our plans.

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