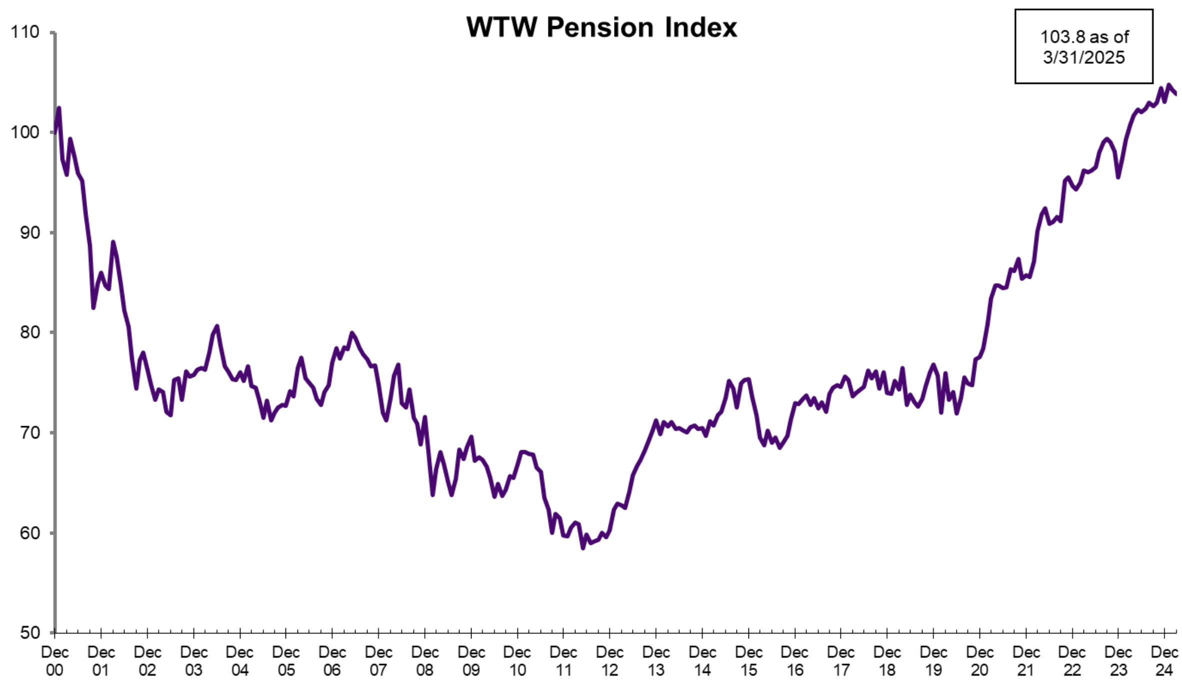
Pension Finance Watch

First Quarter 2025

Results for Canadian defined benefit pension plans

The WTW Pension Index has slightly increased in the first quarter due to positive asset returns, partially offset by a small increase in accounting liability measures. The net effect on our benchmark plan was an increase of 0.8% in the WTW Pension Index (from 103.0 to 103.8) for the quarter.



About this report

This report reviews how capital market performance affected Canadian defined benefit pension plans, with a focus on linked asset/liability results. Specific plan results depend on liability characteristics, portfolio composition and actual investment results, among other factors.

This information has been prepared for clients of WTW. For information on how this issue affects your organization, please contact your consultant, or one of the following consultants:

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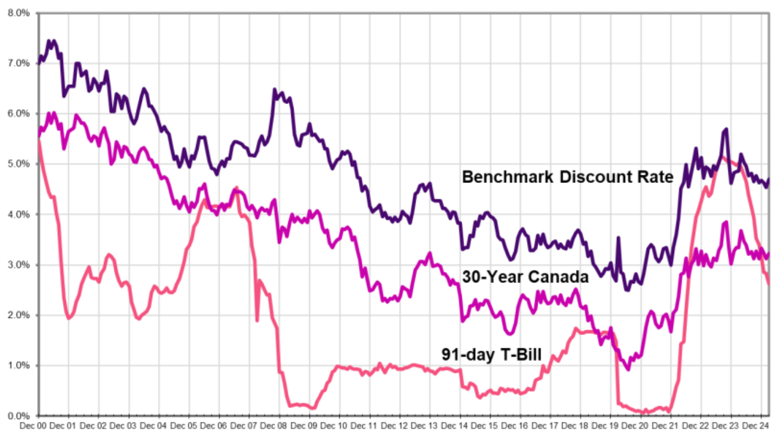
Canadian interest rates

The Bank of Canada lowered its overnight lending rate by 25 bps in January and by a further 25 bps in March, bringing the policy rate down to 2.75% at the end of the quarter. The Bank of Canada has normalized its balance sheet, ending quantitative tightening and restarted asset purchases, as part of normal balance sheet management, in early March in line with growth in the economy. Core inflation, the Bank's preferred measure of inflation trends, remained within target. As of March, CPI increased 2.3% year-over-year, which was higher than January, but a decrease from the 2.6% of February, reflecting some rebound in goods price inflation and the end of the temporary suspension of the GST/HST. However, the unpredictable economic trade policy shifts between the U.S. and Canada makes it challenging to project GDP growth and presents an unusual level of uncertainty about the economy and what policy direction the Bank of Canada may take in the future.

The yield on 30-year Canada treasuries finished the quarter 10 bps lower than it started. Credit spreads increased during the quarter by 15 bps. The benchmark discount rate determined under the RATE:Link methodology used to determine defined benefit obligations increased by 2 bps, which combined with the effect of interest accumulation led to an increase in accounting liability measures over the quarter.

Canadian Bond Yields (End of Period)			
	Mar. 2025	*Dec. 2024*	*Mar. 2024*
Canada Treasuries (1)			
30-year	3.23	3.33	3.34
10-year	2.97	3.23	3.45
91-day T-bill	2.63	3.15	5.01
Corporate Bonds(1)			
FTSE	3.91	4.09	4.92
Benchmark Discount Rate	4.70	4.68	4.86

Key Bond Yields
(at end of month)



(1) Source: Information prior to June 2015 and FTSE Corporate bond yield provided by FTSE Global Debt Capital Markets Inc. Copyright © FTSE Global Debt Capital Markets Inc. All rights reserved. The information contained herein may not be redistributed, sold or modified or used to create any derivative work without the prior written consent of FTSE Global Debt Capital Markets Inc. Effective June 2015, Canada 10 and 30 year yield were obtained from the Bank of Canada; the 91-day T-bill yield was obtained from Scotiabank.

Investment returns

The first quarter of 2025 saw mixed returns in global equity markets in local currency terms, with most markets starting the year off strong but receding in February and March, driven largely by heightened policy uncertainty amidst persistent trade tension. The US equities market posted negative returns over the quarter due to tariff concerns and noticeable impacts on the "Magnificent 7" valuations with the arrival of DeepSeek's low-cost AI. Several central banks, including the Bank of Canada, cut interest rates while others, including the U.S. Federal Reserve, paused their rate-cutting cycles.

Canadian equities posted a modest gain of 1.5% for the first quarter, with most of the positive performance driven by the Materials sector, which surged 20.3%. This sharp rise was likely fueled by investors seeking safer assets amid a backdrop of political uncertainty. The Utilities sector came in a distant second with a return of 4.9%, while most other sectors recorded negative returns. On the economic front, employment figures strengthened in January but stalled in February. While interest rate cuts provided some support to labour demand, ongoing trade tensions posed a threat to the broader recovery in the job market. The announcement of unprecedented tariffs by the United States, and the pause of most of those measures at the beginning of Q2, has added another layer of complexity. For investors, the policy whiplash has made navigating already volatile markets even more challenging.

Currency movements were notable in Q1, with the Canadian dollar holding steady against the U.S. dollar, declining by only 0.07%, but noticeably weakening against most major currencies, which impacted unhedged Canadian investors differently across their foreign equity investments. CAD returns were improved on investments in foreign equities during the quarter.

In Q1, the Canadian bond market saw yields decline across the curve, with the most pronounced drop occurring at the short end, which fell by 52 bps. This shift followed the Bank of Canada's expansionary monetary policy, including additional rate cuts and a pivot back toward asset purchases and concern about possible stagflation. The broad decline in yields resulted in positive returns across all bond segments. Corporate bonds underperformed government bonds, despite their higher yields, undermined by shorter duration in a decreasing yield and modest widening credit spreads environment.

Asset Class Returns

	Q1 2025	*YTD*	*Last 12 months*
Stock Returns			
Canadian Equities – S&P/TSX Composite (2)	1.5%	1.5%	15.8%
U.S. Equities – S&P 500 (Canadian dollars) (3)	-4.4%	-4.4%	15.0%
Non-North American Equities – MSCI EAFE (Canadian dollars) (4)	6.8%	6.8%	11.3%
Canadian Fixed Income Returns			
91-day T-Bills	0.8%	0.8%	4.5%
FTSE Universe Bonds	2.0%	2.0%	7.7%
FTSE Long Bonds	1.8%	1.8%	7.0%

(2) Source: Bloomberg LP. All S&P/TSX Composite indices are registered trademarks of The Toronto Stock Exchange Inc. and Standard & Poor's Corporation.
(3) Source: Bloomberg LP. All S&P indices are registered trademarks of Standard & Poor's Corporation
(4) Source: Bloomberg LP. All MSCI indices are registered trademarks of Morgan Stanley Capital International Inc.

The benchmark plan's 50% equity / 50% fixed income portfolio increased 1.6% for the quarter. The more conservative 30% equity portfolio increased 1.7% for the quarter, and the more aggressive 70% equity portfolio increased 1.4% for the quarter.

Pension plan liabilities under Canadian, International and U.S. accounting standards are measured using a discount rate based on yields available on high-quality corporate bonds as of the measurement date. Using the same RATE:Link methodology as we use for the WTW Pension Index in other countries, the discount rate for our Canadian benchmark plan increased over the quarter by 2 bps to 4.70% as of March 31, 2025. Among other factors, the selected discount rate depends on projected plan cash flows, the bond data and the methodology utilized for constructing the yield curve. The RATE:Link approach represents one possible methodology; other acceptable methodologies may result in higher or lower discount rates, and consequently lower or higher plan liabilities.

WTW tracks the monthly change in its Pension Index in a series that dates to December 31, 2000. Like bond prices, pension liability values move in the opposite direction to interest rates. The WTW Pension Liability Index increased by 0.8% for the quarter, reflecting the combined effect of interest accumulation and the benchmark discount rate change.

The net impact of the increase in accounting liability measures and positive investment returns resulted in a net increase in the WTW Pension Index over the quarter, from 103.0 to 103.8 as of March 31, 2025. The change in the WTW Pension Index does not reflect any contributions made to reduce the size of any deficit or any contribution holiday taken on account of any surplus.

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Canadian Pension Index Results	*Q1 2025*	*YTD*	*Last 12 Months*
Portfolio Returns			
30% Stocks/70% Fixed Income	1.7%	1.7%	9.1%
50% Stocks/50% Fixed Income	1.6%	1.6%	10.5%
70% Stocks/30% Fixed Income	1.4%	1.4%	11.9%
Benchmark Plan Liability Results			
Change in Pension Liability Index	0.8%	0.8%	7.1%
Percentage Change in Pension Index	0.8%	0.8%	3.1%

Role of monitoring as part of successful global pension risk management

Those organizations that monitor their global pension plans are prepared to act quickly when market conditions evolve and have been most successful in achieving their cost and risk management objectives. Monitoring for such conditions is most effective when done in real-time, tailored to the specific characteristics of each retirement plan and supporting assets.

The Pension Finance Watch captures results for benchmark plans at the end of each quarter and can be a useful guide. For those organizations wishing to inform key business decisions for their own plans, WTW supports the daily monitoring of funded status and other key pension financial metrics via the Cost and Risk Management Channel, contact your consultant for more information.

Broader risk management perspective

Beyond financial monitoring, we observe multinationals with the greatest success in managing their defined benefit pension risks exhibit a number of consistent characteristics. They:

- Take the time to understand the complex risks inherent in the plans and the levers available to managing that risk
- Establish a clear, central level of tolerable risk and strategy to managing within those metrics
- Employ a systematic, multi-local approach to evaluating and deploying risk management actions
- Monitor financial markets, changing practices, legislation, and trends.

For more insights on the common techniques multinational organizations have deployed to manage pension risk, we encourage you to read our article on Mastering DB Risks Globally.

A note to our readers

This publication tracks the asset/liability performance of a hypothetical Canadian benchmark pension plan, based on a 50/50 asset mix and a typical liability profile. The index is not intended to represent an average funded ratio. Rather, the intent is to provide plan sponsors with a consistent and relevant measure to serve as a general indicator of the effects of capital market events on pension plan financing.

Definition of terms

Bond yields

- The 30-year Canada semi-annual bond yield reflects the yield on the actively-traded Government of Canada bond maturing in 30 years.
- The 10-year Canada semi-annual bond yield reflects the yield on the actively-traded Government of Canada bond maturing in 10 years.
- The 91-day T-Bill semi-annual yield refers to the yield on Government of Canada treasury bills which mature in 91 days.
- The FTSE Corporate semi-annual bond yield reflects the yield on the FTSE Corporate Bond Index composed of corporate bonds with varying maturity.

Asset class returns

- Total return incorporates the combined effect of price changes and interest or dividend income. This will typically differ from the daily results published in financial journals, which are based only on price changes.
- S&P/TSX Composite refers to the “S&P/TSX Composite Index”, which tracks larger companies in the Canadian market.
- S&P 500 refers to the “S&P 500 Index”, which tracks the largest 500 companies in the U.S. based on the market value of their equity. Total return is reported in terms of the Canadian dollar and therefore includes the effect of currency changes.
- MSCI EAFE refers to the “Morgan Stanley Capital International Europe, Australasia, Far East Index” of equity securities. Total return is reported in terms of the Canadian dollar and therefore includes the effect of currency changes.
- 91-Day T-bill returns are based on the “FTSE 91-day Treasury Bill Index”.
- FTSE Universe Bonds refers to the “FTSE Universe Bond Total Return Index” for government and corporate bonds of all maturities in excess of one year.
- FTSE Long Bonds refers to the “FTSE Long Term Bond Total Return Index” for government and corporate bonds with maturities in excess of 10 years.

Portfolio returns

- The WTW Pension Index 50% / 50% portfolio return is based on a diversified portfolio of 50% equity (10% Canadian, 20% U.S. and 20% MSCI EAFE) and 50% fixed income (FTSE Long Bonds).
- The 30% and 70% equity portfolios are constructed with similar composition within their equity and fixed income components.

Benchmark discount rate

- The discount rate is determined each month for this benchmark pension plan based on observed yields for high-quality corporate bonds and the benchmark plan's projected cash flows. Higher or lower discount rates may be more appropriate for other plans with different expected cash flows.* Furthermore, a variety of methodologies may be used to interpret the data available on long-term Canadian corporate bonds. This calculation uses the same RATE:Link methodology as we use for the WTW Pension Index in other countries. Other acceptable methodologies may result in higher or lower discount rates, depending on market conditions.

WTW Pension Liability Index

- The Pension Liability Index tracks the change in the benchmark plan's obligations due to the accumulation of interest and changes in financial assumptions. For this purpose, the obligations are measured based on the requirements of U.S. and International accounting standards.*
- Contributions are set equal to the level of benefit payments for the benchmark plan.

WTW Pension Index

- The WTW Pension Index is the ratio of market value of assets to accounting obligations for the benchmark plan. Assets change from month to month based on the investment performance of the 50% / 50% portfolio, assumed contributions and benefit payments. Liabilities change from month to month due to accumulated service cost and interest, benefit payments and the effects of any other changes in the WTW Pension Liability Index. The WTW Pension Index is an accounting measure, not a funding measure. As such, it is not appropriate to consider this as a measure of a pension plan's funding, which is based on statutory requirements.

* The discount rate assumption is adjusted to reflect changes in market interest rates. Our benchmark plan is a traditional final-pay pension plan with approximately half of the liabilities in respect of active employees and half of the liabilities in respect of terminated vested and retired employees. Plans with different designs or demographic characteristics will see different results in terms of both the level of appropriate discount rate and the plan's response to changes in financial assumptions.