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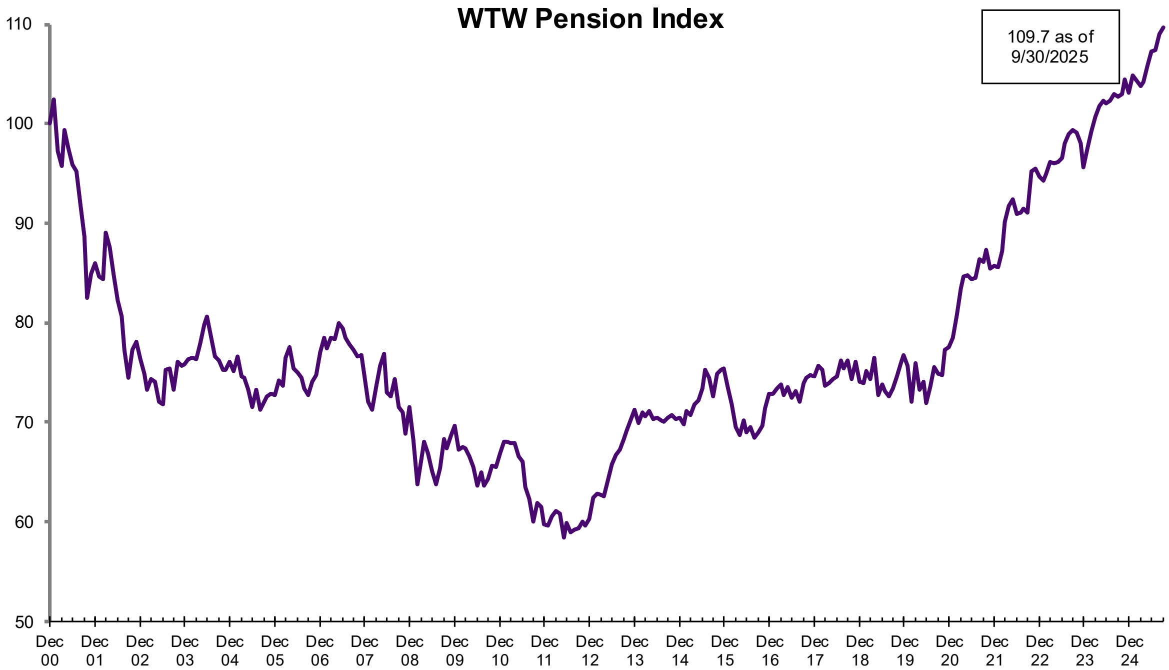
Pension Finance Watch

Third Quarter 2025

Results for Canadian defined benefit pension plans

The WTW Pension Index has increased in the third quarter due to positive asset returns, partially offset by an increase in accounting liability measures. The net effect on our benchmark plan was an increase of 2.3% in the WTW Pension Index (from 107.2 to 109.7) 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 reduced its policy rate by 25 basis points to 2.50% at the end of the third quarter. The Bank remains focused on maintaining confidence in price stability amid a period of global uncertainty. Core inflation, the Bank's preferred measure of underlying inflation trends, has hovered around 3% in recent months. However, the upward momentum seen earlier in the year has eased. As of August, CPI rose 1.9% year-over-year, up slightly from 1.7% in July and consistent with levels seen at the end of the second quarter.

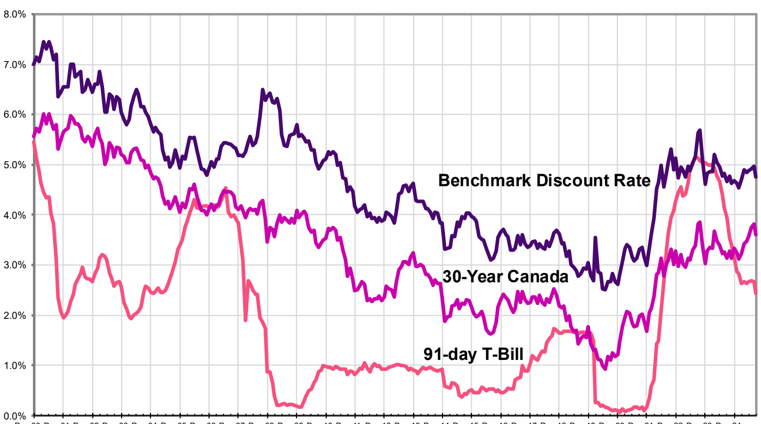
Canada's real GDP contracted by 1.6% on an annualized basis in the second quarter of 2025, primarily due to a sharp decline in exports following the implementation of U.S. tariffs. The trade conflict added to broader economic uncertainty, leading to more cautious business investment and hiring decisions. These impacts were partially offset by continued strength in household spending.

The yield on 30-year Government of Canada bonds ended the quarter 5 bps higher. Credit spreads narrowed by approximately 8 bps over the quarter. The benchmark discount rate under the RATE:Link methodology, used to determine defined benefit obligations, decreased by 13 bps. This decrease in discount rate combined with the impact of interest accumulation, resulting in an increase in accounting liability measures over the quarter.

Canadian Bond Yields (End of Period)

	Sep. 2025	*June 2025.*	*Sep. 2024*
Canada Treasuries [1]			
30-year	3.61	3.56	3.13
10-year	3.17	3.28	2.95
91-day T-bill	2.43	2.66	3.94
Corporate Bonds[1]			
FTSE	3.79	3.98	4.10
Benchmark Discount Rate	4.75	4.88	4.66

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 yields were obtained from the Bank of Canada; the 91-day T-bill yield was obtained from Scotiabank.

Investment returns

Global equity markets delivered strong gains in local currency terms during the third quarter of 2025, driven by positive sentiment surrounding continued advances in artificial intelligence (AI), strong corporate earnings, easing global trade tensions, and anticipated rate cuts by major central banks. The MSCI World Net Index rose by 9.4% (7.5% in local currency) over the quarter. U.S. equities continued rising, with the S&P 500 posting an impressive 10.5% return (8.1% in USD).

Canadian equities, as measured by the S&P/TSX Composite Index, posted a strong gain of 12.5% for the quarter. The Materials sector led the way with a 37.8% return, followed by Information Technology at 13.2%, Energy at 12.6%, Financials at 10.6% and Communication Services at 7.7%.

On the economic front, Canada's unemployment rate rose by 0.2 percentage points to 7.1% by quarter-end, reflecting the strain of ongoing trade-related disruptions.

Currency movements were notable in Q3. The Canadian dollar weakened against the U.S. dollar and weakened relative to most other major currencies, providing a boost to returns for unhedged Canadian investors across their foreign equity holdings.

The Canadian bond market experienced a slight steepening of the yield curve with Government of Canada bond yields decreasing in low and mid-term maturities across Q3, and a small increase in long-term maturities. All bonds posted positive returns with corporate bonds outperformed government bonds, benefiting from lower duration and narrowing credit spreads.

Asset Class Returns

	Q3 2025	*YTD*	*Last 12 months*
Stock Returns			
Canadian Equities – S&P/TSX Composite (2)	12.5%	23.9%	28.6%
U.S. Equities – S&P 500 (Canadian dollars) (3)	10.5%	11.1%	21.2%
Non-North American Equities – MSCI EAFE (Canadian dollars) (4)	7.0%	21.1%	18.5%
Canadian Fixed Income Returns			
91-day T-Bills	0.7%	2.2%	3.3%
FTSE Universe Bonds	1.5%	3.0%	2.9%
FTSE Long Bonds	1.2%	0.6%	-0.2%

(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 5.3% for the quarter. The more conservative 30% equity portfolio increased 3.7% for the quarter, and the more aggressive 70% equity portfolio increased 7.0% 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 decreased over the quarter by 13 bps to 4.75% as of September 30, 2025. Effective July 31, 2025, WTW refined its Global RATE:Link model to include bonds callable within one year of maturity. For Canada, as of April 30, 2025, this refinement to WTW's RATE:Link model increased the number of bonds included in the bond universe by 64% and reduced the discount rate by 14 bps for a mid to long duration plan. Therefore, the decrease in the benchmark discount rate over Q3 was likely mostly due to the refinement in WTW's RATE:Link model. 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 3.0% 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 107.2 to 109.7 as at September 30, 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.

Canadian Pension Index Results			
	Q3 2025	*YTD*	*Last 12 Months*
Portfolio Returns			
30% Stocks/70% Fixed Income	3.7%	5.6%	6.2%
50% Stocks/50% Fixed Income	5.3%	9.0%	10.5%
70% Stocks/30% Fixed Income	7.0%	12.4%	14.9%
Benchmark Plan Liability Results			
Change in Pension Liability Index	3.0%	2.4%	3.4%
Percentage Change in Pension Index	2.3%	6.4%	6.8%

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.

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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.

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* 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.
