

Direction

A Quarterly Review of a Model MEPP's Funded Status

Q2 2020 Pension Plan Experience

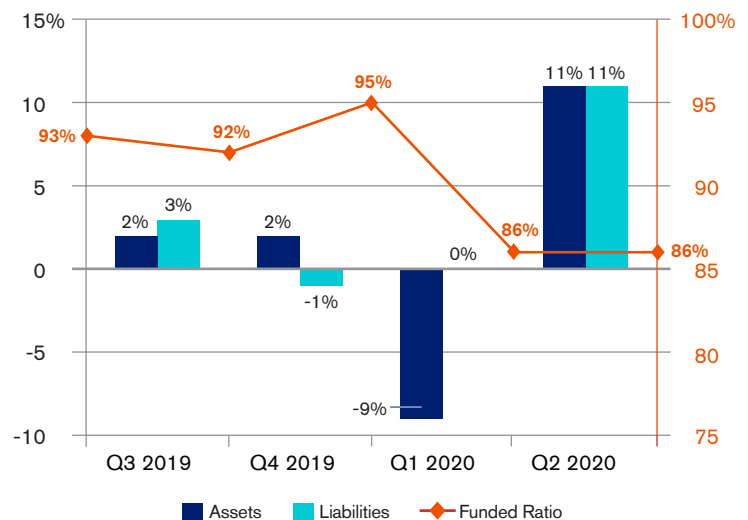
Funded status of model MEPP unchanged in Q2

During the second quarter (Q2) of 2020, the funded status of Segal's model multi-employer pension plan (MEPP) remained at 86 percent, as illustrated by the line in Graph 1. An 11 percent increase in assets offset an 11 percent increase in liabilities resulting from the decrease in the benchmark discount rate.

Graph 2 shows the movement in the benchmark discount rate over the past three years. The discount rate decreased by approximately 60 basis points in Q2 compared to Q1.

The benchmark discount rate varies based on the asset mix of a plan. The model plan's allocation is 55 percent equity and 45 percent bonds. A plan with a higher equity allocation would have had a higher benchmark discount rate and vice versa.

Graph 1: Change in Assets,¹ Liabilities and Funded Ratio²

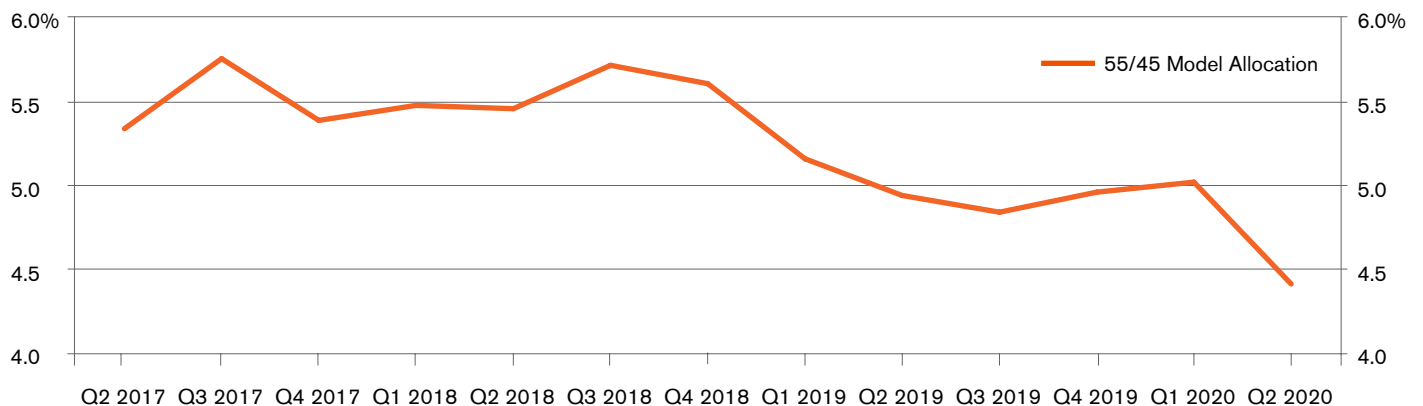


¹ The model MEPP's portfolio has a simple, passively invested asset allocation of 25 percent to domestic equities, 15 percent to U.S. equities, 15 percent to international equities and 45 percent to Canadian bonds.

² This is the ratio of a defined benefit (DB) plan's assets to accrued liabilities. The graph shows the funded ratio at the end of each quarter. The funded percentage for the model MEPP was set to 100 percent as of January 1, 2016.

Source: Segal, 2020

Graph 2: Benchmark Discount Rate¹



¹ The benchmark discount rate as defined by the Target Benefit Regulations in Alberta and British Columbia. It is composed of long-term Government of Canada bonds and Canadian corporate bond yields.

Source: Segal, 2020

Investment highlights

Graph 3 illustrates investment performance for the last two quarters of 2019 as well as Q1 and Q2 of 2020.

During Q2, these were the key factors that contributed to a very strong equity and bond return performance:

- Government intervention of an unprecedented scale in both aid and guarantee packages
- Improvement in liquidity of financial assets and positive investors' expectation
- Stabilization of the COVID-19 situation in some major countries

However, the global economy entered a COVID-19-induced recession with extreme low-utilization rates in some major manufacturing and service sectors.

Note that because MEPPs typically use asset smoothing, market fluctuations may not immediately alter a plan's financial position, but may do so over time.

Employment level by industry

Year over year, there was a dramatic decline in hours worked in all industries, as shown in the table below.

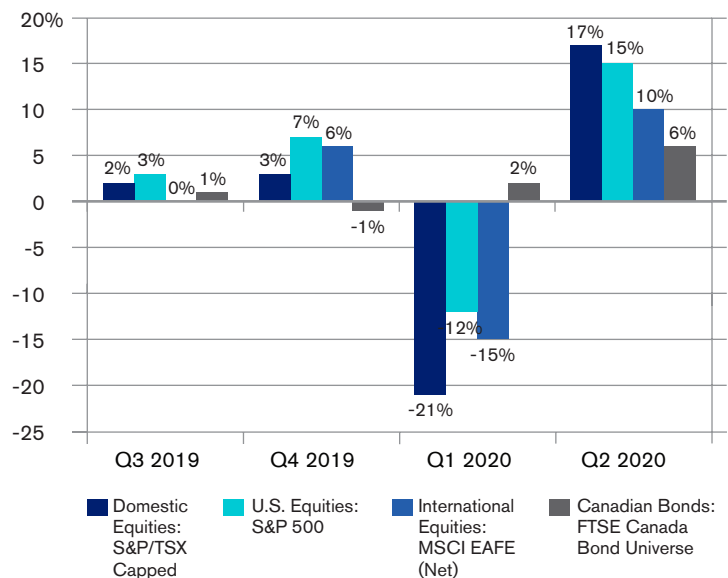
Change in the hours worked may alter the cost of a plan. A reduction in the hours worked will affect the plan's ability to cover fixed costs. This risk is magnified when a plan is dependent upon future contributions to pay down its unfunded benefit obligations.

Percentage Change in Hours Worked, by Industry, Q2 2019–Q2 2020

Construction	-18.9%
Manufacturing	-10.8%
Transportation & Warehousing	-22.2%
Utilities	-0.9%
Wholesale & Retail Trade	-11.7%
All Industries Combined	-15.0%

Source: Statistics Canada, CANSIM table 282-0092

Graph 3: Investment Performance



Source: Investment Metrics, 2020

Important: examine your own plan's experience and assumptions

Direction is designed to raise awareness of the risks MEPPs face. Trustees should examine changes in their own plan's assets, liabilities, funded ratio and employment level.* [Segal](#) can help boards of trustees to project their MEPP's funded ratio through [asset-liability modeling \(ALM\)](#) and assist in [developing funding strategies](#) to achieve the desired funding targets.

* Individual plan results will differ from this model for a host of reasons, including different funded positions, liability duration and contribution margin.

For details about how we can help trustees manage their plan through ALM, funding-strategy development and other services, or if you have questions about *Direction*, contact your Segal consultant or one of the following experts:

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