Direction

A Quarterly Review of a Model MEPP's Funded Status

Q3 2020 Pension Plan Experience

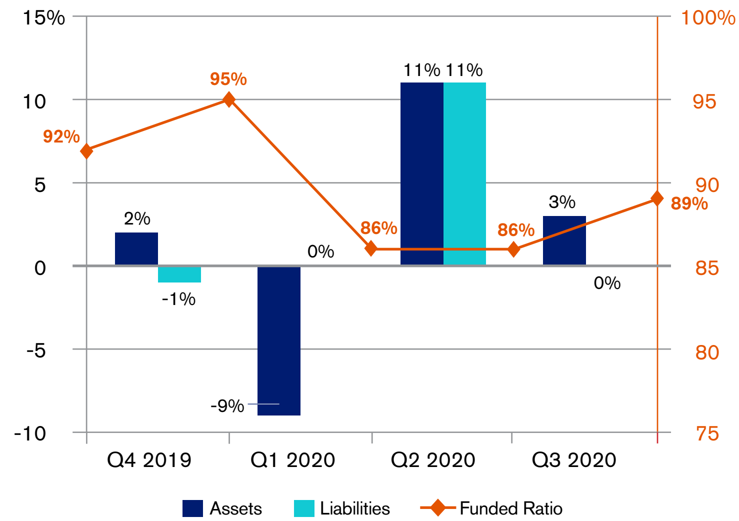
Funded status of model MEPP improved during Q3

During the third quarter (Q3) of 2020, the funded status of Segal's model multi-employer pension plan (MEPP) increased to 89 percent, as illustrated by the line in Graph 1. This is the result of a 3 percent increase in assets over the quarter and minimal change in liabilities.

Graph 2 shows the movement in the benchmark discount rate over the past three years. The discount rate increased by approximately 10 basis points in Q3 compared to Q2.

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 Ratio[2]

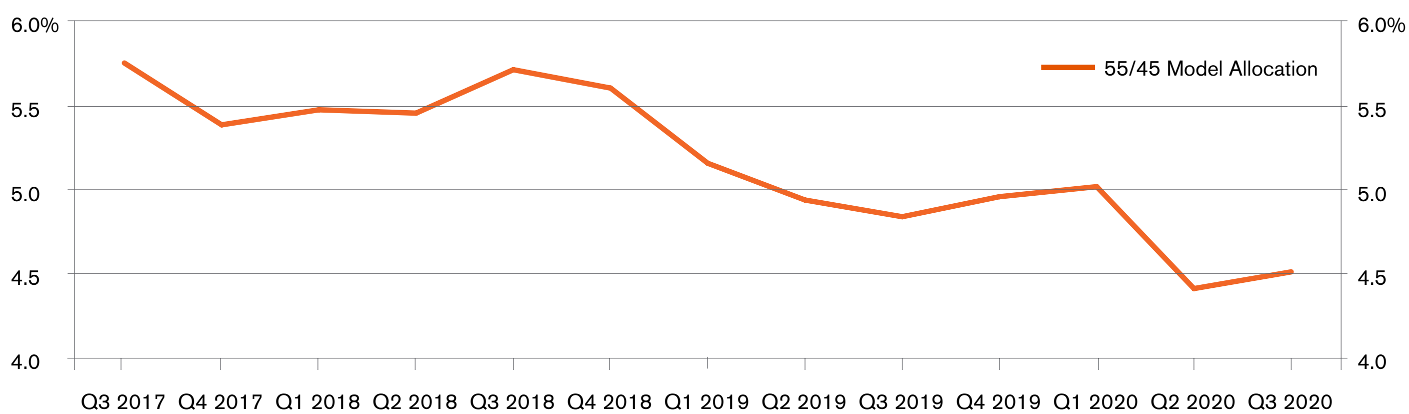


[1] The model MEPP's portfolio has a simple, passively invested asset allocation of 25 percent to domestic equities, 15 percent to U.S. equities, 15 percent to international equities and 45 percent to Canadian bonds.

[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 Rate[1]



[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

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Investment highlights

Graph 3 illustrates investment performance for the last quarter of 2019 as well as first three quarters of 2020.

During Q3, these were the key factors supporting the recovery, which was at a slower pace than in Q2:

- Significant improvement in liquidity of financial assets and continued positive investors' expectation advanced some major equity and credit markets.
- The uncertainties from the second wave of COVID-19, the upcoming U.S. election and high unemployment caused market volatilities and a market correction in September.

The global economy needs more consumer spending to continue its recovery; however with potential new lockdowns, this is now in increased jeopardy. 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 continued to be major declines in hours worked in all industries (except for Utilities revealing an increase this quarter), as shown in the table below.

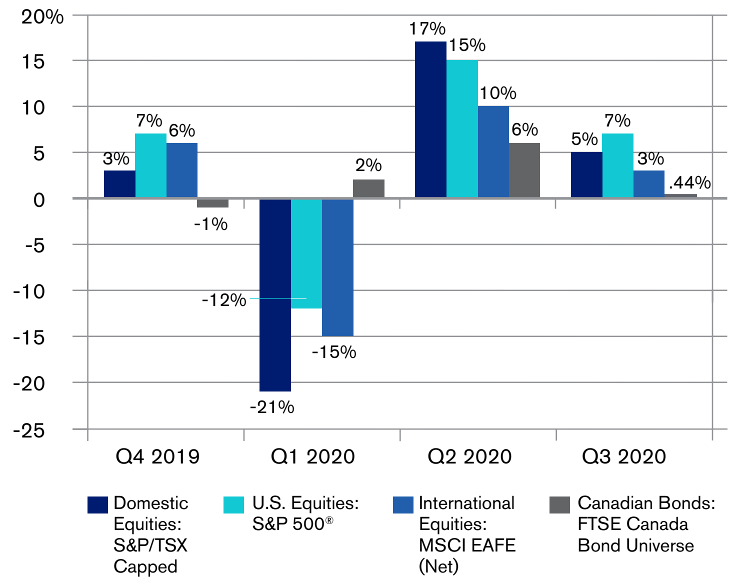
Change in the hours worked may alter the cost of a plan. A reduction in the hours worked will affect the plan's ability to cover fixed costs. This risk is magnified when a plan is dependent upon future contributions to pay down its unfunded benefit obligations.

Percentage Change in Hours Worked, by Industry, Q3 2019–Q3 2020

Construction	-10.6%
Manufacturing	-1.5%
Transportation & Warehousing	-14.7%
Utilities	2.5%
Wholesale & Retail Trade	-6.6%
All Industries Combined	-6.0%

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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