

Direction

A Quarterly Review of a Model MEPP's Funded Status

Q1 2021 Pension Plan Experience

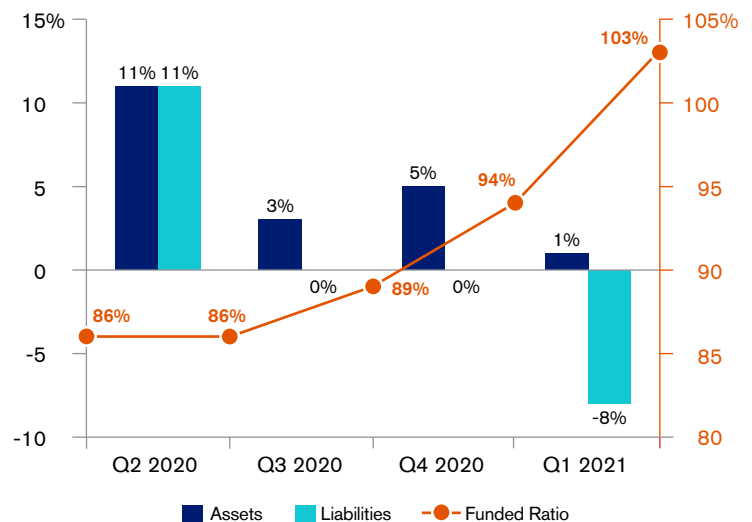
Model MEPP is now fully funded

During the first quarter (Q1) of 2021, the funded status of Segal's model multi-employer pension plan (MEPP) increased to 103 percent, which reflects a 1 percent increase in assets and an 8 percent decrease in liabilities, as illustrated by the line in Graph 1.

Graph 2 shows the movement in the benchmark discount rate over the past three years. The discount rate increased by approximately 74 basis points in Q1 compared to Q4 2020, reaching a two-year high.

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.

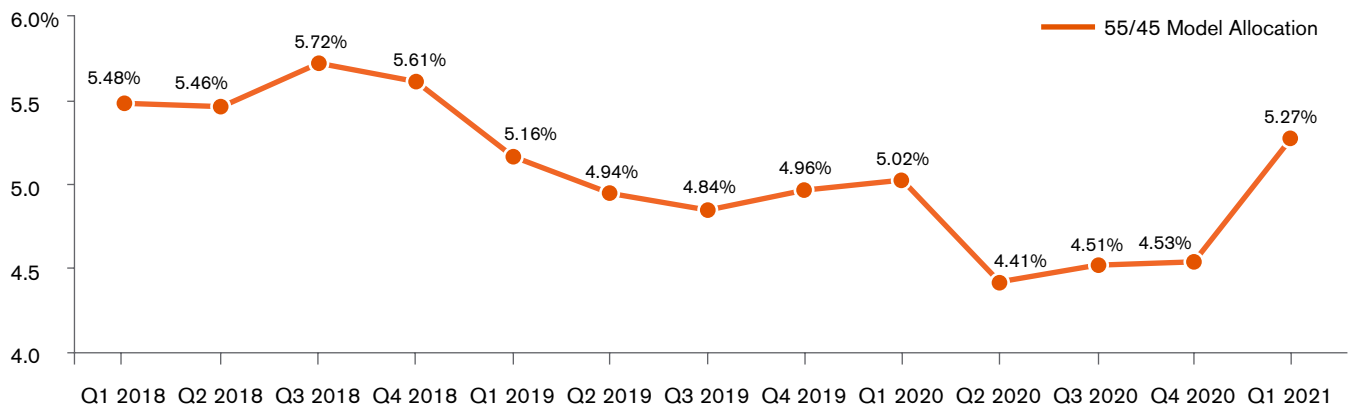
Graph 1: Change in Assets,¹ Liabilities and Funded Ratio²



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, 2021

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, 2021

Investment highlights

Graph 3 illustrates investment performance for the last three quarters of 2020 as well as Q1 2021.

During Q1, these were the key factors that affected investment performance:

- A \$1.9 trillion stimulus package passed in the United States boosted growth expectations.
- Rising COVID-19 vaccination rates and expectation of rapid economic recovery increased optimism in investors.
- Bond yields rose as investors anticipated higher interest rates and massive government deficits.

Although there are still uncertainties due to COVID-19 impacts, expectations for GDP growth and recovery worldwide in 2021 is very high. 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

Hours worked in all industries increased in Q1 2021 compared to Q1 2020. A couple of industries, as well as all industries combined, experienced double-digit growth, 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.

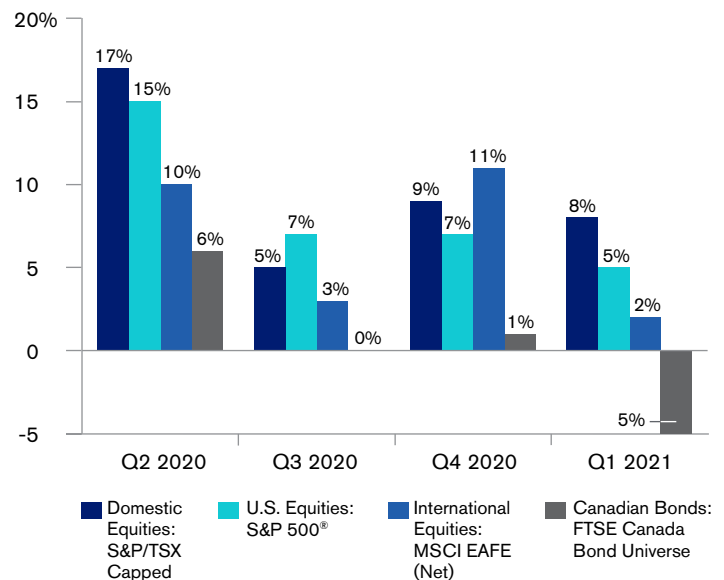
Percentage Change in Hours Worked, by Industry, Q1 2020–Q1 2021

Construction	14.0%
Manufacturing	6.8%
Transportation & Warehousing	5.7%
Utilities	9.8%
Wholesale & Retail Trade	15.4%
All Industries Combined	16.1%

Source: Statistics Canada, CANSIM table 282-0092

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Graph 3: Investment Performance



Source: Investment Metrics, 2021

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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