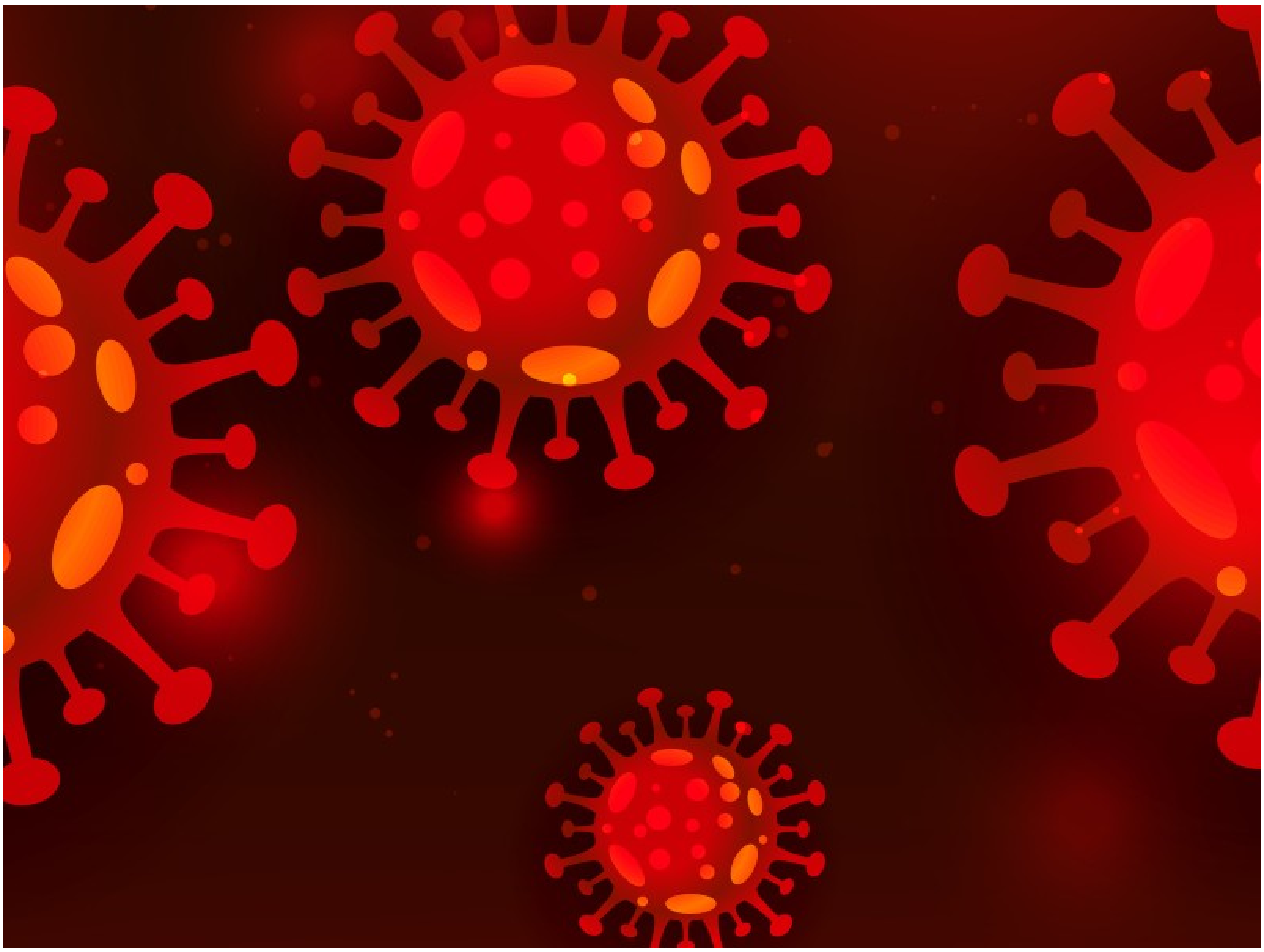
Benefits CANADA

Two years later: Canada's DB, DC pension plans weathering the pandemic

By: Blake Wolfe | March 7, 2022 | 09:00



Blake Wolfe

Canada's pension plans are weathering the coronavirus pandemic, with many plans currently in their best financial shape in several years.

The early days of the pandemic painted a bleak picture for institutional investors. Between Feb. 19 and March 23, 2020, the S&P/TSX composite index dropped by 37 per cent — the latter date marking the index's lowest point during the pandemic, according to the Bank of Canada. However, the TSX and other stock markets quickly recovered and, by the end of August 2020, the TSX index showed a decline of less than 10 per cent since February 2020, the BoC said.

Jason Vary, president of Actuarial Solutions Inc., says the majority of his defined benefit pension plan sponsor clients are better funded today than they were pre-pandemic, noting that pandemic-driven inflation has helped private sector DB plans because their benefits aren't indexed to inflation.

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"Investment returns tend to do well in inflationary environments to some degree. More importantly, interest rates tend to increase when inflation goes up and higher long-term interest rates help with liability."

The improved funded status among DB plans is also leading to an increase in plan windups. "Even though they may have been closed and frozen a while ago, they may not have been winded up. Once a plan's funded, it's easier to wind up — you don't have to write that big cheque to make the plan 100 per cent funded."

Some hybrid pension plans that have seen a surplus on the DB side are putting those funds toward a contribution holiday on the defined contribution side. And with Canada's yearly maximum pensionable earnings increasing faster than expected due to the loss of many lower-paying jobs in the labour market, plan sponsors are taking notice of this development, says Vary. For 2022, the YMPE is $64,900, a 5.3 per cent increase from 2021 and the largest jump in 30 years.

"It means that [Canada Pension Plan] and [Quebec Pension Plan] benefits are going to be higher in the future — and contributions are also higher, so that's good news for the health of those plans. Many DB plans are integrated with CPP and QPP and have a lower accrual rate below YMPE and higher accrual rate above YMPE. It makes the DB promise less generous because CPP and QPP will make up the difference. That might level off as workers return to full-time work."

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David Morton, senior director at WTW (formerly Willis Towers Watson), says the pandemic has sharpened pension plan sponsors' and investment managers' focus on environmental, social and governance factors, particularly 'S' factors as they relate to issues of diversity, equity and inclusion.

"A lot of organizations were looking at [the pandemic] from a DEI perspective, saying, 'We need to be mindful of the fact that some people are really struggling and others are actually better off.' . . . We've seen a heightened interest both from plan members and plan sponsors in ESG-focused funds. Pre-pandemic, I wasn't hearing much from plan sponsors about that. In the DB pension space, as plan sponsors select managers, they're more likely to pose probing questions around their ESG approach. They might not necessarily be targeting ESG focused managers, but they want to know the manager has a real strategy."

The pandemic's impact on employee well-being has also led many DC plan sponsors to reconsider how pensions can support financial wellness, including the role of features such as auto-enrolment and auto-escalation, as well as through an increased focus on decumulation, he says.

Read: Employers building relevant financial wellness programs for both DB, DC pension members

"Our pre-pandemic research shows that the top driver of stress was financial matters. If you're not helping employees address financial matters, you're not addressing well-being. Plan sponsors are thinking of it broadly and saying, 'How can our pension plan be part of the solution?'

"They're also looking at outcomes more often than they did. More organizations are realizing if their plan isn't helping get employees where want to be, it's not really helping the company."

This is the first part of a series of articles running this week that will explore how the benefits, pension and institutional investment industries have changed in the two years since the pandemic was declared.