

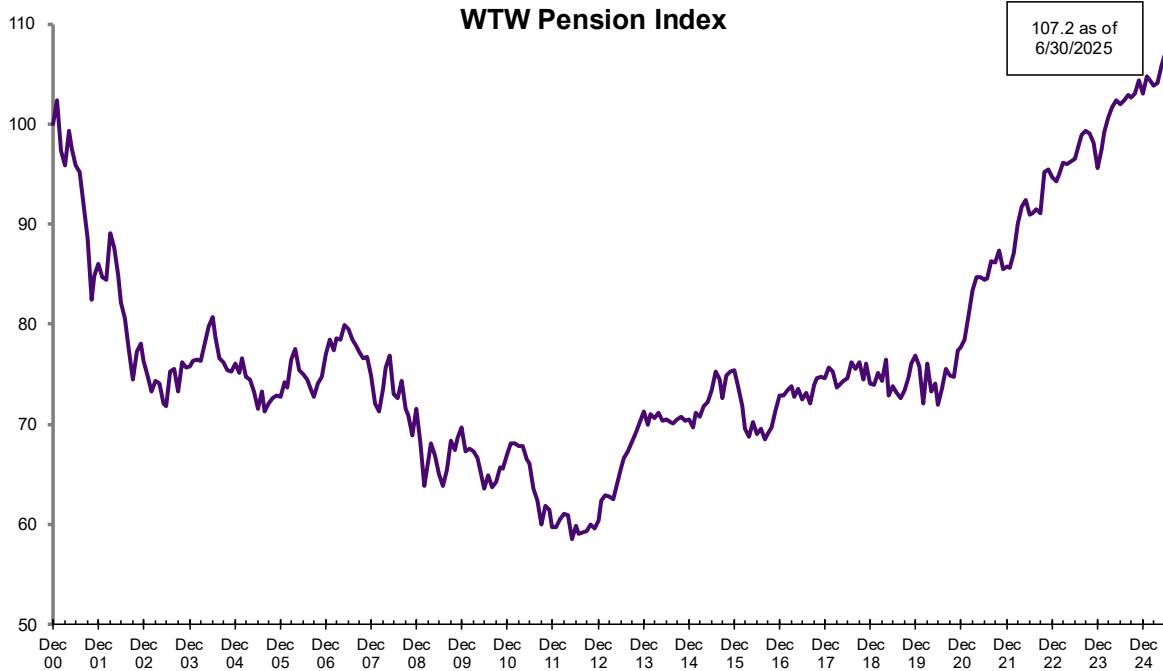


# Pension Finance Watch

Second Quarter 2025

## Results for Canadian defined benefit pension plans

The WTW Pension Index has increased in the second quarter due to positive asset returns and a decrease in accounting liability measures. The net effect on our benchmark plan was an increase of 3.3% in the WTW Pension Index (from 103.8 to 107.2) 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:

Vladimir Rnjak  
[vladimir.rnjak@wtwco.com](mailto:vladimir.rnjak@wtwco.com)

Kevin Tighe  
[kevin.tighe@wtwco.com](mailto:kevin.tighe@wtwco.com)

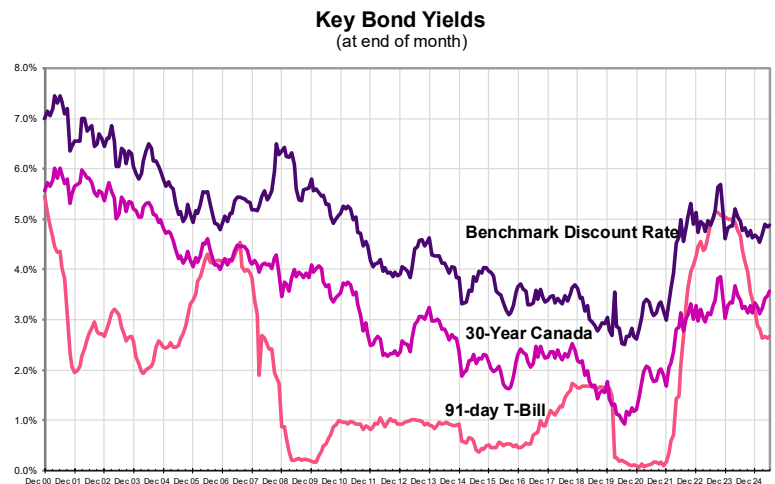
## Canadian interest rates

The Bank of Canada maintained its overnight lending rate at 2.75% throughout the second quarter. The Bank continues to focus on price stability amid ongoing uncertainty around global trade policy. Core inflation, the Bank’s preferred measure of underlying inflation trends, remained within the target range but edged higher during the quarter. As of June, CPI rose 1.9% year-over-year, up from 1.7% in May but still lower than levels seen in the first quarter. While prices for most goods increased at a faster pace, gas prices declined, partly due to the removal of the consumer carbon tax. Excluding energy, CPI rose 2.7% year-over-year in June.

Canada’s GDP grew by 2.2% in the first quarter. However, uncertainty surrounding U.S. tariffs and trade negotiations continues to cloud the economic outlook and leaves the Bank of Canada’s future policy direction uncertain.

The yield on 30-year Government of Canada bonds ended the quarter 33 bps higher. Credit spreads narrowed by approximately 15 bps over the quarter. As a result, the benchmark discount rate under the RATE:Link methodology, used to determine defined benefit obligations, increased by 18 bps. This increase offset the impact of interest accumulation, resulting in a decline in accounting liability measures over the quarter.

Canadian Bond Yields (End of Period)			
	June 2025	Mar. 2025	June 2024
<b>Canada Treasuries <sup>(1)</sup></b>			
30-year	3.56	3.23	3.39
10-year	3.28	2.97	3.50
91-day T-bill	2.66	2.63	4.66
<b>Corporate Bonds<sup>(1)</sup></b>			
FTSE	3.98	3.91	4.90
<b>Benchmark Discount Rate</b>			
	4.88	4.70	4.96



(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 yield 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 second quarter of 2025, despite ongoing policy uncertainty and persistent trade tensions. The MSCI World Net Index rose by 9.5% over the quarter. U.S. equities rebounded sharply, with the S&P 500 posting an impressive 10.9% return, driven in large part by continued strength in the “Magnificent 7” mega-cap stocks. The Information Technology sector was a key contributor, delivering an impressive 23.7% return for the quarter.

Canadian equities, as measured by the S&P/TSX Composite Index, posted a strong gain of 8.5% for the quarter. The Financials sector led the way with a 12.1% return, contributing significantly to overall performance due to its heavy weighting in the index. Information Technology and Consumer Discretionary also posted impressive gains of 14.2% and 14.0%, respectively, though their smaller representation in the index meant less impact on total returns.

On the economic front, Canada’s unemployment rate rose by 0.2 percentage points to 6.9% by quarter-end, reflecting the strain of ongoing trade-related disruptions. For investors, heightened policy uncertainty continued to add complexity to an already volatile market environment.



Currency movements were notable in Q2. The Canadian dollar strengthened against the U.S. dollar but weakened relative to most other major currencies, impacting unhedged Canadian investors differently across their foreign equity investments.

The Canadian bond market experienced rising yields across the curve in Q2, with the largest increases seen in mid and long-term maturities. As a result, mid and long-duration bonds posted negative returns, while short-term bonds managed to eke out a small gain. Corporate bonds outperformed government bonds, benefiting from higher yields and narrowing credit spreads, which helped offset the impact of the rising yield environment.

## Asset Class Returns

	Q2 2025	YTD	Last 12 months
<b>Stock Returns</b>			
Canadian Equities – S&P/TSX Composite <sup>(2)</sup>	8.5%	10.2%	26.4%
U.S. Equities – S&P 500 (Canadian dollars) <sup>(3)</sup>	5.2%	0.6%	14.8%
Non-North American Equities – MSCI EAFE (Canadian dollars) <sup>(4)</sup>	5.9%	13.1%	17.3%
<b>Canadian Fixed Income Returns</b>			
91-day T-Bills	0.6%	1.5%	3.8%
FTSE Universe Bonds	-0.6%	1.4%	6.1%
FTSE Long Bonds	-2.3%	-0.6%	4.3%

(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 1.9% for the quarter. The more conservative 30% equity portfolio increased 0.2% for the quarter, and the more aggressive 70% equity portfolio increased 3.6% 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 increased over the quarter by 18 bps to 4.88% as of June 30, 2025. 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 decreased by 1.3% for the quarter, reflecting the combined effect of interest accumulation and the benchmark discount rate change.

The net impact of the decrease in accounting liability measures and positive investment returns resulted in a net increase in the WTW Pension Index over the quarter, from 103.8 to 107.2 as at June 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			
	Q2 2025	YTD	Last 12 Months
<b>Portfolio Returns</b>			
30% Stocks/70% Fixed Income	0.2%	1.9%	8.5%
50% Stocks/50% Fixed Income	1.9%	3.5%	11.2%
70% Stocks/30% Fixed Income	3.6%	5.1%	14.0%
<b>Benchmark Plan Liability Results</b>			
Change in Pension Liability Index	-1.3%	-0.5%	5.8%
<b>Percentage Change in Pension Index</b>	3.3%	4.0%	5.1%

### 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](#).

## 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.

---

\* 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.

---