2026 Survey

Economic assumptions in accounting for pension and other post-retirement benefits.

October 2026

TELUS® Health

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Highlights of our annual survey results.

TELUS Health is pleased to provide a survey of the assumptions used by 73 Canadian public companies, reporting under IAS 19 (58) and US GAAP (15), to account for the costs of their defined benefit plans. Information is collected from audited financial statements as at December 31, 2025. This is the twenty-sixth year the survey has been conducted.

The survey is intended to provide information regarding the assumptions disclosed by a wide range of companies based on economic conditions as at December 31, 2025. Consideration should be given to market movements since the end of 2025, particularly given the ongoing central banks' monetary policy adjustments, trade conflicts and tariff concerns, the Middle East conflict and resulting oil supply concerns, and other current events that could impact assumptions. Hence, readers should exercise caution with the interpretation and use of these results. As budget discussions begin for 2027, your TELUS Health consultants would be pleased to discuss how market changes since the end of 2025 may impact your employee benefit plans.

Discount rate for pension plans.

On average discount rates at December 31, 2025 have increased when compared to the prior year. The median discount rate was 4.90% as at December 31, 2025 compared to 4.70% a year earlier. All but three companies surveyed (96%) increased their discount rate in 2025. The following figures summarize the discount rates used in the valuation of defined benefit pension plans as at December 31, 2025 (rounded to the nearest 25 bps), as well as the historical evolution of the median discount rate over the last 10 years, based on our past surveys.

Figure 1 - Discount Rate / Pension Plans

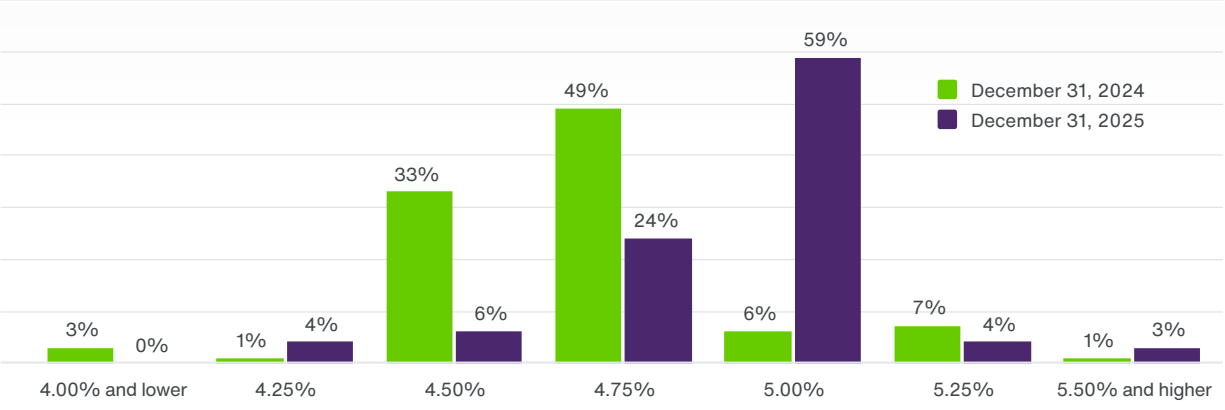
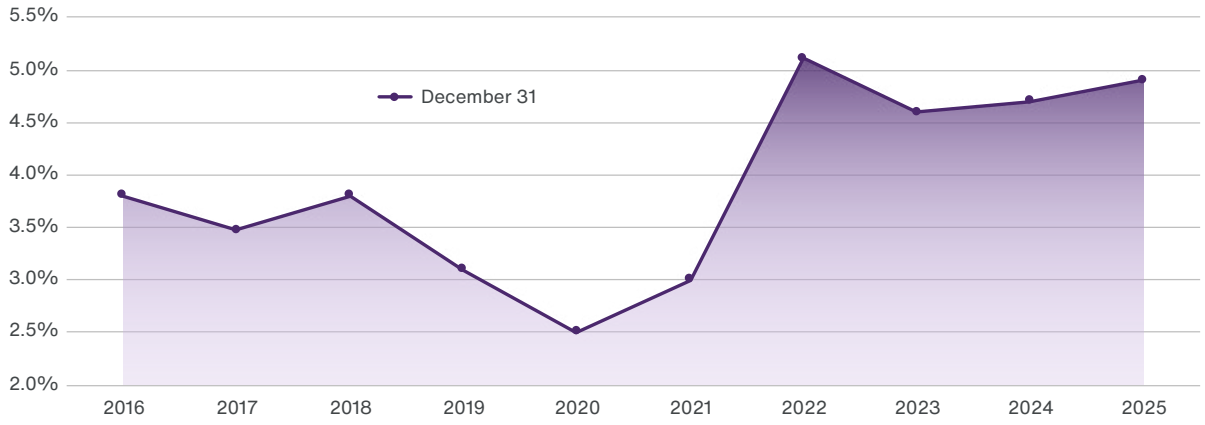


Figure 2 - Historical Evolution of the Median Discount Rate



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While the yield curve continued to steepen over the short and medium terms, the yield curve in the long end continued to be flat, hence the spread in discount rates remained relatively stable since last year. About 83% of companies used a discount rate between 4.75% and 5.00% (a spread of 25 bps), compared to 82% of companies using a discount rate between 4.50% and 4.75% (also a spread of 25 bps) at the end of the preceding year. Discount rate movement over the year is consistent with the Government of Canada (GoC) bond yields, offset by a decrease in credit spreads observed over the same period. The average GoC rates for maturities over 10 years (V39062) have increased from 3.32% at the end of 2024 to 3.80% at the end of 2025.

As stated in most accounting standards, the discount rate must reflect the estimated timing of benefit payments. In practice, companies often achieve this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments (US GAAP also allows discount rates to reflect current prices of annuity contracts that could be used to effectively settled the obligation as an alternative). Consequently, the discount rate used by one company will vary depending on the duration of the pension plan. Not all companies in the survey disclosed the duration in their financial reports.

Over time, the yields on high-quality long-term corporate bonds may vary considerably. The discount rate should be expected to vary in a similar fashion. Figure 3 compares the spot rate curves as at December 31st for the years 2024, 2025, and more recently for August 31, 2026. Spot rate curves, provided by TELUS Health, conform to the principles of the CIA Educational Note, revised in December 2020 (Second Revision).

If the spot rate curve were to remain at August 2026 levels until the end of the year, the expected accounting discount rates at December 31, 2026 would be approximately 45 bps higher than those used at December 31, 2025 for typical pension plans with a duration between 10 to 20 years.

Figure 4 compares the median discount rates in our survey to the median discount rates from a U.S. study [1].

1 Source: 2025 Study of Economic Assumptions, prepared by Deloitte Consulting LLP (U.S.). (At the time of preparing this survey, the 2026 U.S. study had not yet been published by Deloitte and the average discount rate at December 31, 2025 for U.S. companies was unavailable.)

Figure 3 - High-Quality Corporate Bonds

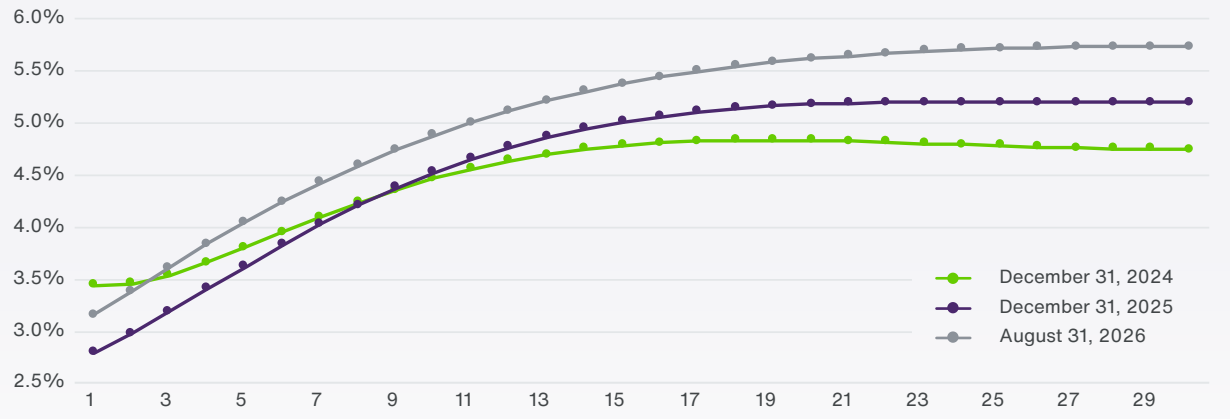
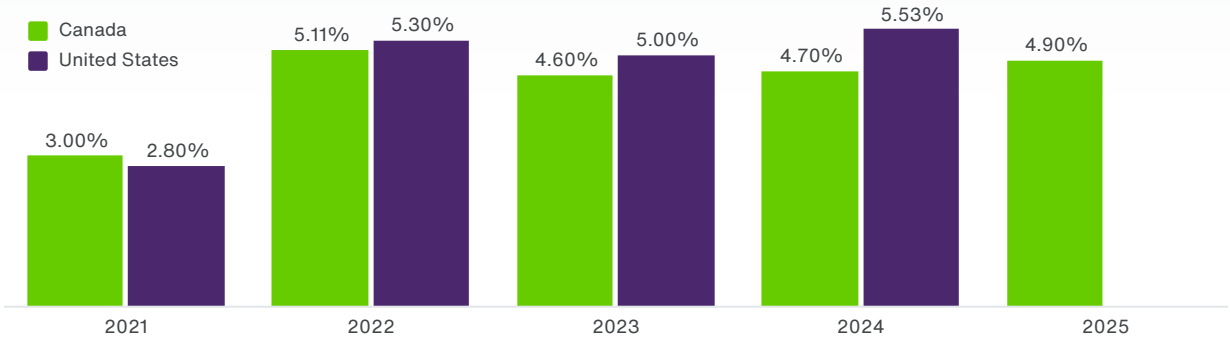


Figure 4 - Median Discount Rate by Country



2026 update

If maintained to the end of the year, most companies can expect an increase in discount rates over those used in 2025 of approximately 40-50 bps, with movement being consistent for plans with various durations. Significant increases in rates will lead to decreases in employer service costs and may potentially result in decreases in overall pension expense for 2027 for open plans. There will also be decreases in defined benefit obligations on the balance sheet, which will continue triggering pension asset ceiling issues, or de-risking activities for plans that adopted de-risking glide paths based on accounting funded status. The overall impact will be dependent on the plan's assets performance throughout 2026 compared to the accounting discount rate.

Discount rate for non-pension benefits.

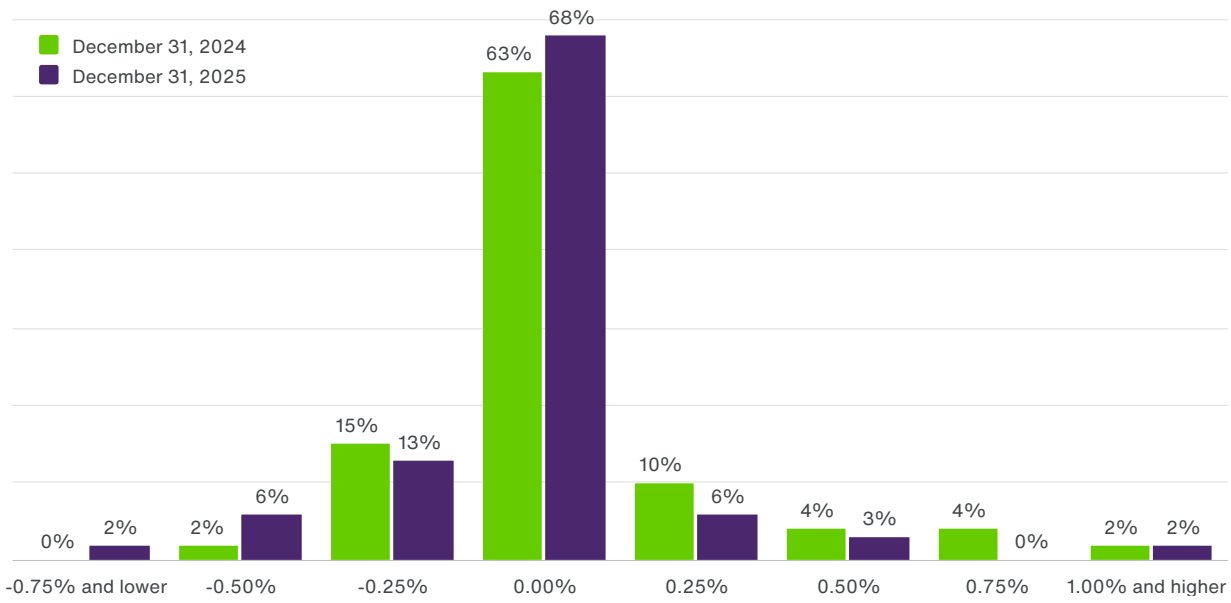
The duration of non-pension post-employment benefits is often significantly different from that for pensions. For example, the duration of the defined benefit obligation (“DBO”) for a retiree medical plan is often longer than that for pension plans, while the durations of the DBO for an accumulating non-vesting sick leave program and a severance or retirement allowance program is often shorter. As a result, the choice of discount rate for the valuation of post-employment benefits can be different than it is for pensions, in theory (see the Appendix on selecting the discount rate for more on this). While some companies use rates that differ by type of plan, many elect to use a single blended rate, or they simply use the rate for the most material plan.

The median rate used as at December 31, 2025, for non-pension benefits is 4.90%, the same as the median rate used for pensions.

Figure 5 shows the difference between the discount rate used in the valuation of non-pension benefits and that used for pension plans, rounded to the nearest 25 bps (a positive value indicates a higher rate for non-pension benefits than for pensions and vice versa).

In 2025, 68% of the companies surveyed used similar discount rates for pensions and non-pension benefits, while 32% of companies used a significantly different discount rate for non-pension benefits (compared to 37% in our previous survey). The continued steepening of the yield curve over the short and medium terms in 2025 appears to have shifted the split of those companies using a significantly different discount rate from being roughly even between a higher or lower non-pension rate in our prior survey, more to a lower non-pension rate this year.

Figure 5 - Non-Pension Discount Rates vs. Pension Discount Rates



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Rate of compensation increase.

Plans that provide pay-related benefits are required to make an assumption about the rate of compensation increases (figure 6). IAS 19 indicates that it should reflect “inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market”.

The median long-term compensation increase assumption as at December 31, 2025 was 3.00%, which is the same as last year’s median. We found 71% of companies are using rates between 2.50% and 3.50%. In some cases, however, this assumption is much lower than the median, leading one to question whether some companies are responding to current economic uncertainty, while others are reflecting the current impact of individual job progression in their disclosed assumption and/or adjusting the expectation on the inflation assumption which is typically used as a basis to set the compensation increase assumption. In compiling our survey, we continue to see some companies using select and ultimate assumptions; however, variances in the level of detail in financial statement disclosures makes it difficult to assess exactly how prevalent select and ultimate assumptions are.

Figure 7 shows the spread between the discount rate and the rate of compensation increase. The spread can have a significant impact on the DBO for defined benefit pension plans. The median spread is 1.85% as at December 31, 2025, which is 18 bps higher than last year, largely due to the increase in discount rates. An increase in the spread between discount rate and the rate of compensation increase results in a lower DBO.

Our survey shows that about 13% of companies changed the rate of compensation increase assumption by approximately 25 bps or more (down or up) at December 31, 2025 (figure 8). There is some debate over how frequently this assumption should be changed. IAS 19 states that financial assumptions should be based on market expectations at the end of the reporting period. Under US GAAP, this assumption is not required to be changed each time the discount rate is updated, but it should be consistent with the future economic conditions used to establish other financial assumptions. These results on salary increase assumption should be interpreted with care as they may be skewed due to employers with closed plans that are part of this survey. Thus, they may not fully consider the effect of future salary increases for new entrants.

Figure 6 - Rate of Compensation Increase

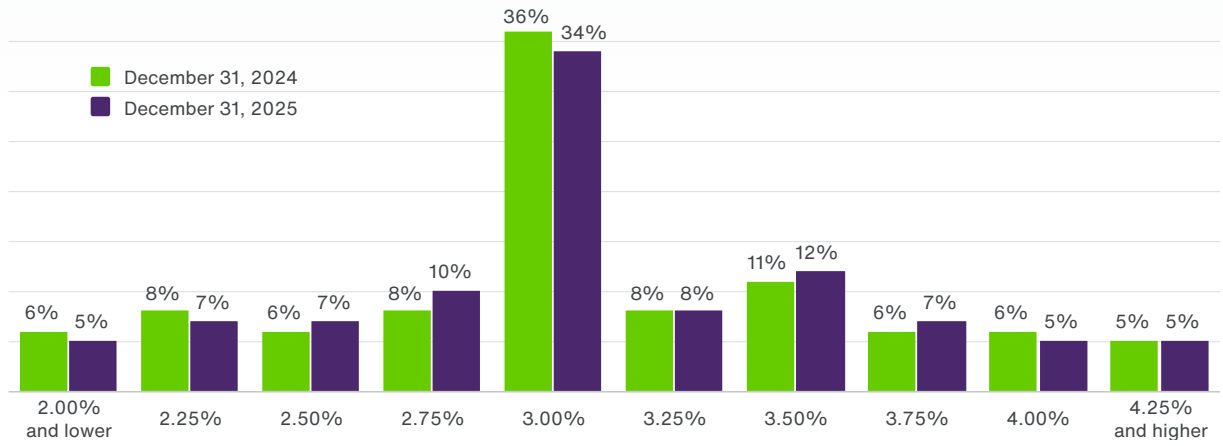

Figure 7 - Discount Rates vs. Compensation Increase Rates

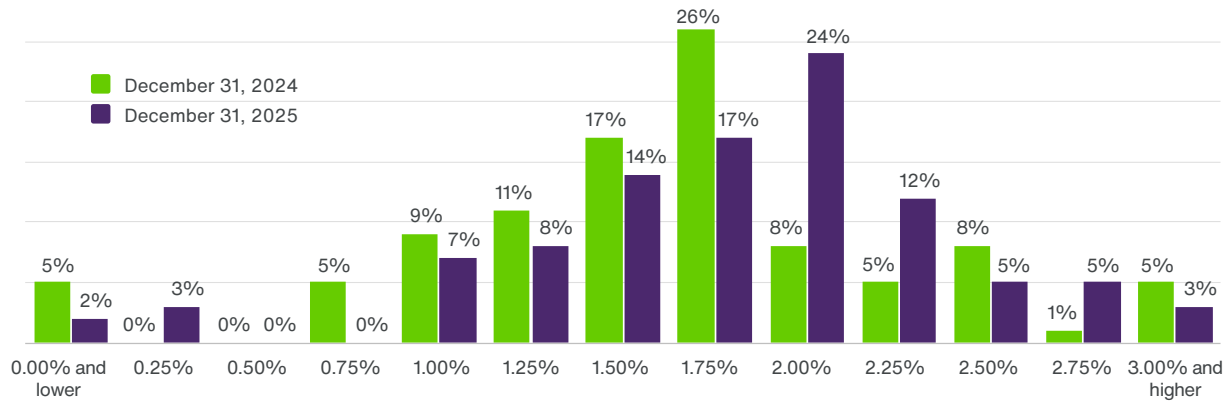

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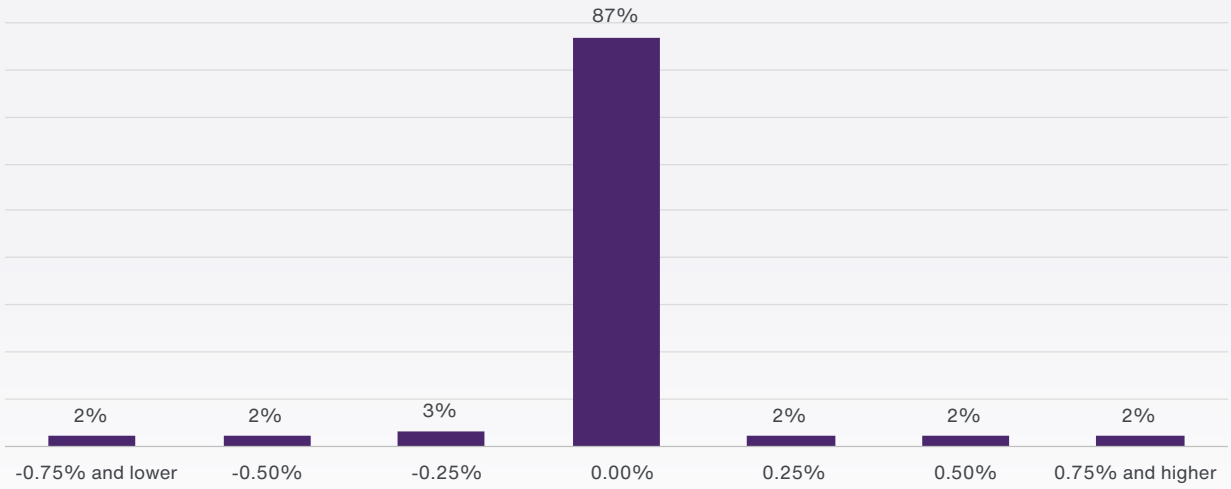
Figure 8 - Change in Compensation Increase Assumption (2024 vs. 2023)



2026 update

The continued economic uncertainty and tightening of the labour market continues to move short-term compensation increase expectations to their more normal long-term rates. Long-term compensation increases depend on long-term inflation in addition to other factors, including labour shortages on the company or industry in which the company operates. At the time of preparing this survey, inflation excluding gasoline prices, is trending slightly above the Bank of Canada's 2% target, the mid-point of their target range of 1% to 3%. Including gasoline prices, inflation is trending at the upper end of the Bank of Canada's target range. In their September rate announcement, the Bank of Canada highlighted the increasing risk of inflation growth given the lack of progress in resolving the Middle East conflict, new US tariffs, and Canadian counter-tariffs.

Pension plan financial situation and financial assumptions.

The companies in our survey show a 116% overall ratio of pension assets to DBO for accounting purposes. While every attempt is made to extract just the financial results for Canadian funded defined benefit pension plans, this level of detail is not always available. As such, the funding ratios may be slightly understated since they include some non-registered plans for which no funding is legally enforced under the Canadian regulatory environment and may be slightly over or understated since they include some non-Canadian pension plans which are funded according to regulations in their country of registration.

The ratio is highly influenced by the actual return on plan assets, the discount rate assumption and special contributions made to cover pension plan deficits. The distribution of companies based on their overall ratio at December 31, 2025 is shown in figure 9. Historical data on asset returns and discount rates is summarized in figure 10.

Figure 9 - Pension Plan Ratio of Asset Value to Accounting DBO (distribution of companies)

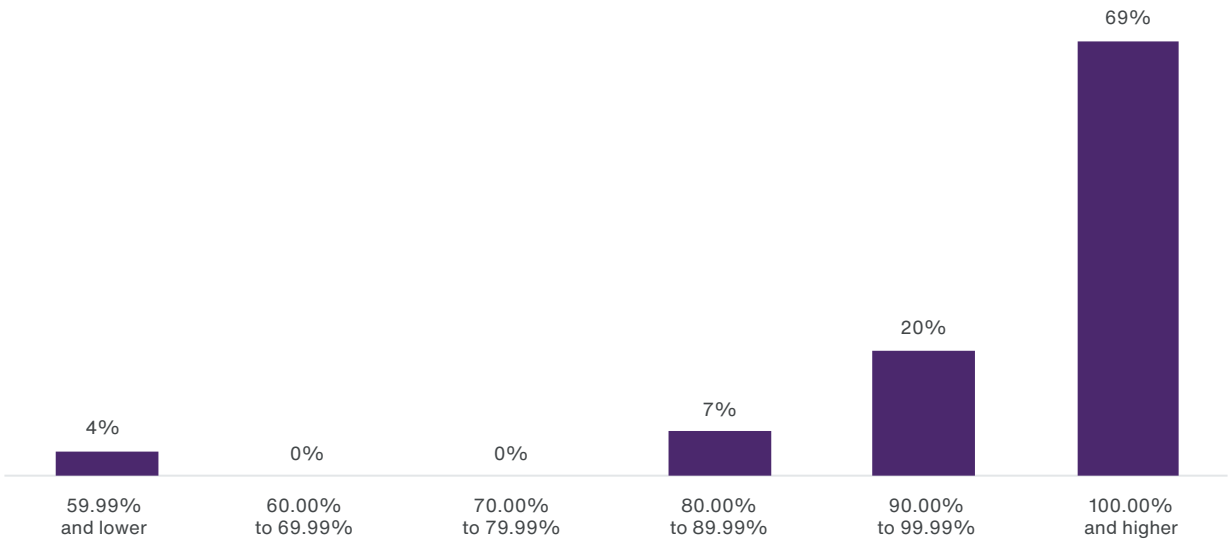


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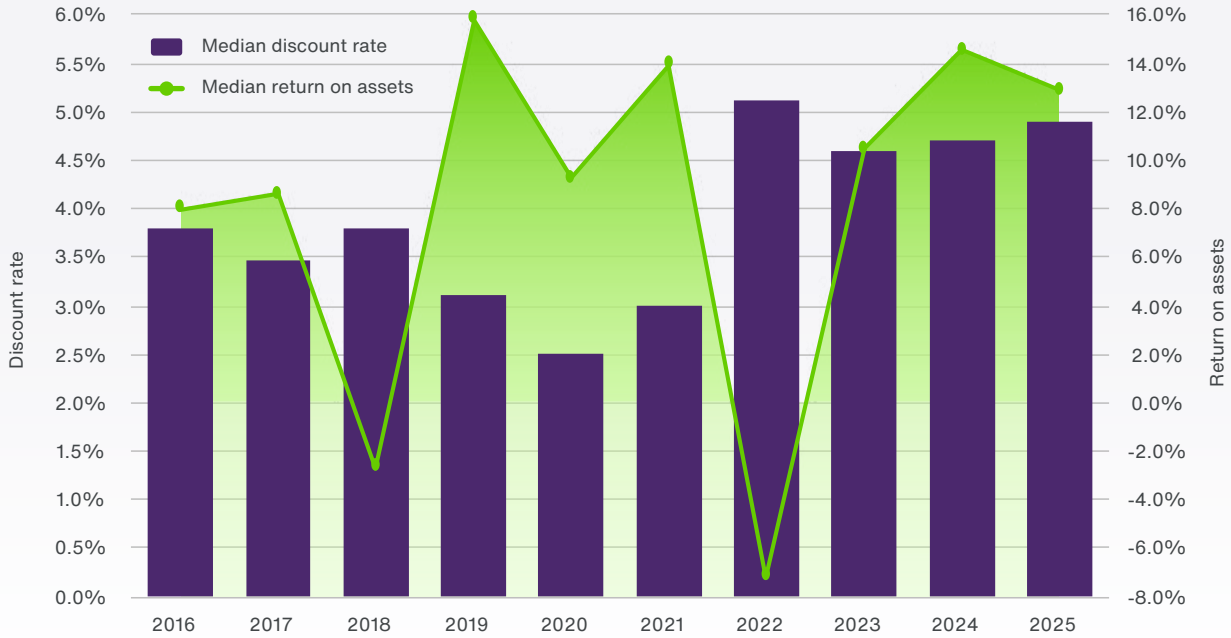
Figure 10 - Discount Rate and Actual Return on Assets



2026 update

We estimate that the overall funding ratio of 116% at the end of 2025 would have risen to about 128% at the end of August. Our estimate is based on the evolution of corporate bond yields in 2026 year-to-date. It is also based on an average plan duration of 15 years and on TELUS Health's benchmark portfolio of 50/50 debt/equities 2026 year-to-date return. The average duration and portfolio mix are consistent with data collected through this survey. Many pension plans will reveal growing accounting surpluses again in 2026 which may trigger pension asset ceiling issues. Moreover, plans that adopted de-risking glide paths based on accounting funded status may have reached their trigger points. The overall impact will vary from plan to plan depending on their maturity and plan investment strategy.

While mortality assumptions are not within the scope of this survey, it should be noted that the release of new mortality research by the Canadian Institute of Actuaries (CIA) in March 2026, including new CPM2024 mortality tables, will likely put pressure on companies to adopt both the CPM2024 mortality tables and mortality improvement scale MI-2024, which was published by the CIA in 2024 but not widely adopted as of yet. The adoption of MI-2024 can be expected to increase pension obligations 2-3% for typical pension plans, while the adoption of CPM2024 may be neutral or result in a small impact depending on the current assumption and use of plan specific mortality experience studies.

Medical cost trend.

When retiree medical coverage is offered, a key assumption in the valuation of the DBO is the rate of future medical cost increases. IAS 19 provides guidance on factors that companies should consider in selecting this assumption. In addition, the Canadian Institute of Actuaries (CIA) and the Society of Actuaries (SOA) released a jointly sponsored report in March 2018, Model of Long-Term Health Care Cost Trends in Canada. The purpose of this report was to develop a model to forecast long-term health care inflation in Canada (known as the "McMaster Model").

Often, medical costs are assumed to increase at a higher rate in the short-term, declining in steps to an ultimate rate over a period of several years.

Figures 11 and 12 show the December 31, 2025 medical cost trend assumption compared to December 31, 2024. About 60% of the companies surveyed that are offering a retiree medical coverage used an ultimate trend rate between 4.00% and 5.00% (59% in 2024). The median rate as at December 31, 2025 is 4.02%, down 3 bps from last year.

The median assumption for the short-term medical cost trend rate was 5.00% at December 31, 2025, which is 10 bps lower than last year's median rate (5.10%). Approximately 69% of companies used an assumption between 4.50% and 6.50% (70% in 2024).

The medical cost increase rate reaches its ultimate level in 2035 (median), two years later than last year. Consequently, the median select period is up 1 year to 9 years at December 31, 2025. We will continue to closely monitor to this assumption in future surveys. See figure 13 for the distribution of the year for ultimate level reach.

Figure 11 - Ultimate Medical Cost Trend

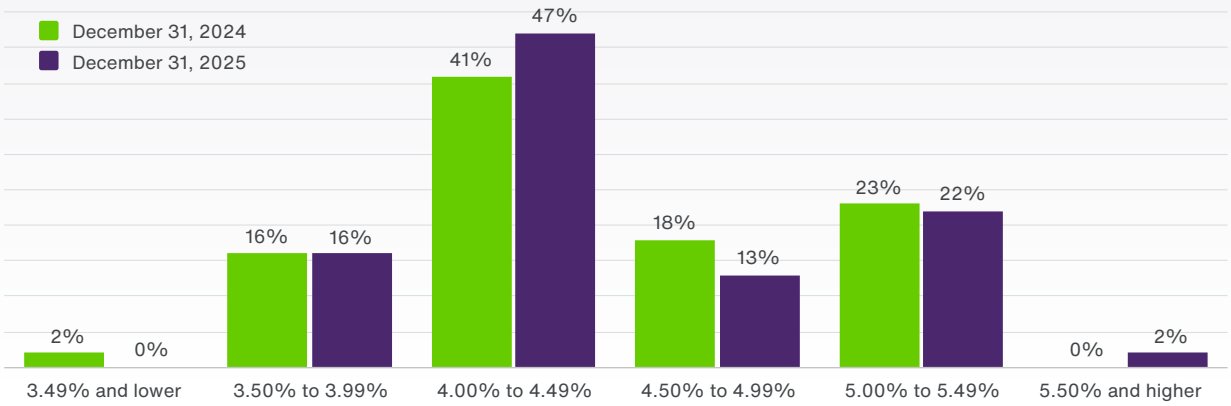


Figure 12 - Short-term Medical Cost Trend

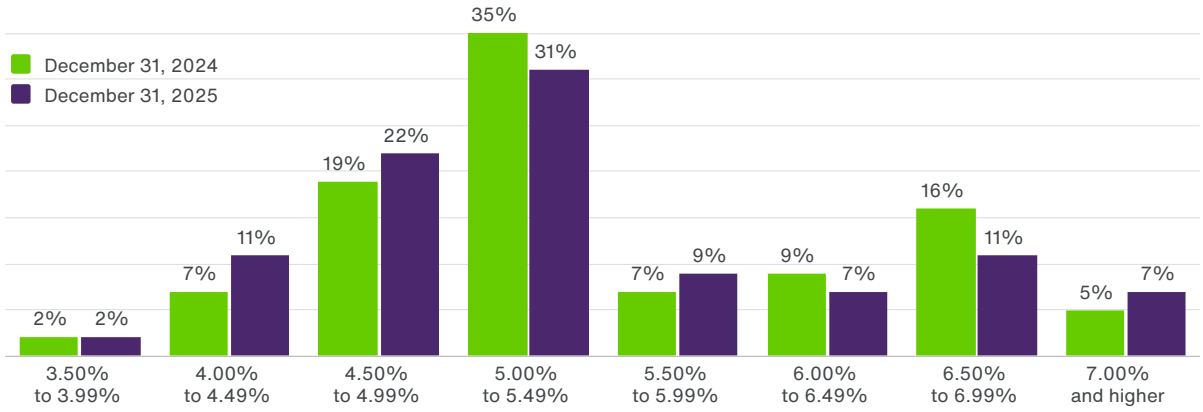


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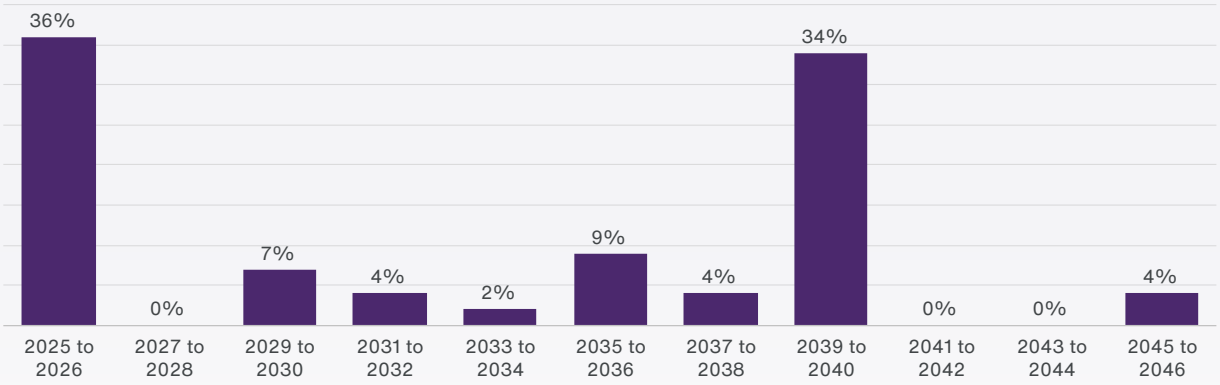
Figure 13 - Year in Which Ultimate Medical Cost Trend is Attained



2026 update

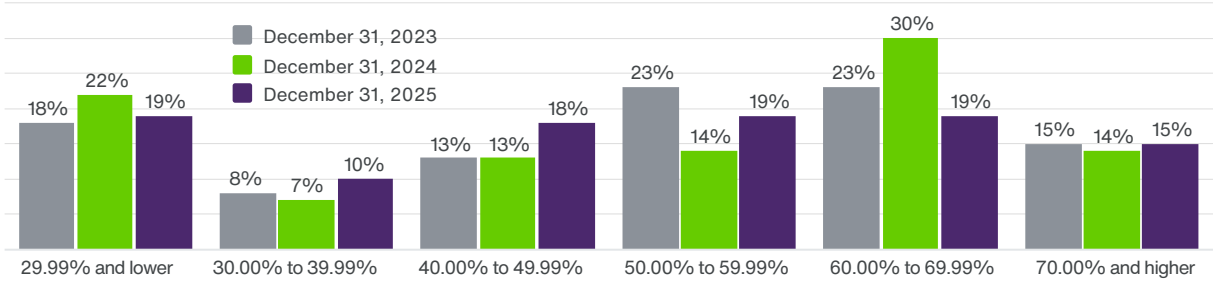
The McMaster Model, using its baseline inputs and a general inflation assumption of 2.00%, suggests the ultimate medical cost trend assumption should be 3.57% starting in 2040. Updating the model inputs to reflect the latest forecasts from the Canadian Institute of Heath Information's National Health Expenditure Trends Report released November 27, 2025, suggests that the year the ultimate rate of 3.57% will be attained in 2038. The movement in the year the ultimate rate is attained is consistent with increased government spending on health care and mild GDP growth observed in recent years, as convergence to the ultimate rate within the model is highly dependent on current health care spending as a percentage of GDP. We note that the McMaster Model is just one reference point in determining appropriate tend assumptions. Medical cost trend assumptions using select periods of 15 or 20 years and an ultimate rate of 4.00% continue to be the most common within the industry.

Pension plan asset allocation.

Under IAS 19, the allocation of pension fund assets between equities, fixed income and other assets must be disclosed. Additional categories may be added to facilitate the readers' understanding of the investment risks faced by the fund. Under US GAAP, additional information about plan assets, such as the classes of plan assets, the fair value of each class and level, and how investment allocation decisions are made, are also required to be disclosed.

The average asset allocation as at December 31, 2025, was 30% in equities, 51% in fixed income and 19% in other assets. This slight shift from the asset allocation as at December 31, 2024 of 32% in equities, 49% in fixed income and 19% in other assets, continues the trend away from equities as companies de-risk a portion of their pension obligations by investing more in fixed income or entering into buy-in annuity arrangements, especially when the pension plans' funded status improved. The distribution of the proportion of funds invested in equities and in other assets (excluding fixed income) is shown in figure 14.

Figure 14 - Company Distribution by Pension Plan Equity and Other Assets Weighting



2025 update

A number of the companies surveyed settled significant portions of their Canadian defined benefit pension plan obligations through annuity buy-outs in 2025. With current funding levels, strong market capacity and competitive pricing, 2026 may continue to provide an opportunistic environment for group annuity purchases.

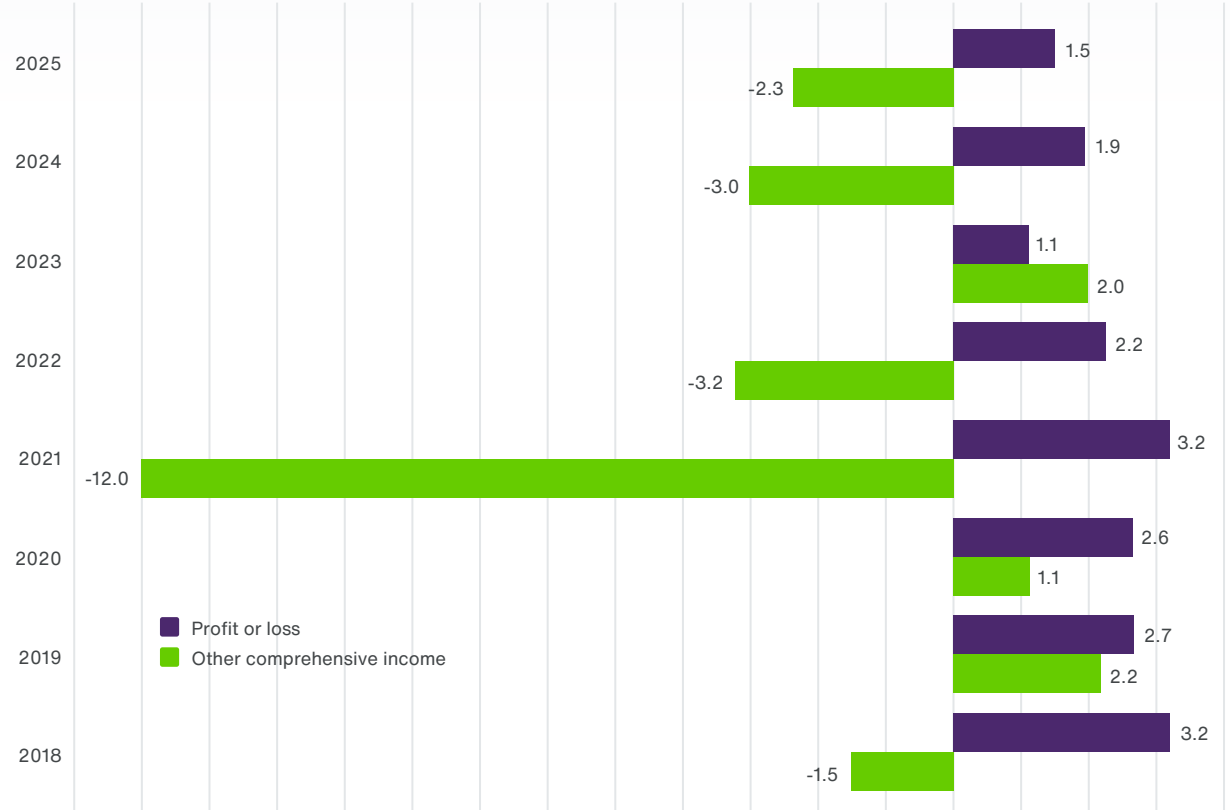
Defined benefit cost – IAS 19.

With respect to pension plans reporting under IAS 19, figure 15 shows the aggregate amount recognized in profit or loss (sum of the service cost and the net interest on the net defined benefit liability) and the aggregate amount recognized in other comprehensive income (remeasurements of the net defined benefit liability).

For 2025, these amounts are $1.5 billion and -$2.3 billion respectively. The remeasurements of -$2.3 billion consist mainly of actuarial gains on the defined benefit obligation resulting from the increase in the discount rate assumption as at December 31, 2025, and of gains on plan assets in 2025 (compared to the interest generated by using the discount rate).

With effect from January 1, 2019, IAS 19 requires a re-measurement of the defined benefit cost following a special event, based on the assumptions at the date of the event. While discount rates applicable at August 31, 2026 are significantly above December 31, 2025 rates, they have been relatively stable during the first half of 2026 and started to increase in recent months. The re-measurement requirement may have an upward or downward impact on expense for certain entities that have special events in 2026, depending at what point during the year the event occurred.

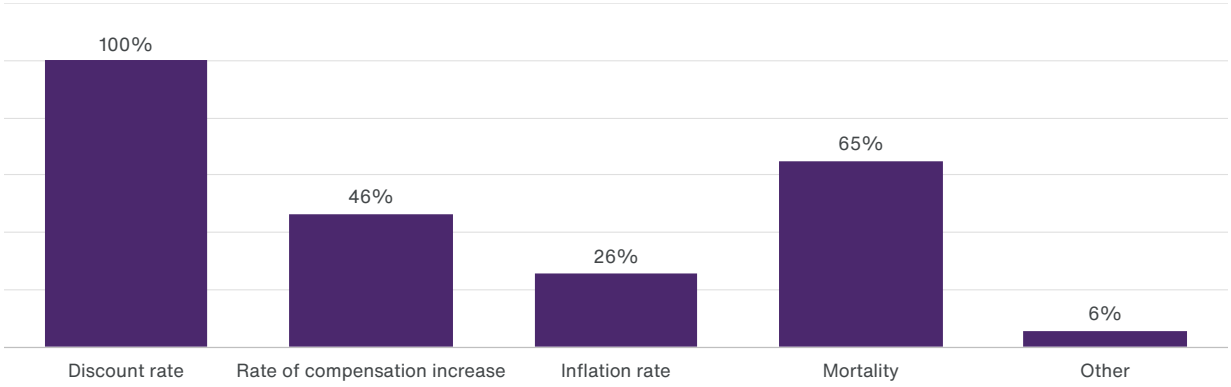
Figure 15 - Historical Amounts Recognized in Profit or Loss and Remeasurements Recognized in Other Comprehensive Income ($ billion)



Additional disclosures – IAS 19.

In IAS 19, some information with respect to the level of risk inherent in an entity's defined benefit plans have to be disclosed. However, some parts of the standard may be subject to interpretation and require professional judgment. Consequently, the level of detail in the disclosures may vary from one company to another. For example, 93% of the companies surveyed disclosed a sensitivity analysis of the defined benefit obligation, as required by IAS 19, while 7% did not disclose any. Figure 16 shows which actuarial assumptions were used for those companies that disclosed a sensitivity analysis.

Figure 16 - Actuarial Assumptions Used in the Sensitivity Analysis



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For more information.

This survey is intended to provide information regarding the assumptions disclosed by a wide range of companies and, as such, can provide an indication of trends. The assumptions used for your own employee benefit plans will depend on several factors. For more information, please speak to your TELUS Health consultant.

Appendix: Selecting the discount rate.

In general, the DBO for defined benefit plans is highly sensitive to the discount rate assumption. For example, a 25 bps decrease in the discount rate can increase the DBO by as much as 5%.

IAS 19 provides general guidance for the selection of the discount rate assumption. The discount rate should be determined by reference to market yield on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yield on government bonds should be used. The discount rate should reflect the estimated timing of benefit payment, but it is common practice to apply a single weighted average rate. However, the precise methodology for computing this rate is not prescribed.

Under US GAAP, the guidance for the selection of the discount rate assumption is similar to those under IAS 19, with an alternative to reflect the rates at which the pension benefits could be effectively settled.

The Canadian Institute of Actuaries (CIA) published an Educational Note in September 2011 (subsequently revised in June 2018 as well as in December 2020), which offers advice to pension actuaries who are engaged by an entity to provide guidance on the discount rate to use for accounting purposes. The Educational Note describes a methodology to extrapolate the long end of the high-quality corporate yield curve that the Task Force believes would be appropriate in the current economic environment. This methodology uses high-quality corporate and provincial (adjusted) bonds. It is possible that some entities may not have applied the proposed methodology set forth by the CIA in establishing the discount rate as at December 31, 2025, instead using an alternative model that still conforms to the principles of the Educational Note. This could result in different discount rates for similar pension plans, given current conditions in financial markets.

Information on high quality Canadian corporate and provincial bonds (rated AA or higher) is generally available from independent sources and can serve as a starting point in the determination of the discount rate.

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