FSRA
Financial Services Regulatory Authority of Ontario

Ontario

ARSF
Autorité ontarienne de réglementation des services financiers

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Quarterly update on

Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario

June 30, 2021

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Introduction

Each quarter, FSRA monitors the solvency funding position, and publishes the estimated solvency ratios of Ontario Defined Benefit (DB) pension plans that are subject to solvency funding. This is one of the supervisory tools FSRA utilizes to improve outcomes for pension plan beneficiaries and to proactively engage in a dialogue with plan sponsors where there may be a concern over the security of the pension benefits.

It should also be useful for plan fiduciaries who must adhere to a high standard of care in administering their pension plans and investing the plan assets. Having an effective governance framework in place with a good understanding of the key risks facing the plan, their impact and risk mitigation strategies are key to achieving the desired outcomes and enhancing the ability to withstand periodic stresses. For example, having due consideration to the plan's ability to absorb fluctuations in funding costs and the probability of delivering the promised benefits under a range of possible outcomes that may result from the funding and investment strategy are important elements of a plan administrator's duty as a fiduciary.

Projected Solvency Position as at June 30, 2021

The funded positions of pension plans have improved steadily for five consecutive quarters and are at their highest levels since monitoring began. Almost 70% of plans have a solvency funded ratio exceeding 100%.

- The median projected solvency ratio was 106% as at June 30, 2021, steadily increasing from a low of 85% as at March 31, 2020 when the COVID-19 pandemic began.

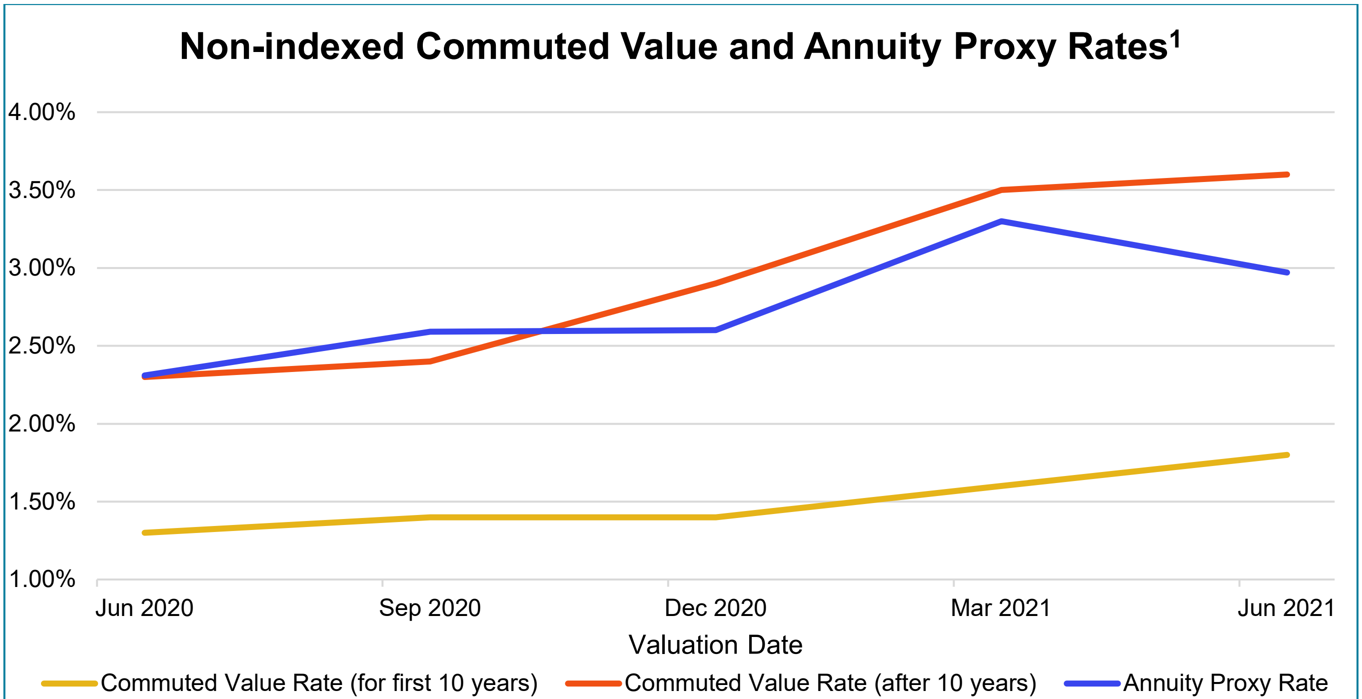
- The percentage of pension plans that were projected to be fully funded on a solvency basis at June 30, 2021 was 69%, while 3% were projected with a solvency ratio below 85%.

The strong financial position of many pension plans is certainly good news and a welcome contrast to the bleak situation in March 2020. Nevertheless, the challenge continues for plan sponsors and administrators to apply sound funding and investment policies to manage the risk of a deterioration in their plan's financial position.

Projected Solvency Position as at June 30, 2021	Q2 2021	Q1 2021	Q4 2020
Median solvency ratio	106%	103%	98%
Percentage of plans with a solvency ratio greater than 100%	69%	60%	45%
Percentage of plans with a solvency ratio between 85% and 100%	28%	36%	42%
Percentage of plans with a solvency ratio below 85%	3%	4%	13%

The projected solvency position of pension plans continued its steady improvement from March 31, 2020, increasing now for five consecutive quarters. Positive investment returns offset the change in the solvency discount rate, resulting in a 3% increase in the estimated median solvency ratio from 103% to 106% since March 31, 2021 as follows:

- Positive Q2 2021 pension fund investment returns
    - The average second quarter 2021 gross and net, after expense, return estimates are 5.0% and 4.7% respectively.
- Change in solvency discount rates
    - There was an increase of 20 bps in the non-indexed commuted value select discount rate, an increase of 10 bps in the non-indexed commuted value ultimate discount rate, and a decrease of 33 bps in non-indexed annuity purchase discount rate.

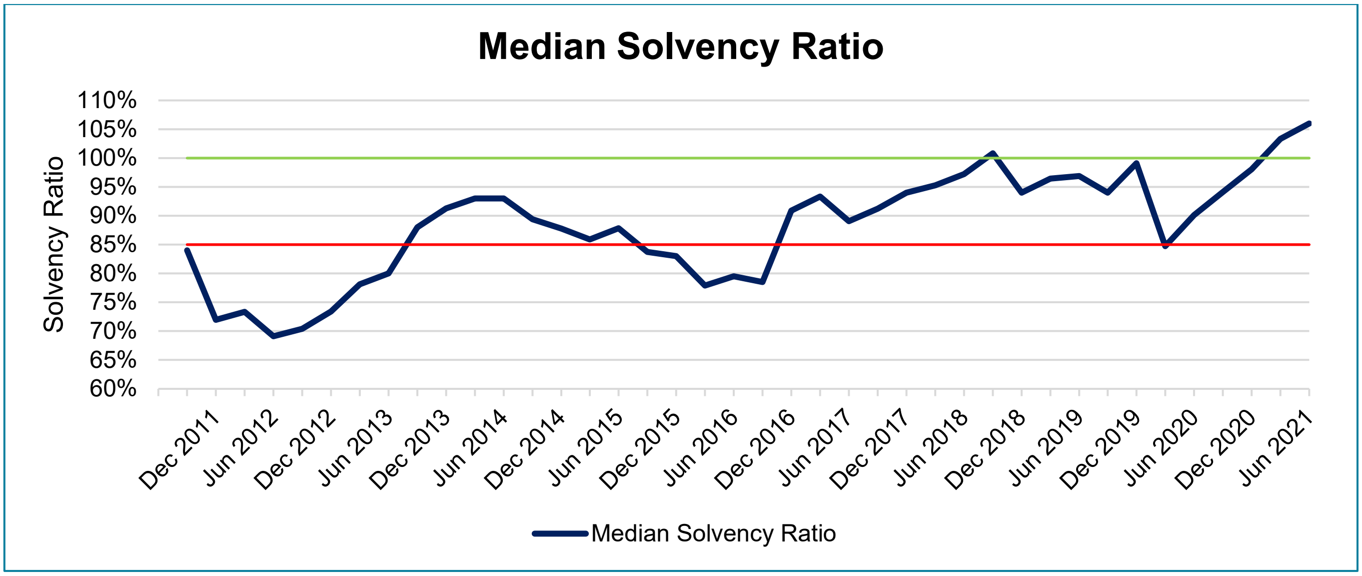


[1] based on a medium duration illustrative block

Provinces in Canada are in various stages of reopening their economies. This has been possible now that the third wave of the pandemic has subsided and the proportion of the population that is vaccinated is increasing. While the economy has improved and the latest GDP is approaching pre-pandemic levels, inflation has started to increase after remaining relatively low. In fact, Statistics Canada data show annual CPI inflation of 3.6% in May, which is above the 1% to 3% target range of the Bank of Canada (BoC). However, some of the increase in inflation could be considered transitory since it is attributable to comparing May's values to prior year values that declined during the pandemic.

The second quarter saw a flattening of the Government of Canada (GoC) benchmark bond yield curve, with short-term rates increasing and longer-term rates down slightly. As well, the FSTE Canada Universe Bond index increased by 1.7% after a negative Q1. In the equity market, the S&P/TSX Composite index had another positive quarter, increasing by 8.5%, with strong returns for the technology and energy sectors.

Monetary policy remains accommodative with the BoC maintaining the overnight target rate at 0.25%. However, based on positive economic developments, the BoC has scaled back its net purchases of GoC bonds by reducing the weekly purchase target from $4 billion to $3 billion. In the US, the Federal Reserve maintained the federal funds rate target range at 0% to 0.25% and continued with asset purchases of Treasury securities and agency mortgage-backed securities.


Median Solvency Ratio
Solvency Ratio
110%
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
Dec 2011
Jun 2012
Dec 2012
Jun 2013
Dec 2013
Jun 2014
Dec 2014
Jun 2015
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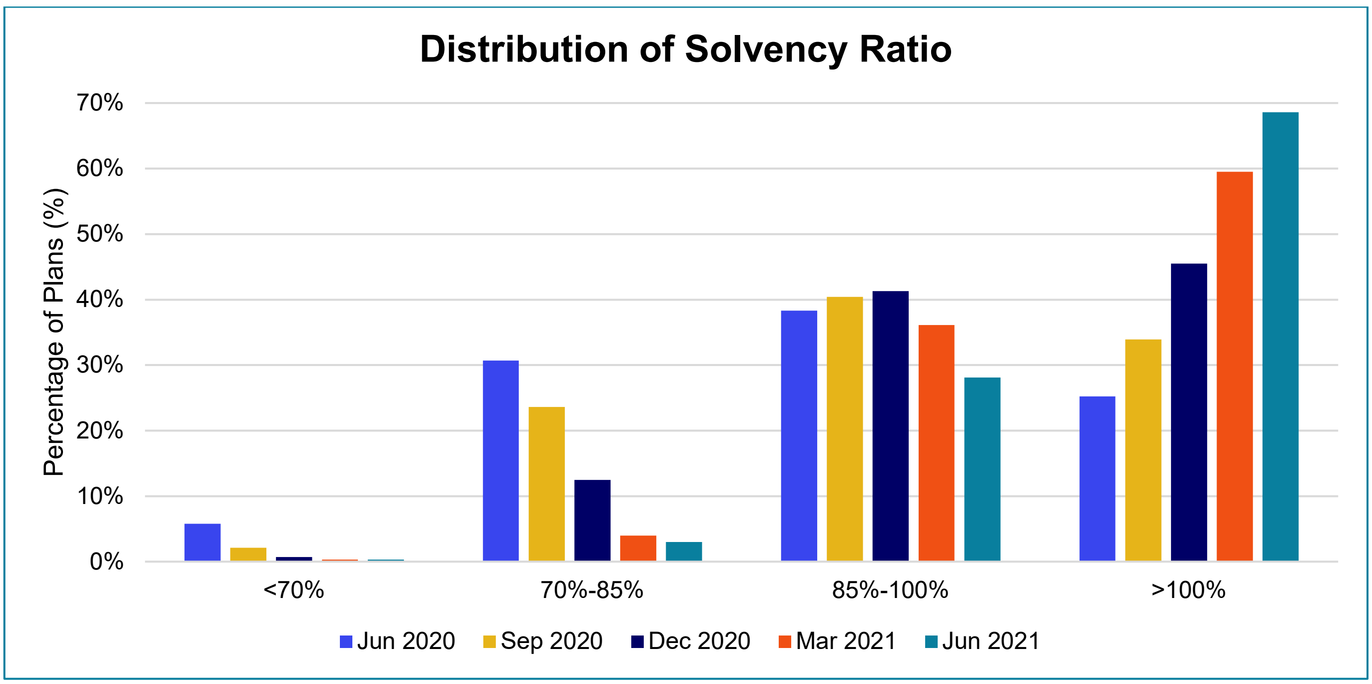
Dec 2020
Jun 2021
Median Solvency Ratio


Distribution of Solvency Ratio
Percentage of Plans (%)
70%
60%
50%
40%
30%
20%
10%
0%
<70%
70%-85%
85%-100%
>100%
Jun 2020
Sep 2020
Dec 2020
Mar 2021
Jun 2021

Methodology and Assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to June 30, 2021 based on these assumptions:
   - Sponsors would use all available funding excess and prior year credit balance for contribution holidays, subject to any statutory restrictions.
   - Sponsors would make normal cost contributions and special payments, if required, at the statutory minimum level.
   - Cash outflows were assumed to equal pension amounts payable to retired members as reported in the last filed valuation report. Plan administration costs were not directly reflected in cash outflows, but indirectly through net, after expense investment earnings.
   - Projected liabilities were calculated based on the Canadian Institute of Actuaries' (CIA) Standards of Practice for Pension Commuted Values and the CIA annuity purchase guidance applicable at the projection date.
2. Each plan's actual net rates of return are calculated based on its most recently filed Investment Information Summary (IIS) information. Where returns needed to be estimated, this was done using the IIS asset allocation in combination with market index returns, offset by a 25 basis point quarterly expense charge.

The following table summarizes the average IIS plan asset allocations by major asset class based on the most recent filed IIS:

Cash	Canadian Equities	Foreign Equities	Fixed Income[2]	Real Estate	Other
2.0%	21.2%	21.6%	49.0%	5.0%	1.2%

[2] Assumed to be 50% FTSE TMX Universe Bonds and 50% FTSE TMX Long Term Bonds.

Market index returns on the major asset classes have been as follows:

	S&P / TSX Total Return Index	MSCI World Total Net Return Index	FTSE TMX Universe Bond Index	FTSE TMX Long Bond Index	Cohen & Steers Global Realty Majors Index
Q2 2021	8.5%	6.2%	1.7%	3.7%	9.2%
Q1 2021	8.1%	3.5%	-5.0%	-10.7%	3.7%
Q4 2020	9.0%	8.7%	0.6%	0.8%	3.9%
Q3 2020	4.7%	5.8%	0.4%	-0.3%	0.3%