FSRA
Financial Services Regulatory Authority of Ontario

ARSF
Autorité ontarienne de réglementation des services financiers

www.fsrao.ca

Quarterly update on

Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario

December 31, 2019

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Introduction

Each quarter, FSRA monitors the solvency funding position, publishes the estimated solvency ratios of Ontario Defined Benefit (DB) pension plans that are subject to solvency funding. This enables FSRA to proactively engage plan sponsors in managing pension risks and protecting pension beneficiaries.

Projected Solvency Position as at December 31, 2019

The solvency funded position of a plan can change quickly with changes in interest rates during Q4 of 2019:

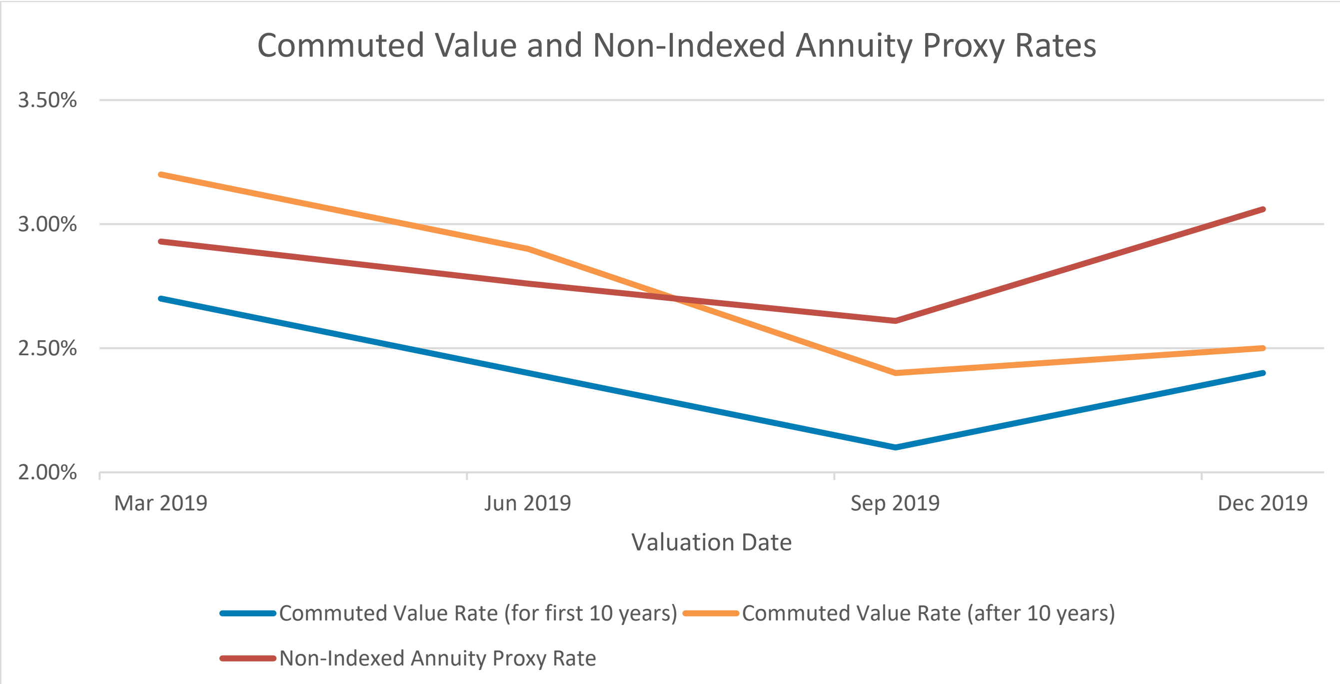
- the number of plans that are projected to be fully solvency funded has increased by 53%; while
- the number of plans that are projected to be less than 85% solvency funded has decreased by 56%.

Although Ontario's funding regime has changed to a lower solvency funding target, the solvency position of a plan remains one of the key indicators of benefit security. Plan fiduciaries must adhere to a high standard of care, and their decisions should be guided and informed by this requirement. Having relevant information including a line of sight to future funding risks and an effective risk mitigation and management plan in place is crucial.

Projected Solvency Position as at December 31, 2019	Q4 2019	Q3 2019	Q4 2018
Median solvency ratio	99%	94%	94%
Percentage of plans had a solvency ratio greater than 100%	48%	31%	27%
Percentage of plans had a solvency ratio between 85% and 100%	42%	47%	54%
Percentage of plans had a solvency ratio below 85%	10%	22%	19%

Generally, the projected solvency position of pension plans have improved significantly in the fourth quarter of 2019. The 5% increase in the estimated median solvency ratio since September 30, 2019 is attributable to:

- An increase in solvency discount rates due to rising bond yields
  - The commuted value rates and non-indexed annuity purchase rates have increased between 10 bps and 45 bps since last quarter.
- Positive Q4 2019 pension fund investment returns
  - The median fourth quarter 2019 gross and net, after expense, return estimates are 1.8% and 1.5% respectively: and
  - The 2019 YTD gross and net, after expense, return estimates are 15.7% and 14.6% respectively.



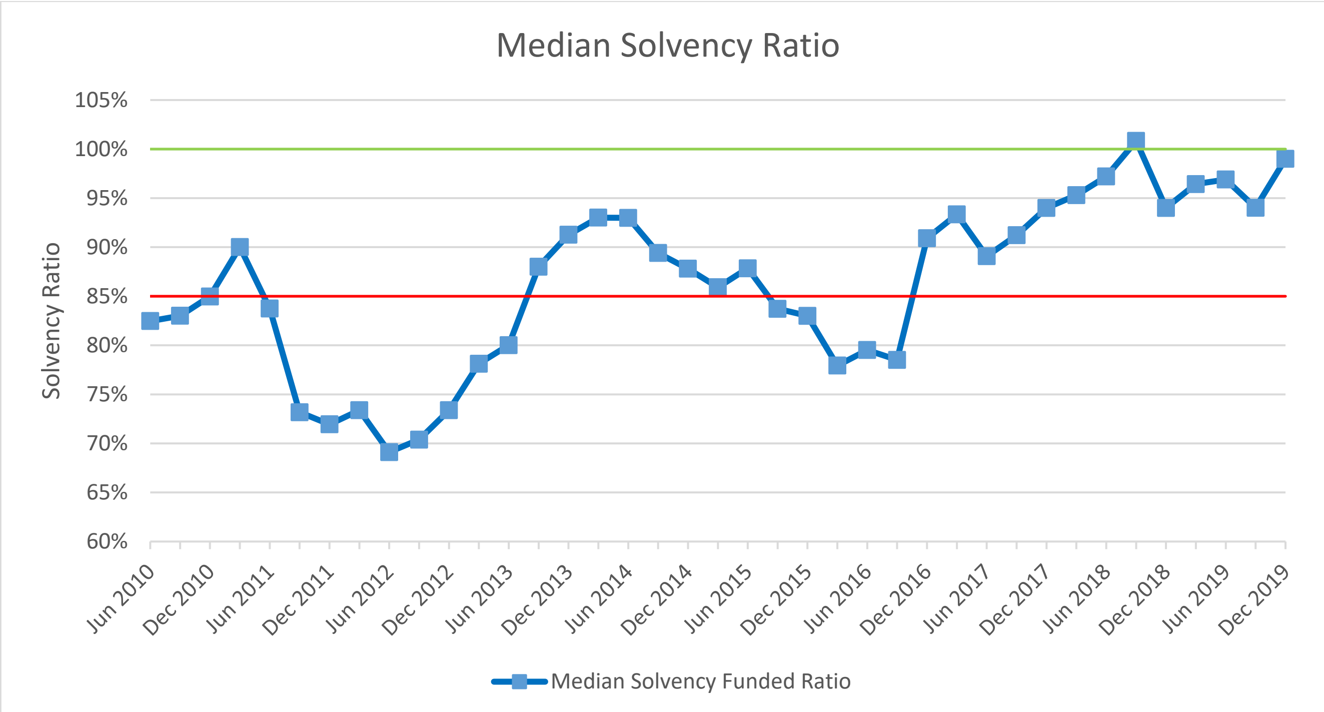
[1] based on a medium duration illustrative block

The last quarter of 2019 saw a cooling of the protracted trade dispute between China and the United States, giving rise to hopes that the two countries would reach a trade agreement.

However, despite the improved prospects of an agreement, and decreasing fears of a global recession, the market outlook remained uncertain pending an official trade deal.

The thawing of trade tensions and the modified economic perspective, did cause the equity market to soar, taking the S&P 500 to new highs. This strength in equity markets was further supported by healthy consumer spending and unprecedented employment levels, although partially offset by weaker business investment.

The U.S. Federal Reserve cut interest rates and set a target range of 1.50% to 1.75%, due to the signs of weakness in economic growth. Inflation was manageable and did not exceed the Federal Reserve's 2% objective, which showed the suitability of monetary policy. The Bank of Canada kept the overnight rate at 1.75%; however, they maintained the possibility of lowering rates further to stimulate economic activity if needed. For 2020 and 2021, the Bank of Canada reduced its growth projection to 1.7% and 1.8%, respectively.


Median Solvency Ratio
Solvency Ratio
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
Jun 2010
Dec 2010
Jun 2011
Dec 2011
Jun 2012
Dec 2012
Jun 2013
Dec 2013
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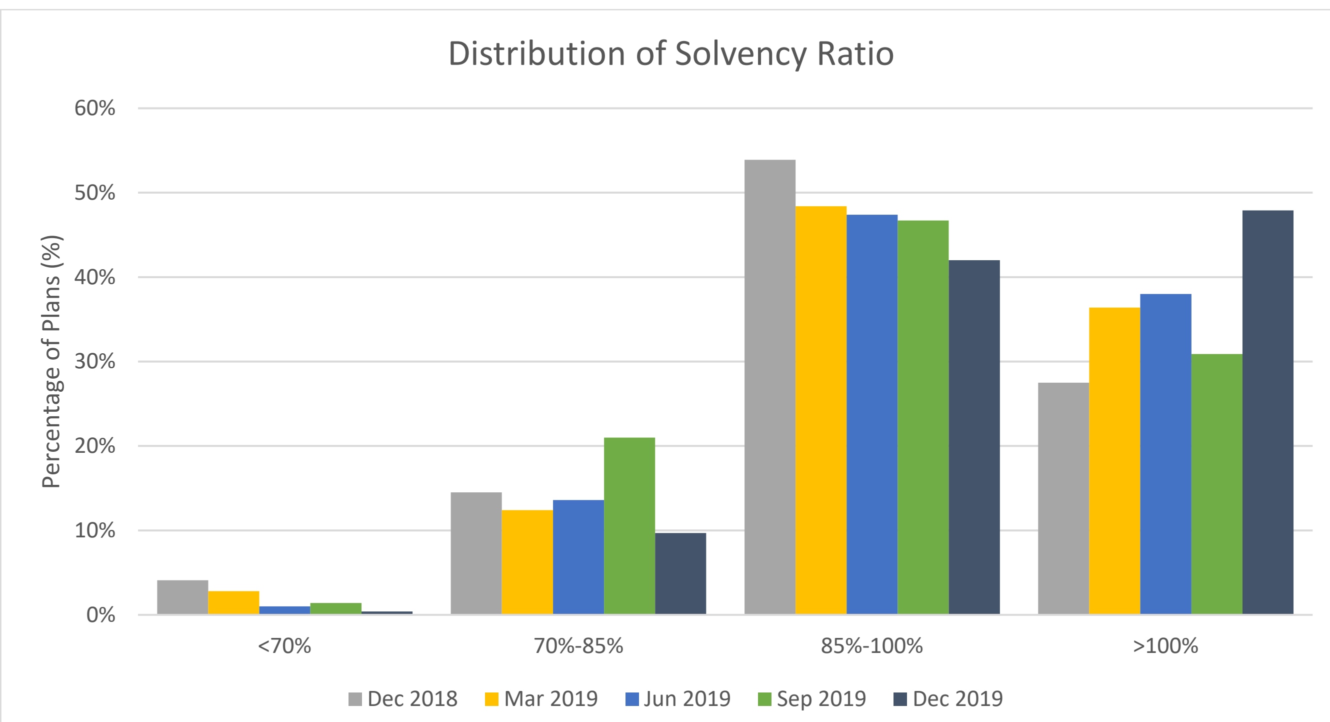
Dec 2019
Median Solvency Funded Ratio


Distribution of Solvency Ratio
Percentage of Plans (%)
60%
50%
40%
30%
20%
10%
0%
<70%
70%-85%
85%-100%
>100%
Dec 2018
Mar 2019
Jun 2019
Sep 2019
Dec 2019

Methodology and Assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to December 31, 2019, 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 plans' actual net rates of return are calculated based on its most recently filed IIS information. Where returns need 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
2.8%	21.8%	21.8%	47.6%	3.3%	2.7%

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

Market index returns on the major assets 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
Q4 2019	3.2%	6.3%	-0.8%	-1.9%
Q3 2019	2.5%	1.9%	1.2%	2.5%
Q2 2019	2.6%	1.7%	2.5%	4.8%
Q1 2019	13.3%	10.0%	3.9%	6.9%