FSRA
Financial Services Regulatory Authority of Ontario

Ontario

Pension Benefits Guarantee Fund (PBGF) Report

Year end March 31, 2024

About the PBGF

The PBGF is a fund that provides protection to Ontario beneficiaries of **single employer defined benefit (DB) pension plans** in the event of employer bankruptcy where plan assets are not sufficient to make pension payments.

Generally speaking, the PBGF works with the assets in the pension plan to guarantee the first $1,500 of monthly benefits. Ontario is the only jurisdiction in Canada with a fund of this type.

The main source of inflows to the PBGF are assessments paid annually by sponsors of PBGF-eligible plans at a rate set by the Ontario government.[1] Assessments are determined based on the PBGF **assessment base** (which corresponds to the plan deficits attributable to Ontario members) as well as plan membership.

Those interested to learn more about the PBGF, please visit [FSRA's website.]

[1]See Ontario Regulation 909

Market value of PBGF*

Money market	$428MM	33%
Government bonds	$869MM	67%
Total	**$1,297MM**	**100%**

Projected plan deficits*

Solvency position of plans	Solvency surplus	Solvency deficit	Total PBGF eligible plans
No. of plans	771 [90%]	83 [10%]	**854**
No. of members	563,932	73,583	**637,515**
Assessment base	**$0**	**$561MM**	**$561MM**

Projected solvency position*

Median solvency ratio is at an all time high

Median projected solvency ratio	**122%**
Percentage of plans with a solvency ratio:	
Greater than 100% →	90%
Between 85% and 100% →	8%
Below 85% →	2%

What should I do as a member of a PBGF-eligible plan?

1. Review at your annual pension statement, it shows the funded status of your plan.
2. If you are concerned about the solvency of your employer: review FSRA's bankruptcy guide to understand what happens to your plan when your employer is bankrupt or insolvent.
3. If you believe your employer is facing material business or financial challenges, the plan administrator is not acting in the best interest of pension plan beneficiaries, or any other concerns about your pension rights and entitlements, you may contact FSRA at any point.

*As at March 31, 2024

PBGF analysis trends

A large portion of the **projected PBGF assessment base** is concentrated in three sectors based on the Global Industry Classification Standard: materials, consumer staples and industrials. The number of pension plans in these sectors makes up about 64% of the total number of PBGF-eligible plans.

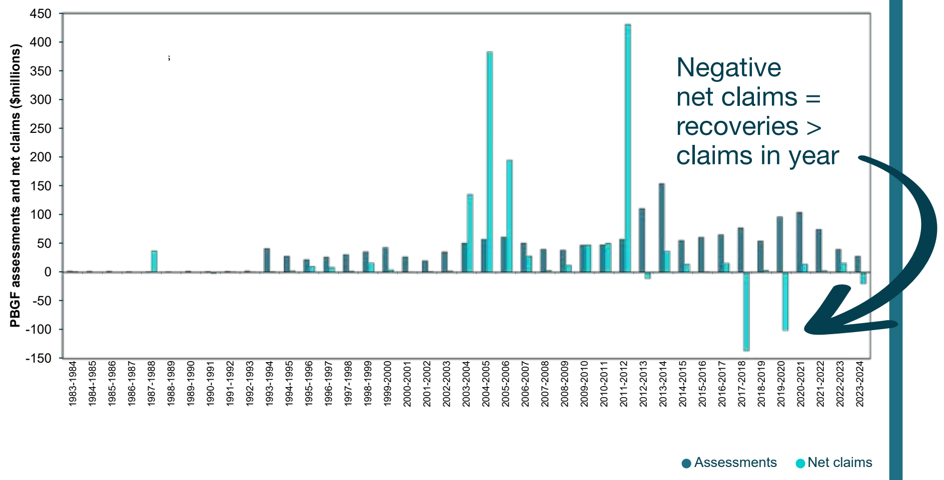
FSRA actively monitors employer sponsor health across all sectors and intervenes where there is a heightened concern as to benefit security.

In an average year, the PBGF receives 5 claims and pays out $30 million in claims. Most claims are small relative to the total assets of the PBGF, but there have also been high profile insolvencies in the past that required much greater support from the PBGF. FSRA monitors for potential large claims that may be spread between a small number of plans, especially where multiple plans in one sector could be affected at the same time.

Plans in solvency deficit

Top 3 sectors	No. of plans in deficit [% of Sector Plans]	Assessment base	No. of members
Materials	21 [15%]	$327MM	26,024
Consumer staples	11 [13%]	$82MM	9,994
Industrials	27 [9%]	$51MM	12,379

PBGF assessments and net claims since inception



Stress test

A recent PBGF stress test conducted by FSRA indicates the PBGF has sufficient assets to pay potential future claims in the following twelve months even under the most severe historical scenario (the Global Financial Crisis).

FSRA continues to work to better understand the sufficiency of PBGF assets in the longer term.

How is FSRA addressing PBGF risks?

With the support of FSRA, the CEO has taken steps to support the PBGF's long term sustainability and adequacy that include:

- Implemented a new approach to supervision for PBGF-eligible plans where there may be a heightened concern with respect to benefit security.
- Strengthened PBGF predictive analysis by adopting tools such as deterministic stress testing.
- Developed a stochastic model, which will allow the CEO to look at the impact of a wider range of scenarios on the PBGF.
- Monitoring capital markets, the broader economy, and trends in merger / acquisition activity.
- Reviewing the impact of the *Federal Pension Protection Act* which elevates claims relating to plan deficits on insolvency. FSRA expects that this may have a material positive impact on PBGF sustainability.
- Transferred the management of the PBGF assets to IMCO on June 25, 2024, and updated the PBGF Strategic Asset Allocation (see next page).

Financial Services Regulatory Authority of Ontario

Pension Benefits Guarantee Fund (PBGF) Report

(continued)

About the Strategic Asset Allocation

On June 25, 2024, the investment management of the PBGF assets was transferred to the Investment Management Corporation of Ontario (IMCO) and a new strategic asset allocation strategy is being deployed.

The Strategic Asset Allocation (SAA) is a critical component of the investment strategy. It involves determining the optimal distribution of assets across various categories such as bonds, equities, and cash to achieve a balance between risk and return that aligns with the PBGF long-term investment objectives. The purpose of the SAA is to ensure the stability and growth of the fund while managing risks effectively.

For more information about this transition, please visit [FSRA announcement.]

PBGF current asset mix

The PBGF assets have been invested with the Ontario Financial Authority (OFA), up to the transfer to IMCO on June 25, 2024.

Prior to the transfer, the PBGF assets were invested in cash and short-term Government bonds.

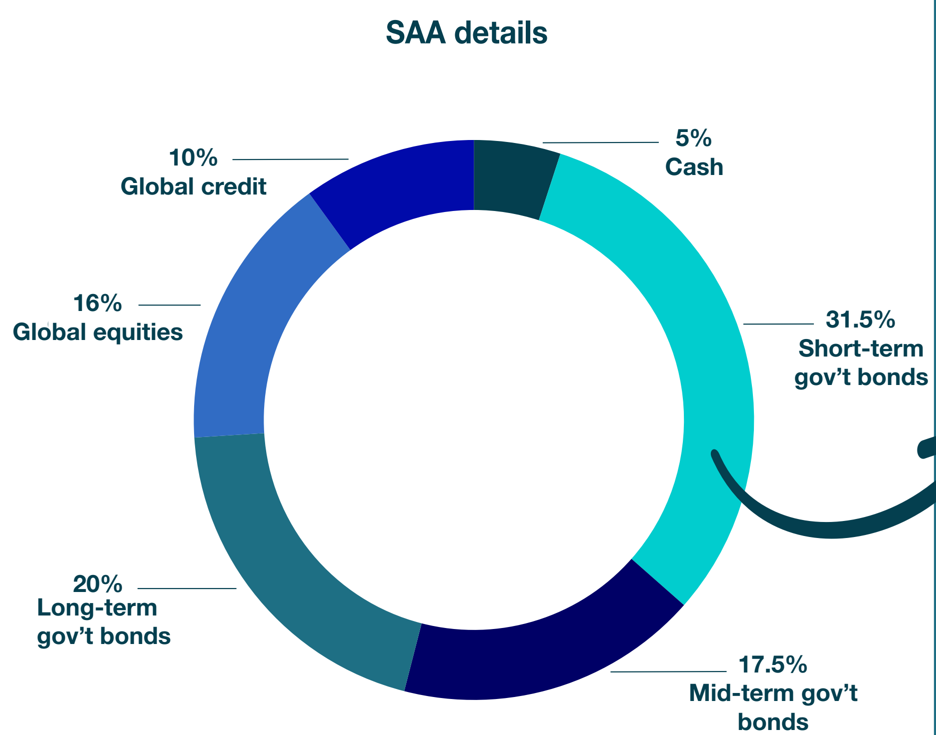
Oversight

The Strategic Asset Allocation will be reviewed and adjusted as needed, commensurate with the risk management strategy for the PBGF, based on the evolving economic environment and advice from IMCO.

This proactive approach ensures that the PBGF investment strategy remains aligned with the PBGF long-term investment objectives and principles and adapted to changing market conditions.

Updated SAA

The PBGF will implement its Strategic Asset Allocation after transferring its asset management to IMCO. The updated SAA diversifies PBGF by the following six asset classes, each with a specific purpose, to help the PBGF achieve investing objectives:



The six asset classes and purpose are as follows:

1. **Short-term government bonds:** Short-duration fixed income securities in Canadian and G7 sovereign bonds, focusing on capital preservation and liquidity.
2. **Mid-term government bonds:** Mid-duration fixed income securities in Canadian and G7 sovereign bonds, focusing on capital preservation and liquidity.
3. **Long-term government bonds:** Long-duration fixed income securities in Canadian and G7 sovereign bonds, focusing on capital preservation and liquidity.
4. **Global equities:** Provides long-term growth through capital appreciation and dividend income by investing in publicly traded entities in developed markets.
5. **Global credit:** A globally diversified portfolio of public and private credit securities, aiming for long-term returns while adding value relative to its benchmark.
6. **Cash:** A highly liquid portfolio of money market securities, primarily Canadian Government T-Bills and high-quality short-term credit securities, with a focus on capital preservation and liquidity.

PBGF investment objectives and principles

Investment objectives:

- maintain sufficient high-quality liquid assets in order to meet claims when they fall due
- obtain reasonable investment returns for the PBGF's long-term prudent financial management
- restrain the investment risk taken to generate reasonable investment returns to a low to moderate risk tolerance

Investment principles:

- **Sufficient liquidity:** The PBGF must have sufficient liquidity to pay claims and expenses incurred in the administration of the PBGF.
- **Reasonable investment return:** The PBGF should be allowed to take some investment risk in order to:
  - generate the investment returns that are, together with PBGF assessments, needed to cover expected claims on an on-going basis, and
  - build a reasonable amount of reserve for unexpected, extraordinary claims over the long term
- **Low to moderate risk tolerance:**
  - the PBGF should not take excessive investment risk to generate reasonable investment returns, and
  - the PBGF risk tolerance should remain low to moderate