



Quarterly update on

# Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario

**December 2024**

## 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 December 31, 2024

As regular readers of FSRA's quarterly solvency updates will know, we have consistently emphasized the importance of good governance and risk management practices by pension plan administrators. Perhaps now is as good a time as any to recognize how well the sector has performed in these areas. In a sense, having stable and/or gradually improving financial positions is indicative of sound stewardship, just as having dramatic swings may indicate excessive risk taking. Looking at historical median solvency ratios, plans have exhibited moderate quarterly fluctuations since the end of 2016 (except for the COVID19 shock in Q1 2020), even when investment returns have been volatile.

In 2024, the median projected solvency ratio remained above 120% throughout the year - marking the strongest year since FSRA began monitoring.

- The median projected solvency ratio was 122% as at December 31, 2024, a 1 percentage point increase from 121% as at September 30, 2024 (and a 3 percentage point increase from 119% as at December 31, 2023).
- The percentage of pension plans that were projected to be fully funded on a solvency basis as at December 31, 2024 was 91% compared to 90% as at September 30, 2024. Only 2% of plans had a solvency ratio below 85%, unchanged since the end of 2022.
- The investment returns in Q4 2024 averaged a net return of 1.1%. Overall, pension plans achieved an average net return of 10.5% in 2024 – a second consecutive year of double-digit investment returns
- Overall solvency discount rates increased since the last quarter resulting in a decrease in plan liabilities.

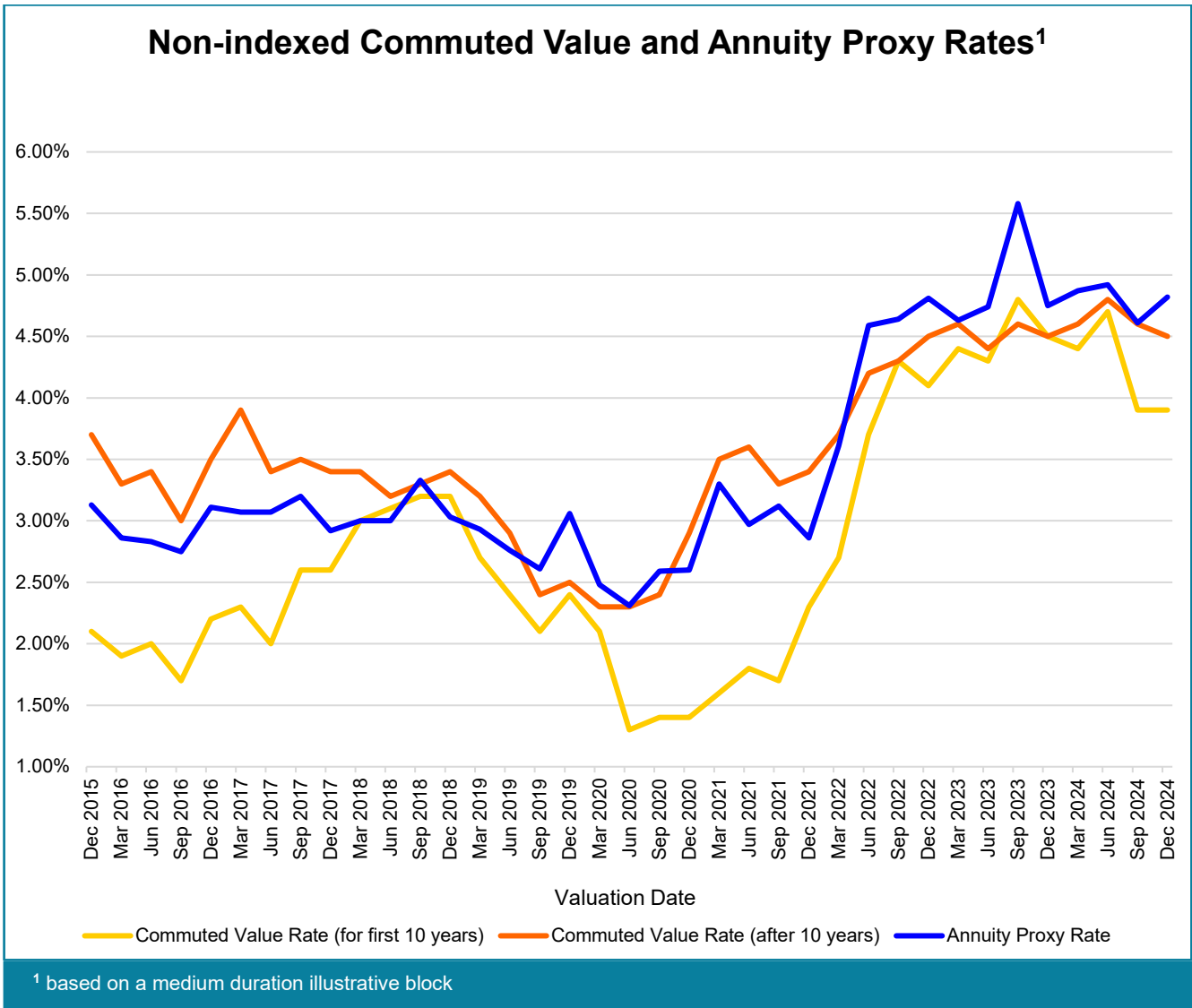
Strong market gains and high interest rates contributed to many plans closing the year with robust funding positions. FSRA reiterates that it remains important for plan sponsors and administrators to guard against complacency and continue taking a proactive approach to risk management. This includes regularly reviewing and tailoring risk management tools to reflect the unique characteristics and circumstances of each plan, ensuring that key risks are effectively addressed. By staying vigilant, plan administrators can further strengthen their ability to navigate uncertainties and safeguard the long-term sustainability of pension plans, thereby enhancing the financial well-being of plan members.

Projected Solvency Position as at December 31, 2024	Q4 2024	Q3 2024	Q4 2023
Median solvency ratio	122%	121%	119%
Percentage of plans with a solvency ratio greater than 100%	91%	90%	89%
Percentage of plans with a solvency ratio between 85% and 100%	7%	8%	9%
Percentage of plans with a solvency ratio below 85%	2%	2%	2%

**The projected solvency position, in aggregate, improved since last quarter. The 1 percentage point increase in the estimated median solvency ratio since September 30, 2024 is attributable to:**

- Change in solvency discount rates
  - The non-indexed commuted value discount rates for the select period remained unchanged and for the ultimate period decreased by 10 bps. The non-indexed annuity purchase discount rate increased by 21 bps. Overall, this resulted in a slight decrease in overall pension liabilities.

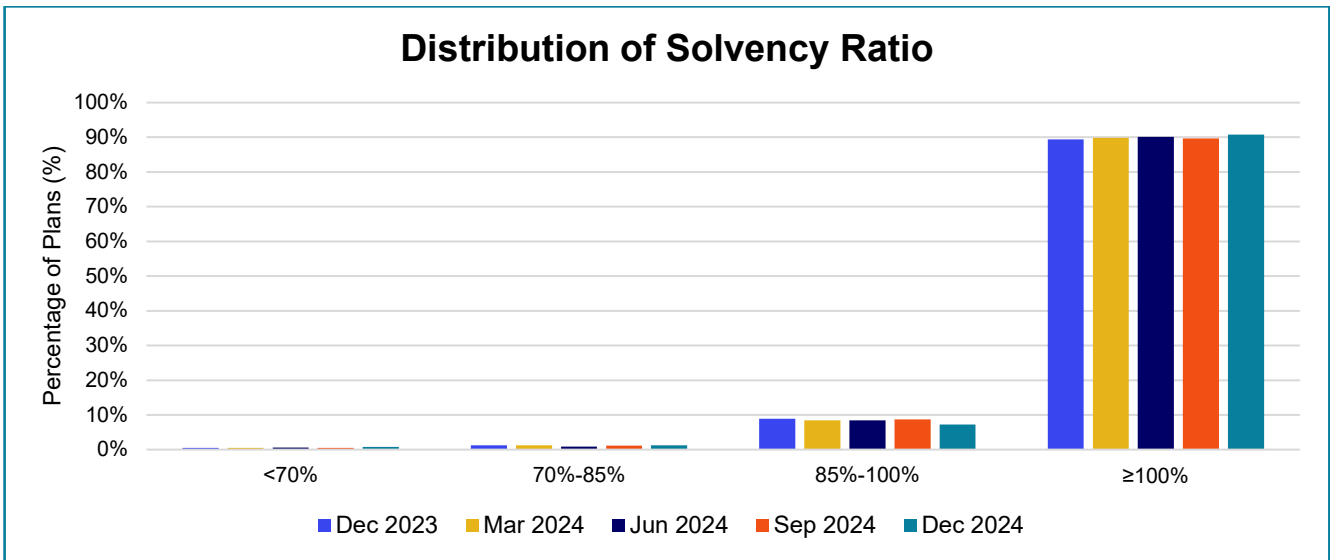
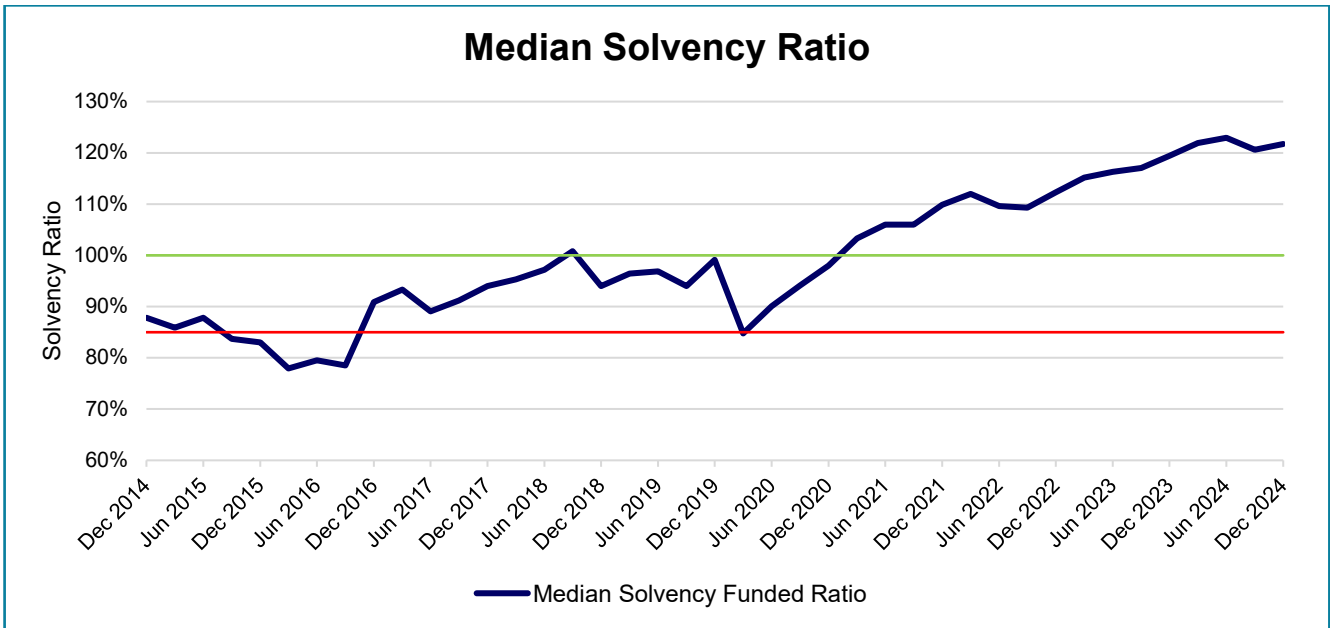
- Q4 2024 pension fund investment returns
  - The average fourth quarter 2024 gross and net, after expense, return estimates were 1.4% and 1.1%, respectively.



During the fourth quarter of 2024, the Canadian dollar declined relative to the US dollar and the Canadian yield curve steepened. Canadian GDP grew 1.9% from October 2023 to October 2024. The Bank of Canada's (BoC) October 2024 Monetary Policy Report maintained its previous projections for 2024 and 2025 GDP growth at 1.2% and 2.1%, respectively. The BoC report described the Canadian economy as being in excess supply, with growth in business investment having eased from 2023. The Canadian CPI inflation rate continued to decline to 1.9% in November, while the shelter component remained elevated at 4.6%, having declined substantially from 5.0% at the end of Q3 and 6.5% in March 2024. The unemployment rate in December 2024 was 6.7%, an increase from 6.5% at the end of Q3, and the BoC has noted that the labour market is soft.

The Canadian government bond yield curve steepened with the 2-year rate now at 2.93% and the 10-year rate reaching 3.23%. The yield curve was inverted earlier in 2024, and the short end and middle of the curve still appear inverted. The FTSE Canada Universe Bond index returned -0.04% in Q4 2024, and the S&P / TSX Composite Index provided a return of 3.76%.

The BoC cut the Canadian policy interest rate by 100 basis points, cutting by 50 basis points, once in October and once in December, bringing the policy rate to 3.25% at the end of Q4 2024. The US Federal Reserve cut the Federal Funds Target Range by 50 basis points to 4.25%-4.50%. The Canadian dollar decreased 6% to 0.6952 USD in Q4. The US Federal Reserve proceeded with quantitative tightening and continued to reduce balance sheet holdings in Q4, while the BoC's total assets increased slightly from quarter-end Q3 to quarter-end Q4. At the end of Q4, the swaps market was pricing in one rate cut of 25 bps in both Canada and the United States in the upcoming quarter.



## Methodology and assumptions

1. The results reported in each plan’s last filed actuarial valuation reports (assets and liabilities) were projected to December 31, 2024 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 and Short-Term Investments	Canadian Equities	Foreign Equities	Fixed Income	Real Estate	Other
3.3%	17.8%	18.3%	53.1%	6.2%	1.3%

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

	<b>FTSE Canada 91-day T- Bill Index</b>	<b>S&amp;P / TSX Total Return Index</b>	<b>MSCI World Total Net Return Index</b>	<b>FTSE Canada Universe Bond Index</b>	<b>FTSE Canada Long Term Bond Index</b>	<b>Cohen &amp; Steers Global Realty Majors Index</b>
<b>Q4 2024</b>	1.1%	3.8%	6.3%	0.0%	-0.8%	-4.6%
<b>Q3 2024</b>	1.2%	10.5%	5.0%	4.7%	5.8%	14.6%
<b>Q2 2024</b>	1.3%	-0.5%	3.8%	0.9%	0.2%	-0.9%
<b>Q1 2024</b>	1.2%	6.6%	11.7%	-1.2%	-3.6%	2.3%