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, 2020

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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 December 31, 2020

Pension plans continued their recovery from their lows in March 2020. From a solvency funded level perspective, pension plans in Ontario ended the year nearly where they started.

- The median projected solvency ratio was 98% at December 31, 2020, compared to 99% at December 31, 2019.

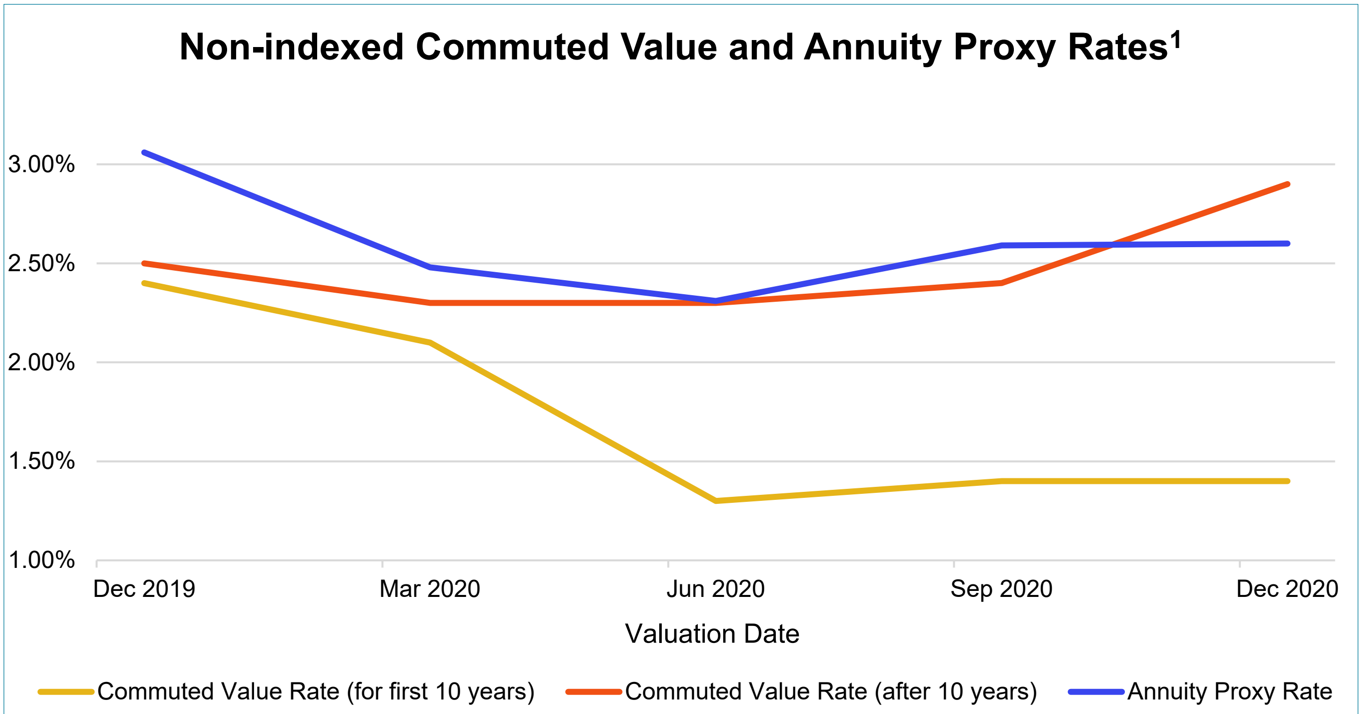
- The percentage of pension plans that were projected to be fully funded on a solvency basis at December 31, 2020 was 45%, while 13% were projected to end the year with a solvency ratio below 85%.

While there is cautious optimism about a gradual economic recovery, it is still important for plan administrators to continue to review their funding and investment strategies and prudently manage their plans.

Projected Solvency Position as at December 31, 2020	Q4 2020	Q3 2020	Q4 2019
Median solvency ratio	98%	94%	99%
Percentage of plans with a solvency ratio greater than 100%	45%	34%	48%
Percentage of plans with a solvency ratio between 85% and 100%	42%	40%	42%
Percentage of plans with a solvency ratio below 85%	13%	26%	10%

The projected solvency position of pension plans continued to improve in the last quarter of 2020. The 4% increase in the estimated median solvency ratio from 94% to 98% since September 30, 2020 is attributable to:

- Positive Q4 2020 pension fund investment returns
  - The average fourth quarter 2020 gross and net, after expense, return estimates are 4.4% and 4.1% respectively.
- An increase in solvency discount rates, reflecting the recent changes to the Canadian Institute of Actuaries' Commuted Value Standards.
  - There was an increase of 50 bps in the non-indexed commuted value ultimate discount rate and 1 bp in non-indexed annuity purchase discount rate.

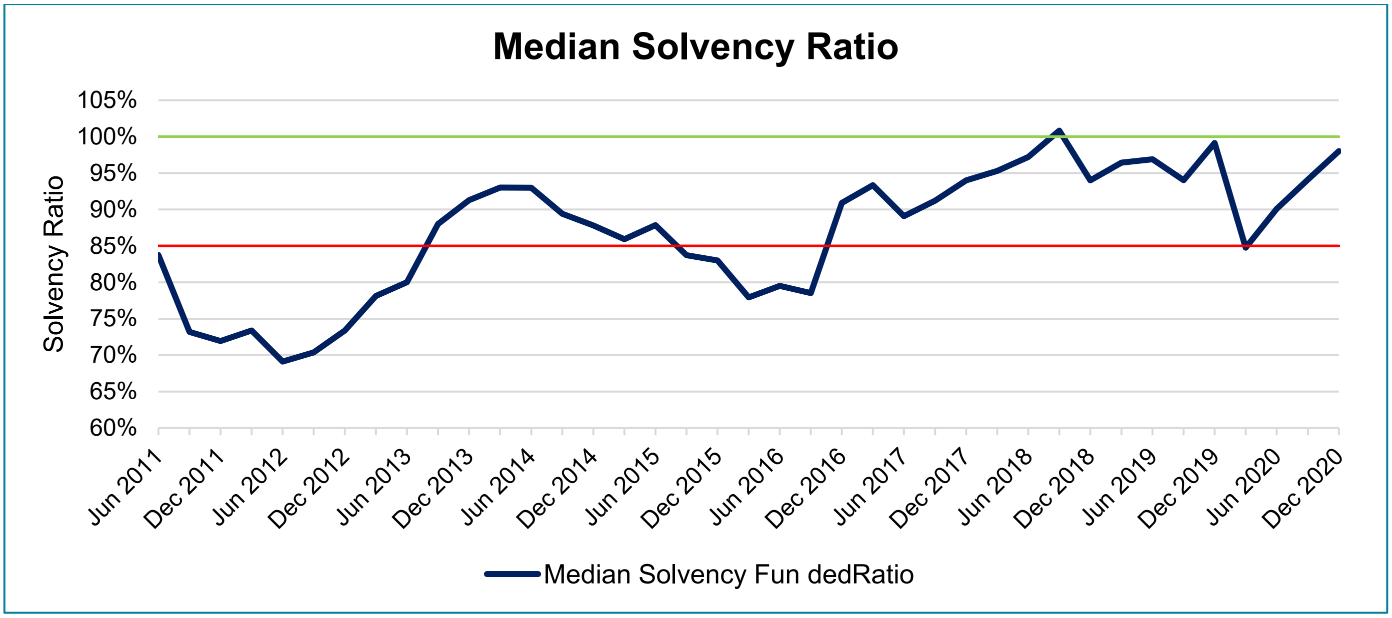


[1] based on a medium duration illustrative block

In the fourth quarter, many countries around the world were still being affected by the impact of the COVID-19 pandemic on their societies and economies. Canada and other parts of the world saw increased COVID-19 cases and had varying levels of lockdown related restrictions in place. As part of the efforts to protect people from the virus, COVID-19 vaccines approved for use were being rolled out in several countries.

Statistics Canada data shows Canada's annual CPI inflation rate in December was 0.7%, which is below the Bank of Canada's target range of 1% to 3%. Government of Canada benchmark bond yields remained low and in the equity market, returns for the S&P/TSX Composite and MSCI World Index were positive in the fourth quarter, as well as for the year.

In the US, a $900 billion coronavirus relief bill was enacted in December and the Federal Reserve maintained the federal funds rate target range at 0% to 0.25% and continued with asset purchases. In Canada, the federal government released a fall economic statement with plans for up to $100 billion in stimulus over the next three years and the Bank of Canada kept its overnight rate target at 0.25% and continued with asset purchases.


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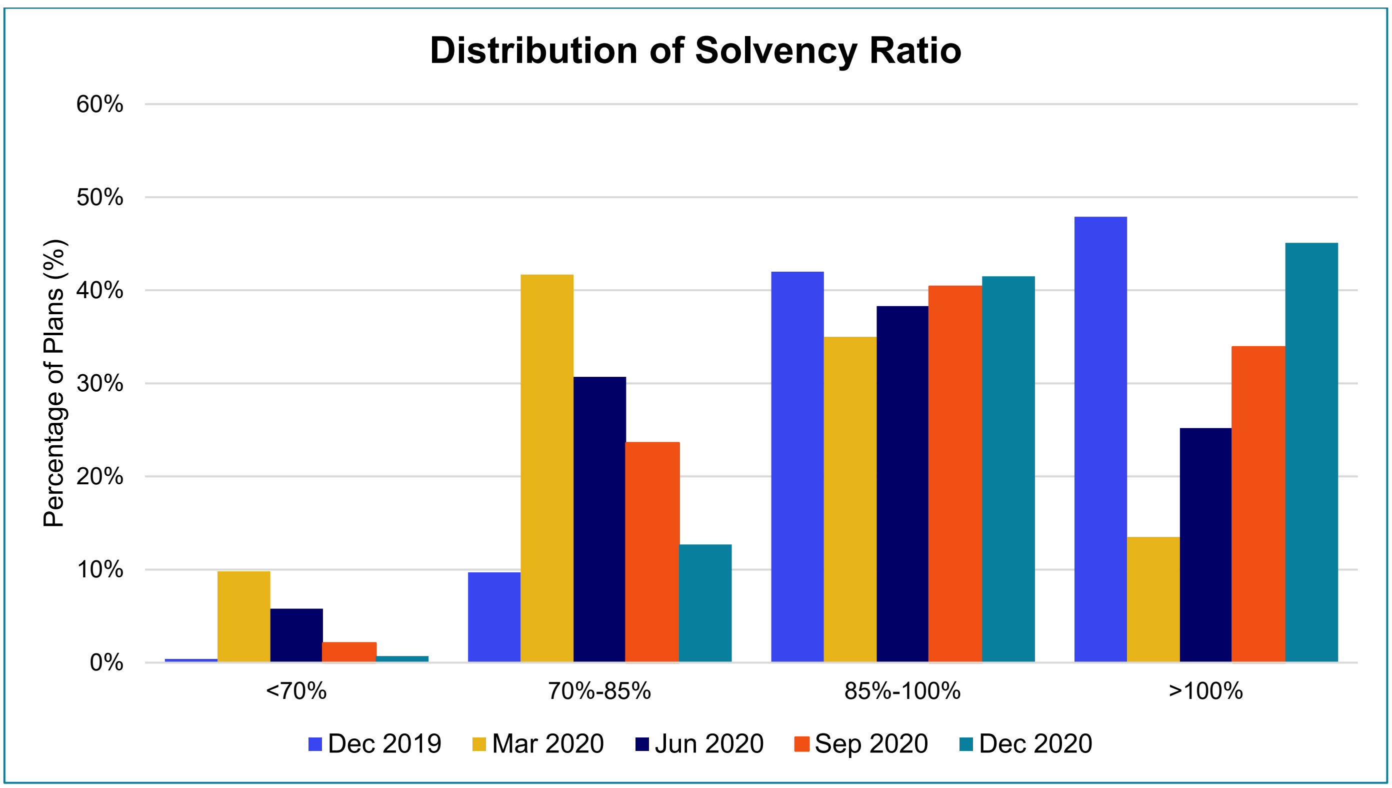
Dec 2020
Median Solvency Fun dedRatio


Distribution of Solvency Ratio
Percentage of Plans (%)
60%
50%
40%
30%
20%
10%
0%
<70%
70%-85%
85%-100%
>100%
Dec 2019
Mar 2020
Jun 2020
Sep 2020
Dec 2020

Methodology and Assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to December 31, 2020 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
2.1%	21.3%	21.5%	48.9%	4.9%	1.3%

[2] 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
Q4 2020	9.0%	8.7%	0.6%	0.8%
Q3 2020	4.7%	5.8%	0.4%	-0.3%
Q2 2020	17.0%	14.2%	5.9%	11.2%
Q1 2020	-20.9%	-13.3%	1.6%	0.2%