



Quarterly update on

Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario

Update as at March 31, 2025

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 March 31, 2025

The median projected solvency ratio has dropped 3% in Q1 2025, now standing just below the 120% mark, after remaining relatively flat throughout 2024. Despite this modest decline, most pension plans continue to demonstrate resilience, with funding levels remaining healthy amidst economic and market challenges.

- The median projected solvency ratio was 119% as at March 31, 2025, down from 122% as at December 31, 2024.
- The percentage of pension plans that were projected to be fully funded on a solvency basis as at March 31, 2025 was 89% compared to 91% as at December 31, 2024. Only 3% of plans had a solvency ratio below 85%, a 1% increase since last quarter.
- The investment returns in Q1 2025 averaged a net return of 0.9%.
- Solvency discount rates decreased since the last quarter resulting in an increase in plan liabilities.

As our readers will surely know, the US Administration announced sweeping new global tariffs on April 2, 2025, shortly after this quarter end. The immediate aftermath of this announcement saw significant turmoil in the global economy amidst fears of trade disruptions, inflationary pressures, and increased economic uncertainty. Although our quarterly reports only project results to the quarter end, FSRA did some additional work to estimate the initial impact of the tariff announcements on pension plans. Our estimate is that the median solvency ratio declined further by roughly 5% in the first week after Q1, amid adverse market conditions. In comparison, when the COVID-19 pandemic commenced in Q1 2020, the median solvency ratio dropped by 14% in the quarter. There is still significant uncertainty relating to the global trade situation and the funded positions of pension plans will continue to fluctuate over time. Nevertheless, it appears that plans have so far been able to remain healthy.

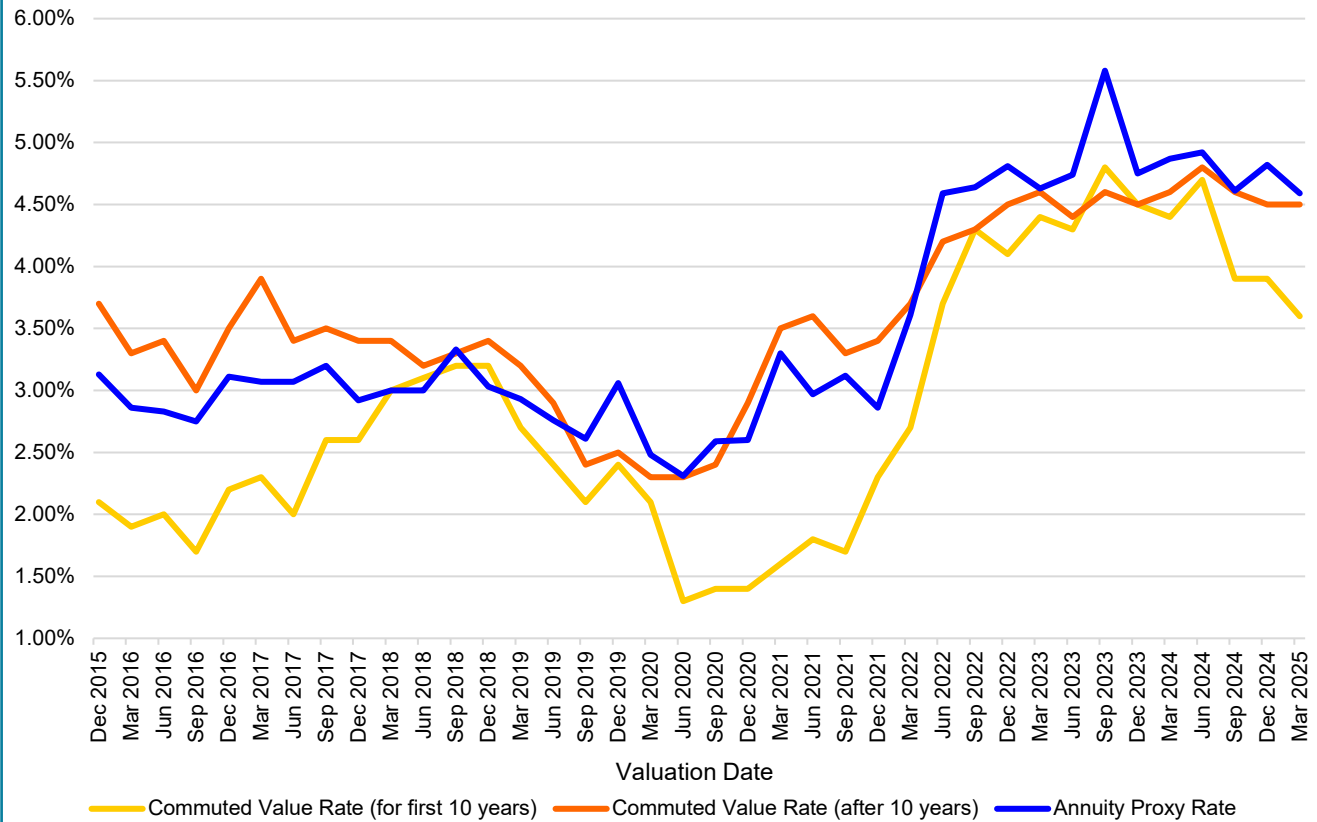
The evolving landscape highlights the importance of robust risk management practices, sound funding and investment strategies, and ongoing vigilance. Plan sponsors and administrators should remain proactive in navigating these complexities with strategies tailored to their plans' specific characteristics, helping to ensure the long-term health and sustainability of their pension plans.

Projected Solvency Position as at March 31, 2025	Q1 2025	Q4 2024	Q4 2023
Median solvency ratio	119%	122%	119%
Percentage of plans with a solvency ratio greater than 100%	89%	91%	89%
Percentage of plans with a solvency ratio between 85% and 100%	8%	7%	9%
Percentage of plans with a solvency ratio below 85%	3%	2%	2%

The projected solvency position, in aggregate, declined since last quarter. The 3 percentage point decrease in the estimated median solvency ratio since December 31, 2024 is attributable to:

- Change in solvency discount rates
 - The non-indexed commuted value discount rates for the select period decreased by 30 bps and for the ultimate period remained unchanged. The non-indexed annuity purchase discount rate decreased by 23 bps. Overall, this resulted in an increase in pension liabilities.
- Q1 2025 pension fund investment returns
 - The average first quarter 2025 gross and net, after expense, return estimates were 1.1% and 0.9%, respectively.

Non-indexed Commuted Value and Annuity Proxy Rates¹



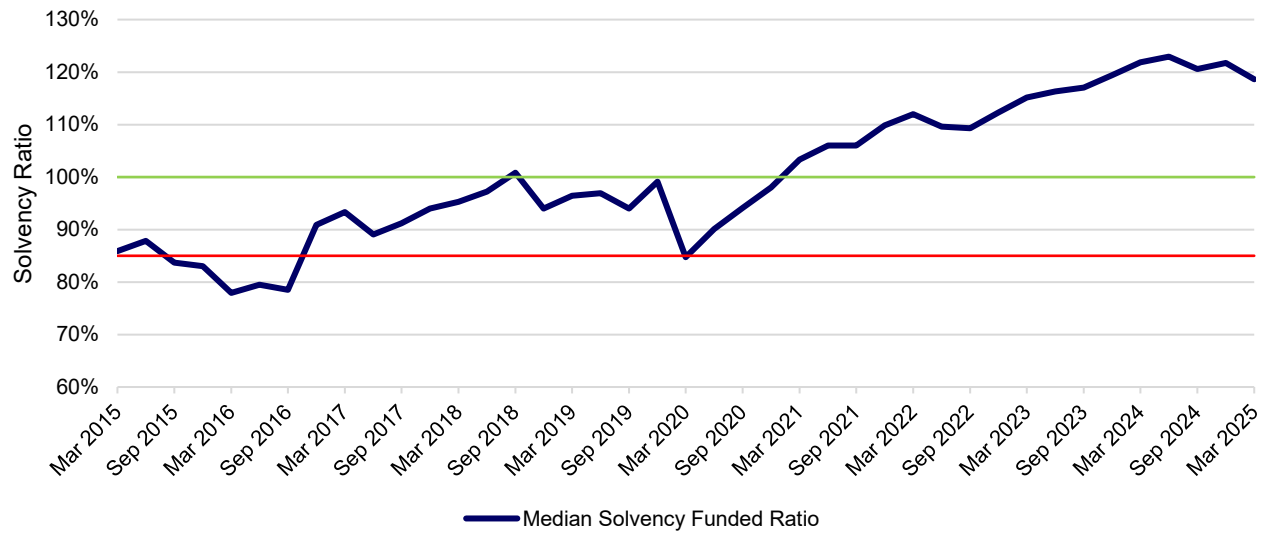
¹ based on a medium duration illustrative block

In Q1 2025, Canadians braced for reduced GDP growth because of new US tariffs on Canadian exports. The Bank of Canada's (BoC) January 2025 Monetary Policy Report reduced GDP growth expectations to 1.8% for both 2025 and 2026, down from 2.1% and 2.3%, respectively in the previous Report. The BoC reports that business surveys suggest that the uncertainty about US trade policy is restraining Canadian business investment. In addition to the US tariffs, China also applied a 100% tariff on Canadian canola oil, and a 25% duty on Canadian aquatic products and pork, in retaliation to Canada's tariffs on Chinese electric vehicles. Canadian CPI inflation increased to 2.6% annualized in February, from 1.9% in January, while the Shelter component remained higher at 4.2%. The unemployment rate was 6.7% in March 2025, similar to previous months.

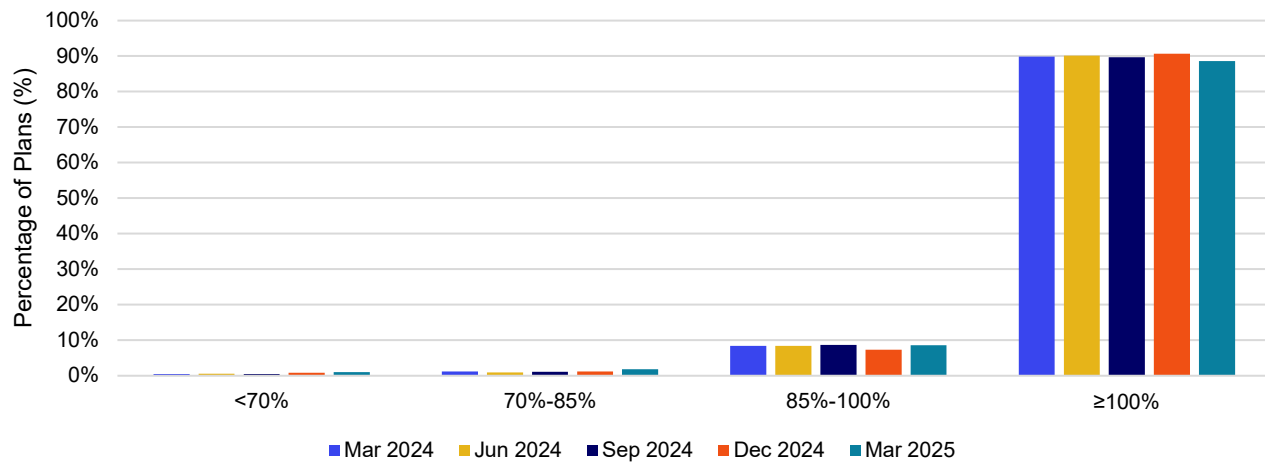
In Q1 2025, the Canadian government bond yield curve steepened and moved downward, with the 2-year yield at 2.46% and the 10-year yield at 2.97% at quarter end. The FTSE Canada Universe Bond index returned 2.0% in Q1 2025, and the S&P / TSX Composite Index provided a return of 1.5%, while the American S&P 500 index fell noticeably, providing a total US dollar return of -4.3%.

The BoC cut the Canadian policy rate by 50 basis points, cutting by 25 basis points in both January and March, bringing the policy rate to 2.75%, substantially less than the US Federal Funds Target Range of 4.25%-4.50%. The US Fed Funds range was unchanged in Q1 2025. The Canadian dollar remained stable in Q1 at around 0.695 USD. In Q1, the US Federal Reserve proceeded with quantitative tightening and continued to reduce balance sheet holdings; during this time, the BoC's total assets also declined.

Median Solvency Ratio



Distribution of Solvency Ratio



Methodology and assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to March 31, 2025 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
3.2%	17.9%	18.2%	53.1%	6.3%	1.3%

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

	FTSE Canada 91-day T-Bill Index	S&P / TSX Total Return Index	MSCI World Total Net Return Index	FTSE Canada Universe Bond Index	FTSE Canada Long Term Bond Index	Cohen & Steers Global Realty Majors Index
Q1 2025	0.8%	1.5%	-1.7%	2.0%	1.8%	2.2%
Q4 2024	1.1%	3.8%	6.3%	0.0%	-0.8%	-4.6%
Q3 2024	1.2%	10.5%	5.0%	4.7%	5.8%	14.6%
Q2 2024	1.3%	-0.5%	3.8%	0.9%	0.2%	-0.9%