FSRA
Financial Services Regulatory Authority of Ontario

Ontario

ARSF
Autorité ontarienne de réglementation des services financiers

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Quarterly update on

Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario

March 31, 2021

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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 March 31, 2021

Pension plans are at their best funded positions since the 2008 global financial crisis. More than half of plans have a solvency funded ratio exceeding 100%.

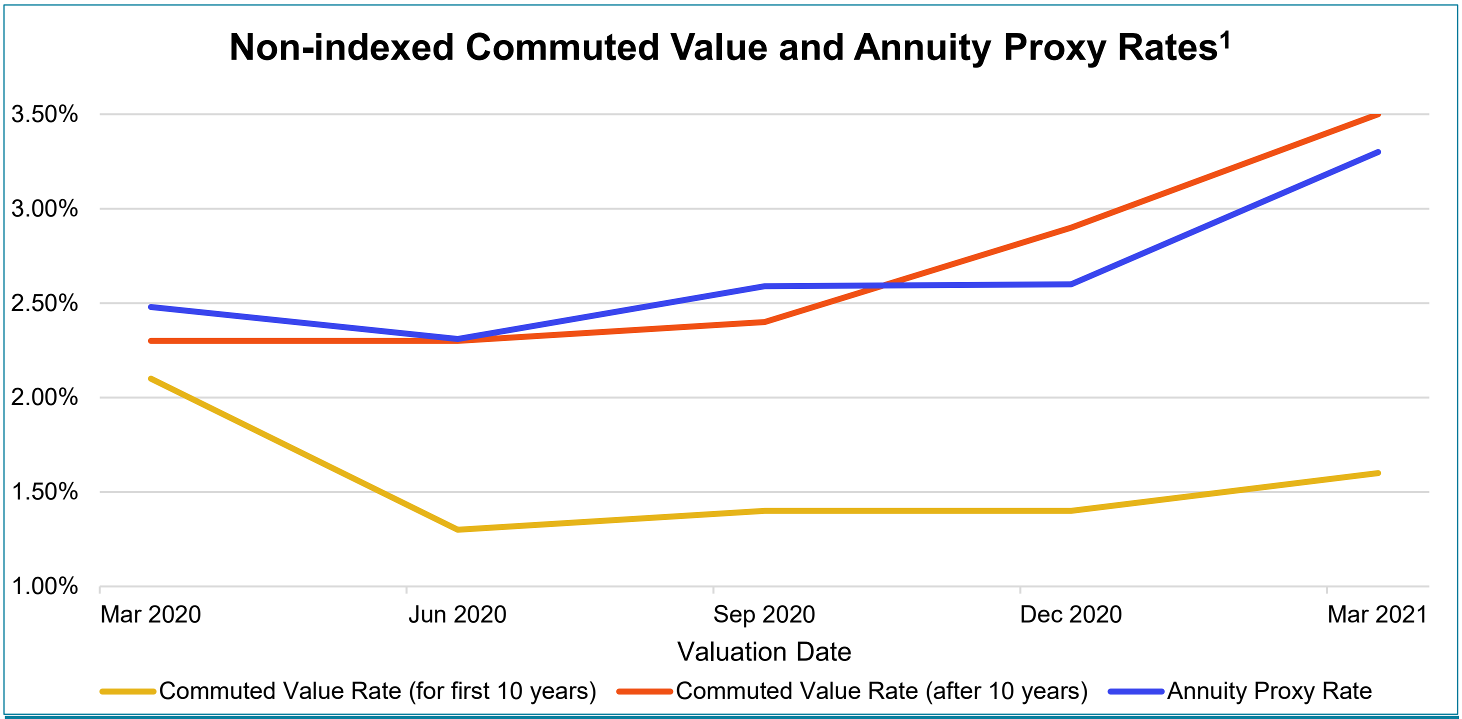
- The median projected solvency ratio was 103% as at March 31, 2021, just one year after the COVID-19 pandemic started, when the median was 85% as at March 31, 2020.
- This marks only the second time Ontario's median solvency ratio has exceeded 100% since the 2008 global financial crisis. The previous time this happened was as at September 30, 2018.
- The percentage of pension plans that were projected to be fully funded on a solvency basis at March 31, 2021 was 60%, while 4% were projected to end the year with a solvency ratio below 85%.

Many pension plan sponsors and administrators have been following an approach whereby the asset mix is strategically revised as the plan's funded ratio improves. This is a good time for them to review the situation and make adjustments if needed in order to protect the improved funded position of their plans.

Projected Solvency Position as at March 31, 2021	Q1 2021	Q4 2020	Q4 2019
Median solvency ratio	103%	98%	99%
Percentage of plans with a solvency ratio greater than 100%	60%	45%	48%
Percentage of plans with a solvency ratio between 85% and 100%	36%	42%	42%
Percentage of plans with a solvency ratio below 85%	4%	13%	10%

The projected solvency position of pension plans continued its steady improvement from a year ago, as it improved again over the first quarter of 2021. Changes in the solvency discount rate offset negative investment returns, resulting in a 5% increase in the estimated median solvency ratio from 98% to 103% since December 31, 2020 as follows:

- Negative Q1 2021 pension fund investment returns
    - The average first quarter 2021 gross and net, after expense, return estimates are -1.2% and -1.4% respectively.
- A significant increase in solvency discount rates
    - There was an increase of 20 bps in the non-indexed commuted value select discount rate, an increase of 60 bps in the non-indexed commuted value ultimate discount rate, and an increase of 70 bps in non-indexed annuity purchase discount rate.

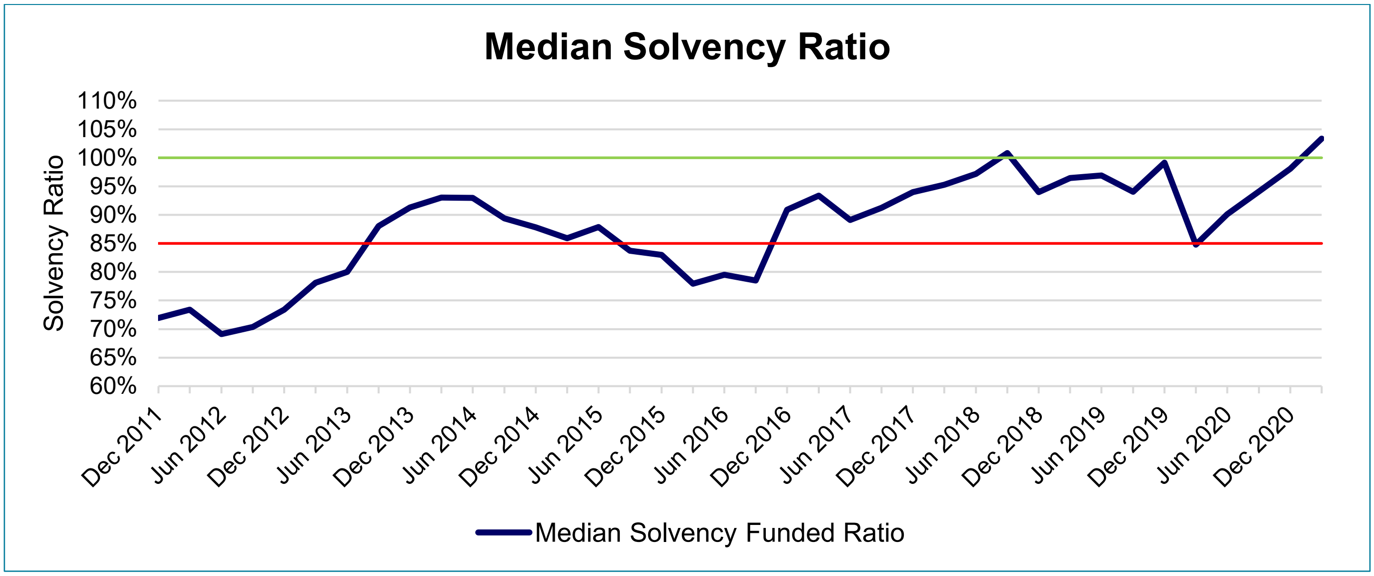


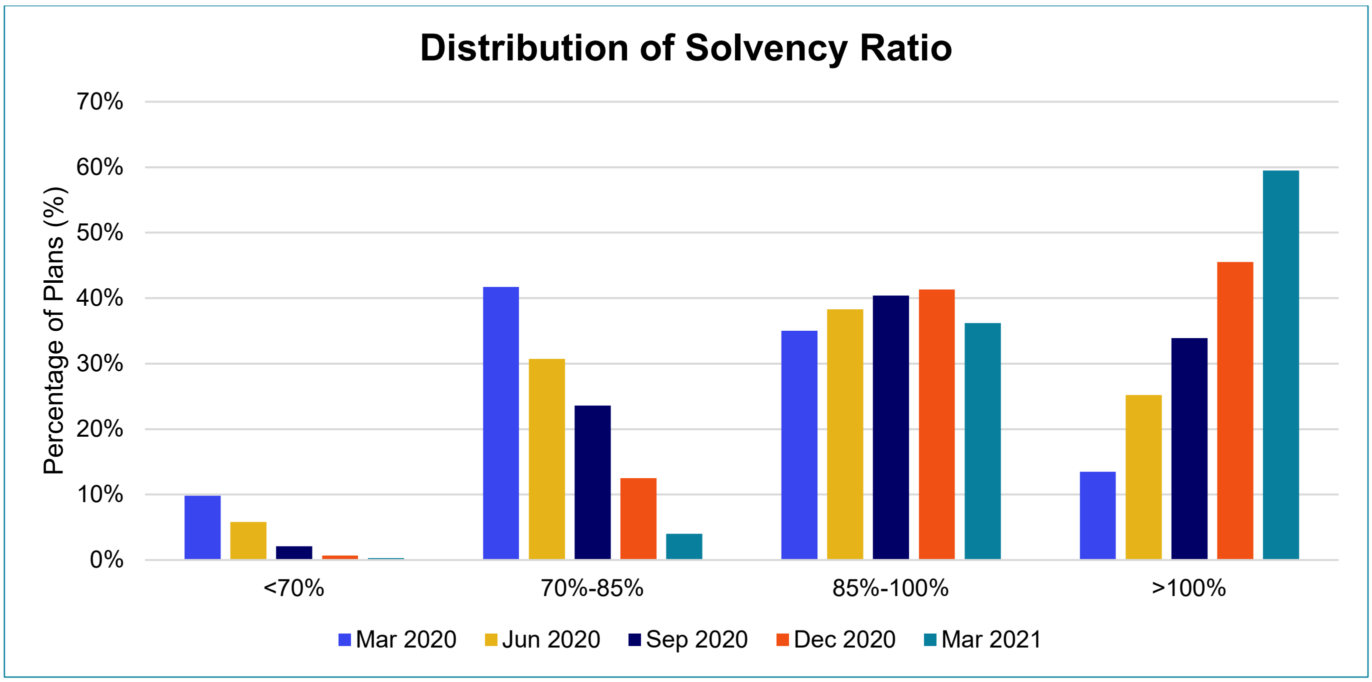
[1] based on a medium duration illustrative block

The economy continued to recover and vaccination roll-out efforts made good progress in the first quarter of 2021 where the Canadian unemployment rate improved to 7.5% in March 2021 from 8.8% towards the end of 2020.

Statistics Canada data shows annual CPI inflation at February of 1.1%, which is at the bottom of the Bank of Canada's target range of 1% to 3%. The Bank of Canada maintained the target for the overnight rate at 0.25% and continued with asset purchases. While the 2-year Government of Canada benchmark bond yield continues to be low, the long-term benchmark yield increased by 76 basis points, resulting in a -5% return for the quarter in the FTSE Canada Universe Bond Index. On the other hand, the equity market had a very strong quarter where S&P/TSX Composite delivered a quarterly return of 8.1%, with the energy sector making a strong contribution.

In the US, a $1.9 trillion COVID-19 relief bill, the American Rescue Plan Act of 2021, was enacted in March. The bill along with the positive actions taken by the Federal Reserve such as maintaining the fed fund rates target range from 0% to 0.25% and the continuation of asset purchases led to great recovery of its economy and equity indices reaching new highs.


Median Solvency Ratio
Solvency Ratio
110%
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
Dec 2011
Jun 2012
Dec 2012
Jun 2013
Dec 2013
Jun 2014
Dec 2014
Jun 2015
Dec 2015
Jun 2016
Dec 2016
Jun 2017
Dec 2017
Jun 2018
Dec 2018
Jun 2019
Dec 2019
Jun 2020
Dec 2020
Median Solvency Funded Ratio


Distribution of Solvency Ratio
Percentage of Plans (%)
70%
60%
50%
40%
30%
20%
10%
0%
<70%
70%-85%
85%-100%
>100%
Mar 2020
Jun 2020
Sep 2020
Dec 2020
Mar 2021

Methodology and Assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to March 31, 2021 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
2.0%	21.5%	21.5%	48.8%	5.0%	1.2%

[2] Assumed to be 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
Q1 2021	8.1%	3.5%	-5.0%	-10.7%
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%