FSRA
Financial Services Regulatory Authority of Ontario

ARSF
Autorité ontarienne de réglementation des services financiers

Quarterly update on

Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario

September 30, 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, a good understanding and monitoring of the key risks facing the plan, and effective 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 September 30, 2021

The funded positions of pension plans remained steady over the quarter, ending the streak of five consecutive quarters of steady improvement. About two thirds of plans have a solvency funded ratio exceeding 100%.

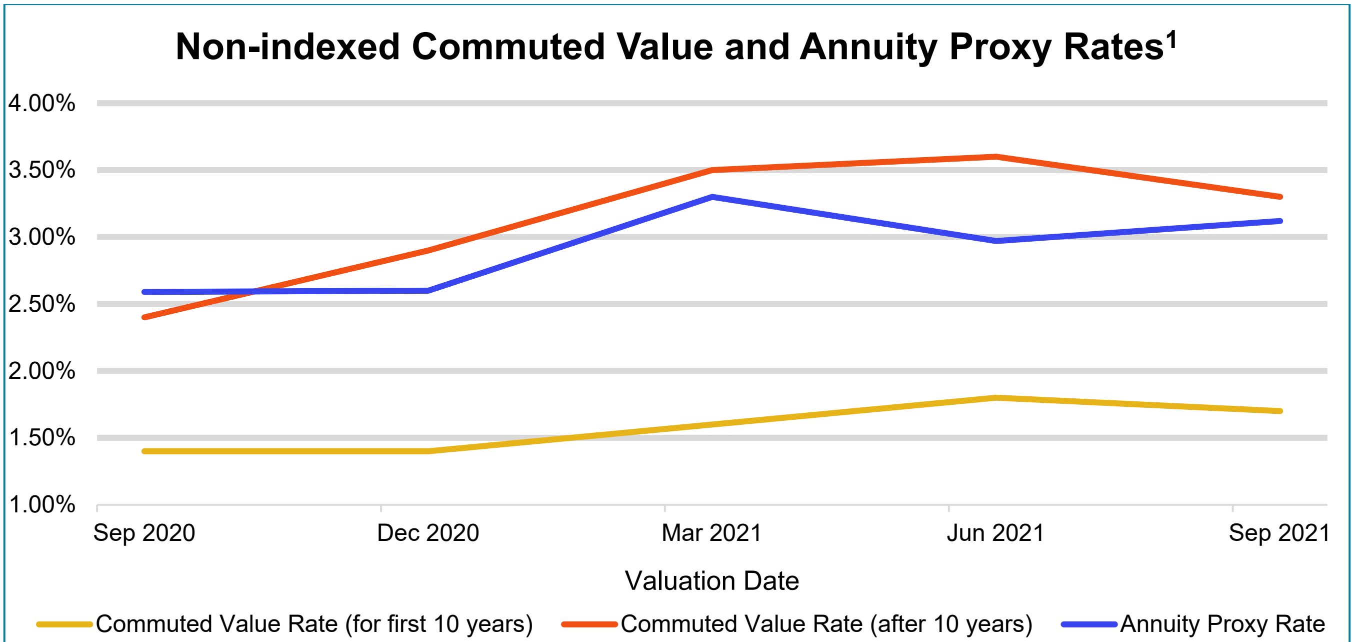
- The median projected solvency ratio was 106% as at September 30, 2021, unchanged from the funded level as at June 30, 2021.
- The percentage of pension plans that were projected to be fully funded on a solvency basis at September 30, 2021 was 67%, while 3% were projected with a solvency ratio below 85%.

Despite the stable funding level in pension plans between last two quarter-ends, there was significant volatility in the capital markets during the quarter. The fact that plans, in aggregate, were able to navigate the volatility successfully is commendable. Plan sponsors and administrators should consider their own plan's performance and determine if they have appropriate processes in place to review their funding and investment policies and strategies to manage through future uncertainties.

Projected Solvency Position as at September 30, 2021	Q3 2021	Q2 2021	Q4 2020
Median solvency ratio	106%	106%	98%
Percentage of plans with a solvency ratio greater than 100%	67%	69%	45%
Percentage of plans with a solvency ratio between 85% and 100%	30%	28%	42%
Percentage of plans with a solvency ratio below 85%	3%	3%	13%

The projected solvency position in aggregate remained unchanged from June 30, 2021, after previously increasing for five consecutive quarters. Overall, the factors that affected the assets and liabilities moved very little over the quarter and balanced each other, resulting in an estimated median solvency ratio of 106%:

- Q3 2021 pension fund investment returns
  - The average third quarter 2021 gross and net, after expense, return estimates are 0.1% and -0.2% respectively.
- Change in solvency discount rates
  - The non-indexed commuted value discount rate for selected period and ultimate period dropped by 10 bps and 30 bps respectively whereas the non-indexed annuity purchase discount rate increased by 15 bps.



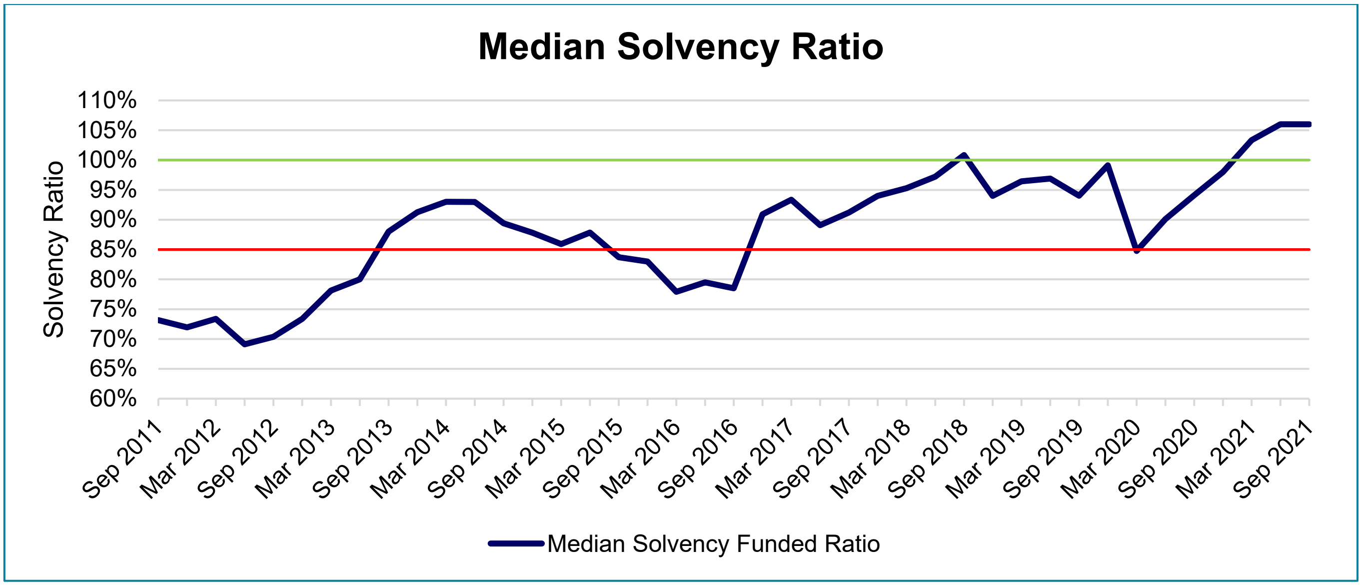
[1] based on a medium duration illustrative block

Despite enduring the fourth wave of the pandemic, Canada has continued on a path to economic recovery as more service-oriented businesses reopened and students returned to in-class learning. However, the pandemic's effect on the global supply chain persisted with significant dislocations in key transportation routes such as shipping ports, trucking lines, railways and even warehouses. The result has been shortages of key manufacturing components, order backlogs, delivery delays and a spike in transportation costs and consumer prices, not only within Canada but around the globe.

While Canadian GDP has recovered from pandemic lows, Statistics Canada data shows GDP declined month-on-month by 0.1% in July. Inflation remained above the Bank of Canada (BoC) target range of 1% to 3%, with annual CPI inflation of 4.1% in August. The BoC continues to believe that the higher inflation is temporary but is watching a number of indicators to see if ongoing price increases turn into more persistent inflation.

The third quarter saw Government of Canada (GoC) benchmark bond yields rise. Two-year rates continue to increase from pandemics lows, and while up slightly from last quarter, they remain relatively low. After declining earlier in the quarter, longer-term rates climbed back to Q2 levels. The FSTE Canada Universe Bond index was relatively flat at -0.5%, while the S&P/TSX Composite index was relatively flat at 0.2% after five straight quarters of significant gains.

Monetary policy remains accommodative with the BoC maintaining the overnight target rate at 0.25%. However, while the Bank's quantitative easing program continues, based on positive economic developments, the Bank has again scaled back its net purchases of GoC bonds and reduced the weekly purchase target from $3 billion to $2 billion. In the US, the Federal Reserve maintained the federal funds rate target range at 0% to 0.25% and continued with asset purchases of Treasury securities and agency mortgage-backed securities, but may soon lessen the pace of asset purchases based on continued progress toward its goals of maximum employment and price stability.


Median Solvency Ratio
Solvency Ratio
110%
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
Sep 2011
Mar 2012
Sep 2012
Mar 2013
Sep 2013
Mar 2014
Sep 2014
Mar 2015
Sep 2015
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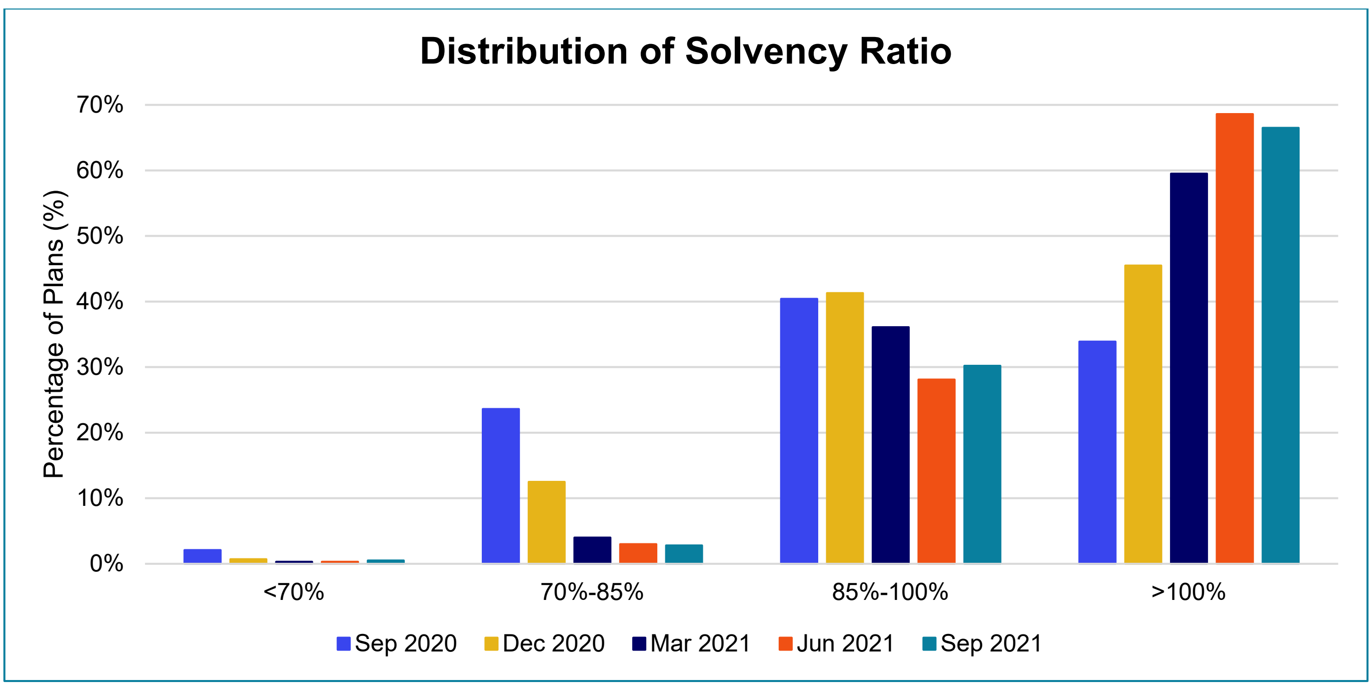
Sep 2021
Median Solvency Funded Ratio


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

Methodology and Assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to September 30, 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
2.1%	20.9%	21.4%	49.2%	5.2%	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	Cohen & Steers Global Realty Majors Index
Q3 2021	0.2%	2.3%	-0.5%	-1.6%	1.5%
Q2 2021	8.5%	6.2%	1.7%	3.7%	9.2%
Q1 2021	8.1%	3.5%	-5.0%	-10.7%	3.7%
Q4 2020	9.0%	8.7%	0.6%	0.8%	3.9%