

Update as at June 30, 2019

Quarterly Update on Estimated Solvency Funded Status of Defined Benefit Plans in Ontario

Introduction

FSRA monitors the solvency funding position quarterly and estimates the solvency ratios based on the latest filed actuarial valuation information for the Ontario Defined Benefit (DB) pension plans that are subject to solvency funding. This enables FSRA to facilitate further proactive actions in engaging plan sponsors to manage pension risks and protecting pension beneficiaries in Ontario.

Projected Solvency Position as at June 30, 2019

- **The median solvency ratio is 97% (up from 96% as at March 31, 2019);**
- **38.0% of plans had a solvency ratio greater than 100% (up from 36.6% as at March 31, 2019);**
- **47.5% of plans had a solvency ratio between 85% & 100%; and**
- **14.5% of plans had a solvency ratio below 85% (down from 15.1% as at March 31, 2019).**

The 1% increase in the estimated median solvency ratio since March 31, 2019 is attributable to strong Q2 2019 pension fund investment returns, where the median second quarter 2019 gross and net, after expense, IIS asset-weighted return estimates are 2.8% and 2.5% respectively; however it was, partially offset by the impact of the decrease in the commuted value and annuity purchase proxy interest rates.

Commutated Value and Non-Indexed Annuity Proxy Rates

¹based on a medium duration illustrative block

[View accessible version of Commuted Value and Non-indexed Annuity Proxy Rates chart](#)





- Friction between the U.S. and China over trade continued in Q2 2019, and this added to existing global economic growth concerns. Even though the associated risk may have increased, recession is currently not seen on the horizon.
- In general, major central banks worldwide are now looking to ease monetary policy to help spur their respective domestic economies. Given that inflation has remained benign, a return to monetary stimulus and quantitative easing (a real possibility in Europe where economic growth is sluggish) could factor prominently once again in any central bank's toolkit. The Bank of Canada on the other hand, has indicated that it will remain on the sidelines in terms of adopting an easing monetary stance, which helped strengthen the value of the Canadian dollar relative to other currencies; this, in turn could negatively affect Canadian exports and assist imports.

Median Solvency Ratio

Median Solvency Ratio

[View accessible version of Median Solvency Ratio chart](#)

Distribution of Solvency Ratio

Distribution of Solvency Ratio

[View accessible version of Distribution of Solvency Ratio chart](#)

Methodology and Assumptions:

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to June 30, 2019 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.
2. Each plans' actual net rates of return are calculated based on individual plan filed IIS information. The estimated returns are based on each plan's most recent filed 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
3.1%	22.0%	21.6%	47.1%	3.4%	2.8%

² 50% FTSE TMX Universe Bonds and 50% FTSE TMX Long Term Bonds.

Market index returns on the major assets 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
Q2 2019	2.6%	1.7%	2.5%	4.8%
Q1 2019	13.3%	10.0%	3.9%	6.9%

