FSRA
Financial Services Regulatory Authority of Ontario

ARSF
Autorité ontarienne de réglementation des services financiers

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Quarterly update on

Estimated Solvency Funded Status of Defined Benefit Plans in Ontario

September 30, 2019

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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 proactive action in engaging plan sponsors to manage pension risks and protecting pension beneficiaries in Ontario.

Projected Solvency Position as at September 30, 2019

Solvency funded position of a plan can change quickly with changes in interest rates – during Q3 of 2019:

- the number of plans that are projected to be fully solvency funded have fallen by 20%; while
- the number of plans that are projected to be less than 85% solvency funded have increased by over 50%.

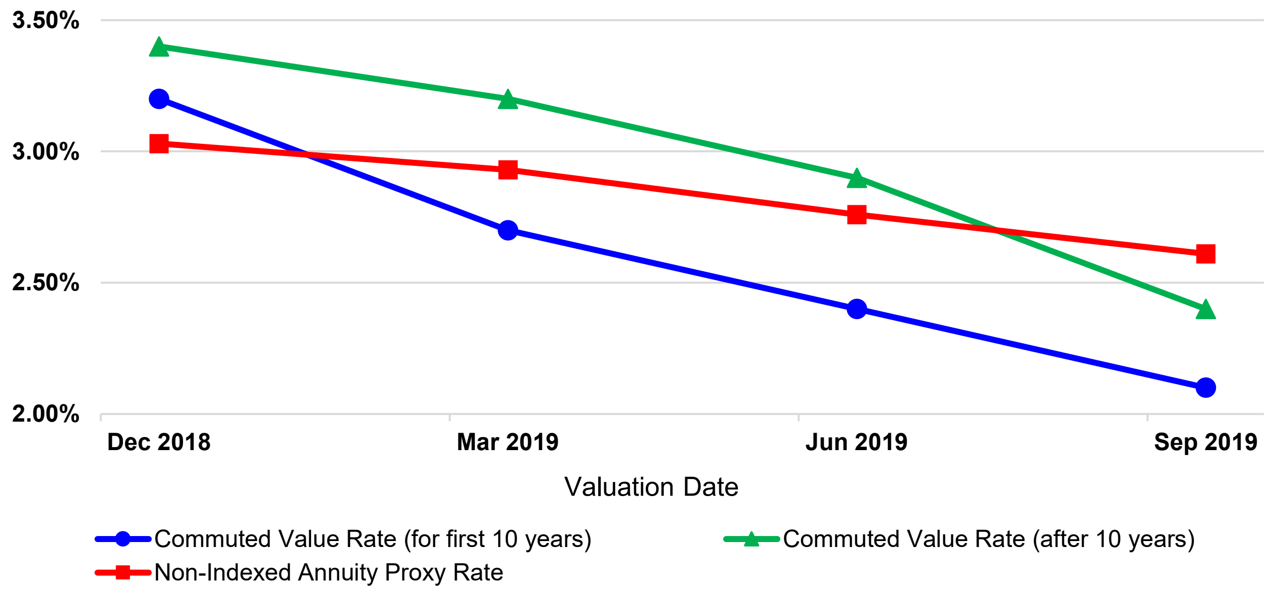
Although Ontario funding regime has changed to a lower solvency funding target, solvency position of a plan remains one of the key indicators of benefit security. Actual funding decisions by plan fiduciaries need to be guided and informed by, and adherence to, the standard of care. Having a line of sight to future funding risks and a risk mitigation and management plan in place is crucial.

Projected Solvency Position as at September 30, 2019	Q3 2019	Q2 2019	Q4 2018
Median solvency ratio	94%	97%	94%
Percentage of plans had a solvency ratio greater than 100%	31%	38%	27%
Percentage of plans had a solvency ratio between 85% and 100%	47%	48%	54%
Percentage of plans had a solvency ratio below 85%	22%	14%	19%

Generally, the projected solvency position of pension plans have deteriorated in the third quarter of 2019. The 3% decrease in the estimated median solvency ratio since June 30, 2019 is attributable to

- a decrease in solvency discount rates as bond yields declined
  - The ultimate commuted value rate has reached a historical low at 2.4% as at September 30, 2019.
- offset by a positive Q3 2019 pension fund investment returns
  - The median third quarter 2019 gross and net, after expense, return estimates are 2.0% and 1.8% respectively.
  - The 2019 YTD gross and net, after expense, return estimates are 13.2% and 12.4% respectively.

Commuted Value and Non-Indexed Annuity Proxy Rates[1]

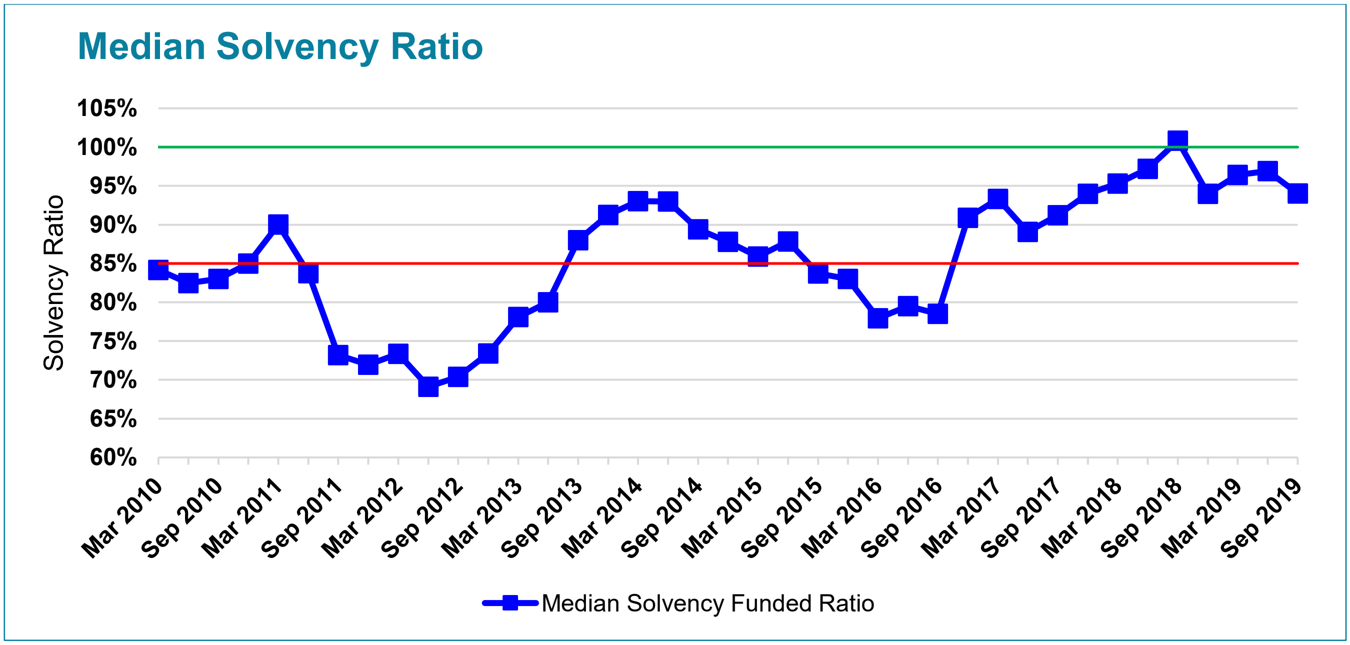


[1] based on a medium duration illustrative block

The third quarter maintained many of the similarities seen in the second quarter. Global economic growth continued to show signs of weakness. Several central banks including the U.S. Federal Reserve and the European Central Bank (ECB) responded by cutting interest rates. The ECB has also restarted quantitative easing by resuming its program of asset purchases. The Bank of England on the other hand has remained on hold, due to a lack of a clear policy direction -- wage growth has been high (suggesting rates should be raised) but the U.K. is showing signs of slowing economic growth and the Brexit saga is continuing (suggesting rates should be cut). The Bank of Japan has also remained on hold in terms of cutting interest rates, but this action is likely to be temporary, as Japan is also experiencing a slowing economy.

The U.S. continues to have a trade dispute with China, which has contributed to global economic woes. If sufficient progress is not made that results in some sort of trade resolution soon, further tariffs are to be imposed upon China later this year. However, unlike many other parts of the world and despite the battle over trade, both the U.S. and China continue to exhibit positive economic growth.

For financial markets, lower interest rates resulted in positive returns for equities and fixed income. For many asset classes, the third quarter did generate another round of positive returns.


Median Solvency Ratio
105%
100%
95%
90%
85%
80%
75%
70%
65%
60%
Solvency Ratio
Mar 2010
Sep 2010
Mar 2011
Sep 2011
Mar 2012
Sep 2012
Mar 2013
Sep 2013
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Sep 2015
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Mar 2018
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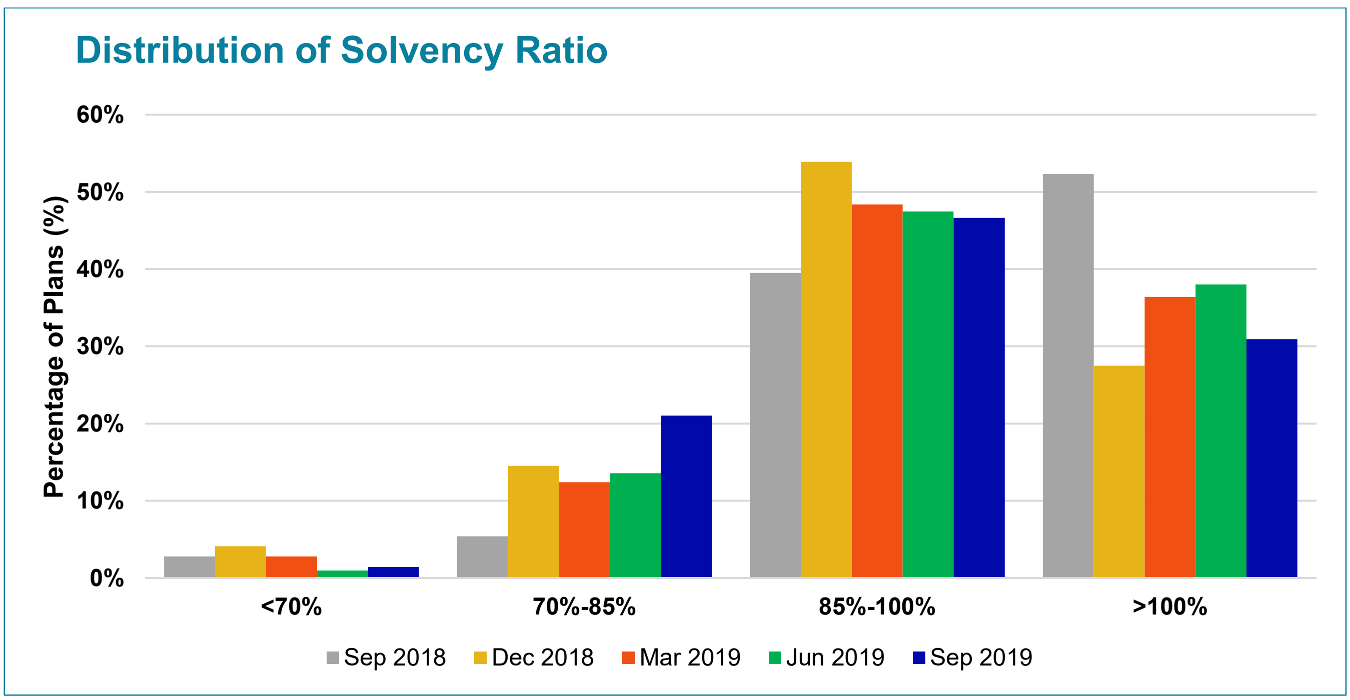
Mar 2019
Sep 2019
Median Solvency Funded Ratio


Distribution of Solvency Ratio
60%
50%
40%
30%
20%
10%
0%
Percentage of Plans (%)
<70%
70%-85%
85%-100%
>100%
Sep 2018
Dec 2018
Mar 2019
Jun 2019
Sep 2019

Methodology and Assumptions

1. The results reported in each plan's last filed actuarial valuation reports (assets and liabilities) were projected to September 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.
   - 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 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
2.9%	21.7%	21.7%	47.9%	3.2%	2.6%

[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
Q3 2019	2.5%	1.9%	1.2%	2.5%
Q2 2019	2.6%	1.7%	2.5%	4.8%
Q1 2019	13.3%	10.0%	3.9%	6.9%