Office of the Superintendent of Financial Institutions Canada | Bureau du surintendant des institutions financières Canada

OSFI reports marked improvement in pension plans but vigilance still needed

TORONTO – April 24, 2007 – The financial health of federally regulated private pension plans has improved, according to new solvency ratio estimates released today by the Office of the Superintendent of Financial Institutions (OSFI).

The average solvency ratio of federally regulated defined benefit pension plans was 1.06 at December 2006, meaning the total value of assets of all plans was six per cent higher than liabilities, calculated on a solvency basis. While the situation of individual pension plans varies considerably, the overall number is a marked improvement from the end of 2005 when there was an average shortfall of some 10 per cent.

"We attribute these improved results primarily to strong investment returns in the second half of the year, slightly higher bond yields and to special payments that are required by pension legislation," said Acting Superintendent Julie Dickson at a panel discussion on pension plan governance at the Institute of Corporate Directors in Toronto.

The December 2006 estimates also show that about half of all defined benefit plans are now fully funded, compared to only about a quarter one year earlier. And among the under-funded plans, the degree of under-funding is more moderate. Only 19 per cent of plans have an estimated solvency ratio of below 0.90, with four per cent of plans below 0.80.

The average estimated solvency ratio of 1.06 translates into an aggregate surplus of nearly $7 billion for all federal plans, compared to an aggregate deficit of more than $12 billion in 2005. Looking only at those plans that have a deficit, the aggregate solvency deficit that these plans must fund is estimated to be about $2 billion, down from more than $14 billion at the end of 2005.

Although these results are positive, Ms. Dickson is advising plan sponsors and administrators to maintain vigilance.

"While these results are encouraging, this turnaround demonstrates the volatility at play. Pension plan sponsors and administrators must continue to be vigilant and knowledgeable about techniques to manage the potential risk volatility can pose to benefit security and funding requirements. It would be wise for plans to ensure their investment strategies are matched with their risk tolerances as the situation could change very quickly if the equity market slips or bond yields fall."

A copy of Ms. Dickson's remarks can be found on OSFI's web site or through the following link: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/speeches/ICD_07_e.pdf

OSFI supervises about 450 defined benefit plans and nearly 900 defined contribution plans representing about 10 per cent of all pension plans in Canada and 15 per cent of total pension assets.

The estimated solvency testing exercise, undertaken twice a year, is one of the tools that OSFI uses to determine the health of pension plans. It is designed to detect problems and challenges early so that OSFI can work with plans to take steps to safeguard members' benefits. Plans that give rise to serious concern, due to their financial condition or for other reasons, are placed on a watch list and actively monitored. The number of plans on OSFI's watch list decreased to 64 at December 2006, from 84 in December 2005.

Created in 1987 by an Act of Parliament, the Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator and supervisor of federally registered deposit-taking institutions, insurance companies, and federally registered private pension plans. OSFI's mandate is to advance and administer a regulatory framework that contributes to public confidence in a strong, stable and competitive financial system.

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