

Defined Benefit Pension Plans Registered in British Columbia

In the past two years, FICOM has published two reports on the pension plans registered in BC. The first such report focused solely on defined benefit plans (June 2015) and the second included information on both defined benefit and defined contribution plans (August 2016). Below are some comparisons and highlights for defined benefit plans from the reports.

Defined Benefit Plan Membership and Asset Values

While the number of plans decreased slightly, the membership and assets held increased.

- As at December 31, 2013, BC had **199** registered DB plans:
 - 422,000 active members
 - 252,000 retired members (including beneficiaries)
 - 161,000 other people entitled to benefits
 - \$109.6 billion in assets
- As at December 31, 2014, BC had **196** registered DB plans:
 - 442,000 active members
 - 266,000 retired members (including beneficiaries)
 - 191,000 other people entitled to benefits
 - \$121.4 billion in assets

Shifts in Asset Allocation for Defined Benefit Plans

Over the year, plans' overall allocation to equities have decreased while allocations towards debt and infrastructure have increased.

Asset Class	% of Total MV 2013	% of Total MV2014
Debt	26.4	27.7
Equity	49.7	48.2
Infrastructure	3.7	5.4
Real estate	13.4	13.0
Other	6.8	5.7

Summary of Defined Benefit Plan Returns

- In 2012, the median rate of return was 6.7%
- In 2013, the median rate of return was 8.8%
- In 2014, the median rate of return was 10.9%

"These higher returns were the result of a significant improvement in the performance of the Canadian and U.S. equity markets in 2014."

Summary of DB Plan Going Concern Discount Rates

- In 2012, the median going concern discount rate was 5.7%
- In 2013, the median going concern discount rate was 5.5%
- In 2014, the median going concern discount rate was 5.25%

"As yields on long-term bonds have declined, plans have also reduced their investment return expectations, which in turn decreases the going concern discount rate assumptions."

Aggregate Funded Level of Defined Benefit Plans

The table below show the total assets, total liabilities, and funded ratio for both going concern and solvency valuations for those plans that filed a valuation in each year. The figures do not include public sector plans.

(\$ Millions)	Going Concern 2013	Going Concern 2014	Going Concern 2015
Total Assets	\$12,497	\$30,052	\$31,517
Total Liabilities	\$12,001	\$26,184	\$26,922
Funded Ratio	104%	115%	117%

Solvency 2013	Solvency 2014	Solvency 2015
13,637	\$33,028	\$33,235
13,757	\$33,669	\$35,754
99%	95%	93%

FICOM's Funding Risk Assessment and Supervision

FICOM uses a selection of early warning risk indicators to develop a numerical risk rating score for each plan. The early risk indicators are:

- **Funding adequacy risk** – this compares the level of a plan's current contributions with the expected level of contributions determined on a prudent funding basis.
- **Solvency risk score** – this is determined based on the percentile distribution of solvency ratios for the reporting period.
- **Contribution variance risk score** – this compares the actual amount of contributions remitted to the plan with the amount of required contributions estimated in the last filed actuarial report. This measure assesses the extent of compliance with prescribed funding requirements.

The numerical risk rating score FICOM develops for each plan is from 1 to 5, where 1 indicates the lowest risk level and 5 indicates the highest risk level. Any plan with a score of 3.0 or above is selected for a review by FICOM.

- There were 193 plans assessed in both 2014 and 2015:
 - 26 plans were selected for in-depth review in 2014.
 - 31 plans were selected for in-depth review in 2015.
- Of the 31 plans assessed in 2015:
 - 12 were assessed as having an overall funding risk level of above average or high. These plans were generally

using very high discount rate assumptions, resulting in a weak funding basis. They also had significant funding shortfalls.

- 5 were assessed as having an overall investment risk of above average. A number of these plans had very high exposures to market risk compared with their level of maturity. Their asset mix strategy was focused on return-seeking investments and in some cases their fund performance had been subject to substantial fluctuations over the recent periods. In some instances, there was also a lack of clarity in terms of their overall investment objectives, relative to their plan's liability structure.

Long Term Funding Risk

As an additional measure of risk, FICOM determines a funding adequacy ratio. The funding adequacy ratio is calculated by dividing the contribution level, as indicated in the plan's most recent valuation, by the required contribution level based on the benchmark discount rate.

For the 193 pension plans assessed, 47 plans had a funding adequacy ratio of less than 100% in 2015 with 41 in 2014. FICOM believes this indicated a deterioration in the long-term funding position of plans.

For a detailed outline of the information presented in this summary, please refer to:

A Profile of Defined Benefit Pension Plans in British Columbia – June 2015 – FICOM,

<http://www.fic.gov.bc.ca/pdf/pensionplans/DefinedBenefitProfile.pdf>

Report on Pension Plans Registered in British Columbia – August 2016 – FICOM,

<http://www.fic.gov.bc.ca/pdf/pensionplans/ReportOnPensionPlans2016.pdf>

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