

Ratings On Three Ontario Pension Funds Raised To 'AAA' From 'AA+' Following Province Of Ontario Upgrade

December 4, 2024

- On Dec. 3, 2024, S&P Global Ratings raised its long-term issuer credit rating (ICR) on the Province of Ontario, the sponsor of three rated Ontario pension funds, to 'AA-' from 'A+'.
- We limit pension fund ratings to one full rating category (three notches) above those on their sponsors and the rating on Ontario had constrained the ratings on the pension funds.
- Therefore, because of the upgrade on Ontario, S&P Global Ratings raised the long-term issuer credit and issue-level ratings on OMERS Administration Corporation (OMERS), Ontario Pension Board, and Ontario Teachers' Pension Plan to 'AAA' from 'AA+' with a stable outlook.
- In our view, these entities have demonstrated strong long-term financial and operating performances, on average, and strong fund management with a well-established risk management framework and strong liquidity. We also believe that the pension funds' independence from their sponsor, as well as good diversification and low leverage, support their credit profiles.

TORONTO (S&P Global Ratings) Dec. 4, 2024--S&P Global Ratings today said it raised its long-term issuer credit and issue-level ratings on three Ontario pension funds, as well as on the guaranteed debt of their issuing trusts, to 'AAA' from 'AA+'.

The three pension funds are:

- OMERS Administration Corporation (OMERS)
- Ontario Pension Board (OPB)
- Ontario Teachers' Pension Plan (OTPP)

The stable outlook on the pension funds reflects the stable outlook on the Province of Ontario, the sponsor of these pensions under our methodology. In our view, the Ontario pension funds produce strong long-term financial performances, on average, that exceed discount rates; have strong fund management that includes a well-established and comprehensive enterprise risk management framework; and are independent from their provincial sponsor. The funds' low-to-moderate leverage, strong liquidity, and diversified portfolios also support their credit profiles. We apply a ratings-to-principles approach, using our "Principles Of Credit Ratings" in conjunction with "USPF Criteria: Public Pension Funds" and "Rating Government-Related Entities: Methodology And Assumptions" as our criteria foundation for our analysis of the pension funds' stand-alone creditworthiness. We believe there is sufficient similarity between U.S. and Canadian

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pension systems such that the U.S. pension fund criteria are an appropriate methodology for evaluating Canadian public pension funds' credit quality.

OMERS

Outlook

The stable outlook reflects our expectation that the plan's liquidity will be sufficient to meet near-term guaranteed debt obligations, the plan will continue to realize medium-term investment returns higher than its discount rate, and it will preserve its strong net asset holdings over the next two years. Furthermore, we expect OMERS will maintain its independence, strong financial management, and risk management systems. We do not expect any change in the relationship or level of support between OMERS and its sponsors.

Downside scenario

We could lower the rating if OMERS sustains investment returns below its discount rate, which could lead us to reassess whether its investment strategies are achievable. We could also take a negative rating action if we saw evidence of a material increase in risk appetite or erosion in the performance of risk management systems. This could include large and sustained investment losses, an increase in total liabilities such that they exceed 40% of total assets, a marked decrease in liquid unencumbered assets relative to liabilities, or a sharp erosion of the plan's funded status. In addition, because we cap the rating on OMERS at one rating category (three notches) above that on its sponsor, a revision of the outlook or a downgrade on the province could lead to a similar action on the plan. We could equalize the rating on OMERS with that on Ontario if we saw evidence of provincial involvement (causing us to revise the plan's link with the province to very strong) or negative provincial interference. We consider these scenarios unlikely over our two-year outlook horizon.

OPB

Outlook

The stable outlook reflects our expectation that OPB will continue to realize good medium-term investment returns and preserve a strong net asset position over the next two years. Furthermore, we expect that OPB will maintain its independence and will continue to manage assets well and prudently in support of its long-term sustainability. We do not expect any change in the relationship or level of support between OPB and its sponsor.

Downside scenario

We could lower the rating if OPB realizes sustained investment returns below its discount rate, which could lead us to reassess whether its investment strategies are achievable. We could also take a negative rating action if we saw evidence of a material increase in risk appetite or eroded risk management systems performance. This could include large and sustained investment losses, an increase in total liabilities such that they exceed 40% of total assets, a marked decrease in liquid unencumbered assets relative to liabilities, or a sharp erosion of the plan's funded status. In addition, because we cap the rating on OPB at one full rating category (three notches) above that on its sponsor, a downgrade to the province could lead to a similar action on

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the plan. As well, we could equalize the rating on OPB with that on Ontario if we saw evidence of provincial involvement (causing us to revise the plan's link with the province to very strong) or negative provincial interference. We consider these scenarios unlikely over our two-year outlook horizon.

OTPP

Outlook

The stable outlook reflects our expectation that OTPP will continue to realize medium-term investment returns higher than its discount rate, and that it will preserve its strong net asset holdings over the next two years. Furthermore, we expect OTPP will maintain its independence, strong financial management, and risk management systems. We do not expect any change in the relationship or level of support between OTPP and its sponsors, the province and Ontario Teachers' Federation.

Downside scenario

We could lower the ratings if OTPP realizes sustained investment returns below its discount rate, which could lead us to reassess whether its investment strategies are achievable. We could also take a negative rating action if we saw evidence of a material increase in risk appetite or erosion in the performance of risk management systems. This could include large investment losses, an increase in total liabilities relative to total assets exceeding 40%, a marked decline in liquid unencumbered assets relative to liabilities, or a sharp erosion of funded status. In addition, because we cap the ratings on OTPP at one rating category above those on its sponsor, a downgrade on the province would lead to a similar action on the fund. As well, we could equalize the ratings on the fund with those on Ontario if we saw evidence of increased provincial involvement (causing us to revise OTPP's link with the province to very strong) or negative provincial interference. We consider these scenarios unlikely during our two-year outlook horizon.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Governments | U.S. Public Finance: Public Pension Funds, June 27, 2007

Related Research

- Research Update: Province of Ontario Upgraded To 'AA-' From 'A+' On Solid Foundation; Outlook Stable, Dec. 3, 2024

Ratings List

***** OMERS Administration Corporation *****

Ratings Affirmed

OMERS Finance Trust

Commercial Paper	A-1(HIGH)
Commercial Paper	A-1+

Upgraded

	To	From
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OMERS Finance Trust

Senior Unsecured	AAA	AA+
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Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
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OMERS Administration Corporation

Issuer Credit Rating	AAA/Stable/A-1+	AA+/Positive/A-1+
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***** Ontario Pension Board *****

Upgraded

	To	From
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OPB Finance Trust

Senior Unsecured	AAA	AA+
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Upgraded; CreditWatch/Outlook Action

	To	From
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Ontario Pension Board

Issuer Credit Rating	AAA/Stable/--	AA+/Positive/--
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***** Ontario Teachers' Pension Plan Board *****

Ratings Affirmed

Ontario Teachers' Finance Trust

Commercial Paper	A-1+
Commercial Paper	A-1 (HIGH)

Upgraded

	To	From
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Ontario Teachers' Finance Trust

Senior Unsecured	AAA	AA+
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Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Ontario Teachers' Pension Plan Board		
Issuer Credit Rating	AAA/Stable/A-1+	AA+/Positive/A-1+

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