New Funding Rules For Ontario Pension Plans

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The new funding rules for defined benefit pension plans in Ontario have been in force for a few months. These changes are generally considered as positive changes by plan sponsors, although they add complexity to the funding requirements. By now, plan sponsors and administrators will have had a chance to review the rules and will need to consider the impact of the changes on their plans and determine the appropriate actions to be taken. This pensions and benefits bulletin provides a summary of the key changes (focusing on single-employer pension plans) and our recommended steps for plan sponsors and administrators to move forward.

A Summary of the New Ontario Funding Rules

Solvency Funding and Use of Letters of Credit

A pension plan is required to be funded at 85 per cent (no longer 100 per cent) on a solvency basis. Solvency special payments are required to be made for a pension plan that does not meet this 85 per cent threshold, with a five-year amortization period. Such special payments must begin one year after the date of the valuation report showing the deficiency.

Letters of credit continue to be permitted, in lieu of special payments, with respect to a solvency deficiency and the permitted maximum total amount of all letters of credit remains 15 per cent of solvency liabilities. As a result of the new funding rules, the amount of existing letters of credit can be reduced to reflect the 85 per cent solvency funding requirement without required payments from the employer to make up the difference.

Going Concern Funding and Provision for Adverse Deviations (PfAD)

A pension plan must still be funded at 100 per cent on a going concern basis. However, the amortization period has been reduced from 15 years to 10 years with special payments starting one year after the date of the valuation report showing the unfunded liability.

In addition, contributions are required to be made to the plan to maintain a PfAD in

respect of both normal costs and going concern liabilities. The PfAD on a particular valuation date is the sum of three percentages, all determined according to the formulae prescribed by the new regulations. The 3 percentages are (1) the applicable fixed percentage (depending on whether or not the pension plan is a "closed" plan); (2) a percentage depending on the asset mix of the plan fund (fixed income assets versus non-fixed income assets); and (3) a percentage reflecting the excess of the plan's going concern valuation interest rate over the plan's benchmark discount rate.

Benefit Improvements

Under the new rules, plan amendments to improve benefits are not permitted if they will result in a reduction of the plan's solvency ratio or going concern funded ratio to less than 80 per cent, unless contributions are made so that the solvency ratio and the going concern funded ratio will be at least equal to what they would have been without the amendments. In addition, any increase in the going concern unfunded liabilities resulting from the amendments, which are not covered by these contributions, are required to be funded over a period of eight years.

These restrictions do not apply to plan amendments filed with the Ontario pension regulator prior to May 1, 2018 or amendments to implement benefit improvements agreed to in a collective agreement that was in place before May 1, 2018.

Contribution Holidays

Contribution holidays are permitted in respect of a plan only if (1) no special payments are required or deferred and (2) the solvency ratio (for a public sector plan) or the transfer ratio (for plans other than a public sector plan) is at least 1.05. If these two conditions are satisfied, then the "available actuarial surplus" (as determined in the manner prescribed under the new rules) can be used to reduce employer and employee contributions.

If a contribution holiday is taken, a cost certificate must be filed with the Ontario pension regulator and notice to plan members and unions (if applicable) must be given, in the prescribed manner and timeframe.

Pension Benefits Guarantee Fund (PBGF)

The rules regarding PBGF (including assessment rules, funding of assessment payments and maximum guaranteed benefits) are also changed by the new rules. Most of these changes will come into effect on January 1, 2019.

Impact of the New Funding Rules on Plan Funding and Administration — Next Steps

The new rules have significant impact on actuarial valuations, plan funding, pension fund investment and plan administration. Below are our recommended next steps for plan sponsors and administrators to consider in light of the new rules.

- The impact on the new funding regime on the plan's funding and investment strategies needs to be reviewed to determine whether changes are warranted.

- The statement of investment policies and procedures needs to be reviewed to determine whether changes are required to comply with the disclosure requirements under the new rules and changes to the plan's investment strategy, if any.
- If letters of credit are used, the arrangement needs to be reviewed to consider whether to reduce the amount of letters of credit in light of the new 85 per cent solvency funding requirement.
- Actuarial valuation reports and cost certificates with valuation dates on and after December 31, 2017 must comply with the new funding rules.
- The plan text must be amended, within 12 months of the date of the first valuation report under the new funding rules, to provide for the contribution obligations in respect of the PfAD, any plan amendment that increases going concern liabilities and any reduced solvency deficiency under the plan.
- Templates of members' annual statements and former and retired members' biennial statements need to be revised to comply with the additional disclosure requirements under the new funding rules.
- If an employer plans to take contribution holidays, the new requirements (including notice requirements) need to be complied with.
- If an employer plans to improve benefits, the employer needs to consider the new requirements under the new funding rules.
  Members of our Pensions and Benefits Group will be happy to answer any questions you may have with respect to these new funding rules.

By

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