New Funding Rules For Defined Benefit Pension Plans In Ontario

December 21, 2017

On May 19, 2017, the Ontario Ministry of Finance announced that a new funding framework will be introduced for defined benefit pension plans to help ensure the protection of retirement income security for workers and keep workplace pension plans affordable.

The Ontario Ministry is seeking comments on the proposed regulations to implement the new funding rules. Stakeholders are invited to submit their comments by January 29, 2018.

Subject to certain exceptions, the new funding rules will apply to all defined benefit pension plans in respect of valuation reports dated on or after December 31, 2017 that are filed after the new rules come into force.

Below is a high-level outline of the key features of the proposed new funding rules.

Solvency Funding Rules

- A pension plan is required to fund at 85 per cent (instead of 100 per cent) on a solvency basis by special payments. In other words, if a pension plan is funded at 85 per cent or above on a solvency basis, no special payments are required. There is no change regarding the amortization period or the commencement of payment of required special payments.
- New elections to use solvency funding relief measures introduced in 2016 will no longer be permitted, subject to transition arrangements relating to public sector plans.
- Letters of credit can still be used, instead of special payments, to fund solvency deficiencies. Since the new funding threshold is 85 per cent, a letter of credit can be reduced to maintain solvency funding at 85 per cent.

Going Concern Funding Rules

- Separate schedules of special payments for going concern liabilities established in different valuation reports are no longer permitted, except for funding benefit improvements.

- Funding pre-retirement and post-retirement indexation will be required on the same basis as other benefits.
- Provision for adverse deviation ("PfAD") by way of additional contributions in respect of normal cost and going concern liabilities will be required. The PfAD will be determined based on a prescribed formula, taking into account the proportion of fixed income assets and non-fixed income assets.
- There will be new rules regarding contribution holidays and there will be changes to the rules regarding the withdrawal of actuarial surplus.

Disclosure Requirements

For the first annual statements for active members and biennial statements to retired and former members once the new funding rules come into force, the plan administrator will be required to include an explanation that the funding rules have changed, that the solvency funding requirements have been reduced from 100 per cent to 85 per cent and that there is a requirement to fund a PfAD.

We will continue to keep you posted on future developments in our Pensions Alerts.

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