Reform of Ontario’s Funding Rules for Defined Benefit Pension Plans

On May 19, 2017, the government announced that it would be implementing a new funding framework for defined benefit pension plans. O. Reg. 250/18, amending Regulation 909 under the *Pension Benefits Act*, implements the new framework and came into effect May 1, 2018. Consistent with the proposal posted for consultation in December 2017, the new framework includes:

- Shortening the amortization period from 15 years to 10 years for funding a going concern funding shortfall in the plan.
- Consolidating going concern special payment requirements into a single schedule when a new report is filed.
- Requiring the funding of a reserve within the plan, called a Provision for Adverse Deviations (PfAD).
- Requiring funding on a solvency basis if needed to improve the plan's funded status to 85 per cent on a solvency basis.
- Providing transition rules to allow adjustments to schedules of solvency special payments established before the new framework came into effect.
- If total contribution requirements increase because of the new framework, phasing in the increase over three years.
- Increasing transparency by ensuring beneficiaries receive updated information on the funded status of their plan.
- Providing funding rules for benefit improvements and restricting contribution holidays to improve benefit security.

To ensure consistency with the new framework, consequential amendments of general application that came into effect on May 1, 2018 were also made to:

- O. Reg. 310/13, Asset Transfers under Sections 80 and 81 of the Act.
- O. Reg. 311/15, Conversions and Transfers of Assets under Section 80.4 of the Act and Conversions under Section 81.0.1 of the Act.
- O. Reg. 178/11, Solvency Funding Relief for Certain Public Sector Pension Plans.

Modifications from Consultation Proposal

In response to stakeholder feedback from the posting for consultation, certain aspects of the framework have been modified from the description originally posted, as detailed below.

<table>
<tr><th>Issue</th><th>Original Proposal</th><th>Filed Regulation</th></tr>
<tr><td>Contribution Holidays</td><td>At most 20% of available surplus may be used in a contribution holiday in one year.
The plan’s transfer ratio must be at least 1.05 after a contribution holiday is taken.</td><td>All available surplus can be used in a given year.
For public sector DB pension plans, the solvency ratio, not the transfer ratio, must be at least 1.05 after a contribution holiday. The transfer ratio requirement remains for other plans.</td></tr>
<tr><td>Contributions in respect of the Provision for Adverse Deviations (PfAD) for Plan Liabilities Funded by Annuities in the Pension Fund</td><td>Contributions in respect of the PfAD are calculated on liabilities funded by annuities in the same way as other liabilities.</td><td>No contributions for a PfAD required in respect of liabilities funded by annuities.</td></tr>
<tr><td>Funding of Benefit Improvements</td><td>Solvency ratio must be at least 85% and going concern ratio at least 90% after improvement, otherwise benefit improvement not allowed.
Cost of benefit improvement, reduced by any lump sum required to meet funded ratio requirements, must be funded over five years on a going concern basis.</td><td>Either:
Both solvency and going concern ratios must be at least 80% after improvement; and,
The cost of the benefit improvement, reduced by any lump sum required to meet funded ratio requirements, must be funded over eight years on a going concern basis.
Or
A contribution must be made to fully fund the improvement on both a solvency and going concern basis, and both solvency and going concern ratios after the improvement must be at least what they were before the improvement.</td></tr>
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Issue	Original Proposal	Filed Regulation
Payment of PBGF Assessment from Plan Surplus	• Elimination of employer ability to use surplus to pay PBGF assessments.	• Employer allowed to use surplus to pay PBGF assessments, subject to the same restrictions on use of surplus as for contribution holidays.
Provision for Adverse Deviations	• If the going concern valuation interest rate, without reduction to take into account expenses, exceeds the benchmark discount rate (BDR), the PfAD is increased. • If the administrator knows or ought to know that the target asset mix is expected to change, the PfAD must reflect the anticipated target asset mix.	• If the going concern valuation interest rate, without reduction to take into account expenses except those related to an active investment strategy, exceeds the BDR, then the PfAD is increased. • The PfAD must reflect the target asset mix in the plan's statement of investment policies and procedures.
Benchmark Discount Rate	• The first of the four components whose sum determining the BDR is the rate given by CANSIM V122544 in the month of the valuation date.	• This component is the rate given by CANSIM V39056 on the valuation date.
Disclosure	• For the first statement sent to active members, former members or retired members once the proposed new funding framework is in effect, the administrator would be required to include an explanation that funding rules have changed.	• Maintains proposal in original posting. • In addition, in each statement under the new framework, the administrator would include the transfer ratio from the last filed valuation report and an estimate of the transfer ratio at the end of statement period (instead of the transfer ratio from the last two filed valuation reports, as currently required).