



## Special Communiqué

### Ontario announces new Solvency Funding Framework

May 2017

On May 19, 2017, the Ontario government announced a new defined benefit (“DB”) pension plan funding framework and expanded coverage under the Pension Benefits Guarantee Fund (“PBGF”).

In addition, the government announced a number of related measures, such as providing for extinguishing legal liability upon buy-out annuity purchase and restrictions on benefit improvements and contribution holidays. Finally, the government promised interim measures to assist DB plan sponsors who are required to file valuation reports dated between December 31, 2016 and December 31, 2017.

### The New Framework

Highlights of the new funding framework for DB pension plans include:

- Requiring funding on enhanced going concern basis;
- Shortening the going concern amortization period from 15 years to 10 years;
- Consolidating special payment requirements into a single schedule;
- Requiring funding of a reserve within the plan, called a Provision for Adverse Deviation or PfAD; and
- Requiring funding on a solvency basis in the event that a plan’s funded status falls below 85%, as opposed to 100%.

To help ensure benefit security in the event that a pension plan is not fully funded and the employer is bankrupt, the government will be increasing the monthly guarantee provided by the PBGF for a plan member's pension by 50%, to \$1,500 from \$1,000. Premiums will have to increase to cover the increase in PBGF coverage.

### Related Measures

The government also announced several related measures, namely:

- Providing a discharge of liabilities when buy-out annuities are purchased for retirees or deferred plan members;
- Enhanced funding requirements for benefit improvements;
- Restricting contribution holidays to improve benefit security;
- Requiring plans to develop funding and governance policies;
- Ensuring beneficiaries receive updated information on the status of their plan.

### Defined Benefit Plan Wind-ups

The government will be moving forward with a review of the rules governing the wind-up of DB pension plans and studying a proposal to establish an agency to administer pension benefits of wound-up plans on an ongoing basis.

### Temporary Funding Relief Measures

The government also promises that temporary funding relief measures will be implemented in the coming weeks to assist DB pension plans that are required to file valuation reports dated on or after December 31, 2016 and before December 31, 2017. These measures will assist plans that would otherwise face new solvency funding requirements due to those filings.

### Conclusion

The revisions to solvency funding requirements and temporary funding relief measures will be of great interest to DB plan sponsors in Ontario, as will the new measures relating to buy-out annuities. The increase in PBGF coverage and PBGF assessment rates will be of concern to both Ontario DB plan sponsors and DB plan sponsors in other jurisdictions with members in Ontario. Furthermore, some of the increased requirements on DB plan administrators, such as requiring governance policies and funding policies, will require additional compliance work for plan administrators.

Detailed proposals and legislative changes to implement these changes have not yet been announced. We will continue to track ongoing developments.

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