

DB Pensions Funding Relief Update

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With many Canadian Defined Benefit pension plans slipping into solvency deficiency as a result of the performance of global financial markets since last summer, pension jurisdictions have enacted or are considering measures to deal with the funded status of plans.

Here is a round-up of what is happening in Canada as of February 19:

Federal

The 2009 federal budget confirmed solvency funding relief measures announced in November. It will allow federally regulated pension plans to extend the amortization period from five to 10 years for solvency deficiencies as of December 31, 2008, if the fund meets one of two conditions. Members and retirees must agree to the extended amortization period or the difference between the five- and 10-year payment schedules must be secured by a letter of credit.

The budget proposals also call for an increase of the 110 per cent limit on current asset smoothing for federally regulated pension plans. The amount of any deferral of funding that results from the use of an asset value in excess of 110 per cent will be subject to a deemed trust.

Alberta

Alberta Finance and Enterprise's discussion paper – 'Proposed Response Alternatives to Meet the Defined Benefit Pension Plan Funding Issues Arising from the Current Economic Environment' – outlines relief measures to assist sponsors of DB plans:

- Pension plans would be permitted to use the CIA Commuted Value Standard for actuarial valuations effective from December 31, 2008.
- An extension would be granted for all pension plans to amortize solvency deficiencies related to the market decline in 2008. This one-time option would require the plan to file an actuarial valuation which isolates the solvency deficiency attributable to the 2008 economic environment and this solvency deficiency would have an amortization period of 10 years. The normal rules for amortization would apply to solvency deficiencies attributable to the time periods before and after 2008.
- A three-year moratorium on solvency payments, similar to that currently available to SMEPPs, is proposed for single employer pension plans. Here, the employer could stop making solvency payments for the three-year period. At that time, a new solvency valuation would identify solvency deficiencies that would be amortized over a five-year period. The amortization period for any going concern unfunded liabilities could not exceed 10 years and no amendments increasing liabilities would be permitted during the moratorium. This would need to be disclosed to plan members in their annual pension statements.
- To continue contribution holidays after December 31, 2008, plan sponsors must file an actuarial valuation as at that date to show their plans have excess assets.

British Columbia

British Columbia will also permit the early implementation of the CIA Commuted Value Standard for actuarial valuations with an effective date of December 31, 2008 or later.

As well, the Superintendent of Pensions will be allowed to use its discretion, upon written request from the plan administrator, to extend any time limit to amortize the solvency deficiency of a pension plan beyond the five-year period, if the superintendent believes there are extenuating reasons. Factors that will be taken into account by the superintendent when considering a request to extend the solvency amortization period include:

- Is the request for the extension in the best interests of the plan members?

- Is the solvency deficiency largely the result of factors beyond the control of the plan administrator?
- Would the special payments normally required to eliminate the solvency deficiency result in severe financial hardship to the plan sponsor which can only be resolved through the solvency extension?
- Has the plan sponsor provided strong assurance of its ongoing financial viability for the period of the solvency extension?

Manitoba

Manitoba is giving plan sponsors more flexibility in managing the solvency funding of their pension plans. Its relief measures will be available to plan sponsors with up-to-date funding requirements, and only in respect of the first valuation report filed before January 2, 2011. It does not apply to plans established after 2008.

Existing pension legislation requires solvency deficiencies to be amortized over a five-year period. Under the relief measures, plan sponsors will be permitted to elect to consolidate all solvency deficiencies under the plan, and the consolidated solvency deficiency may be amortized over a 10-year period, subject to buy-in from plan members and beneficiaries.

New Brunswick

New Brunswick pension legislation permits plan sponsors to extend the solvency amortization period to a date on or before December 31, 2018, with the consent of the superintendent. Any relief is granted at the superintendent's discretion and it does require the plan sponsor to provide notice to the plan members of its request along with an explanation for the request.

Newfoundland & Labrador

In June 2008, the government is providing temporary solvency funding relief measures for DB pension plans.

Plan sponsors can consolidate previous solvency funding payment schedules and amortize the entire solvency deficiency over a single, new five-year period and this may be extended to 10 years if no more than one-third of the active plan members or non-active members and beneficiaries, including retirees, object to the extended amortization period. Or, the solvency amortization period can be extended if the difference between the five- and 10-year level of payments is secured by a letter of credit. The measures were available to plan sponsors who filed an actuarial valuation dated between January 1, 2007, and January 1, 2009.

Multi-employer pension plans have a three-year solvency funding exemption option for actuarial valuations completed between December 31, 2007, and December 31, 2010.

Nova Scotia

Nova Scotia has made some general exceptions to its rule that solvency deficiencies must be funded over a five-year period including giving multi-employer pension plans that perform valuations prior to November 1, 2010, a three-year exemption. As a result, eligible specified multi-employer pension plans do not have to make an immediate reduction in accrued benefits to meet the solvency funding requirements.

Ontario

Ontario says it will introduce legislation to extend solvency amortization periods to 10 years with the consent of active members or their collective bargaining agents and retired plan members.

It is also considering a number of measures including:

- allowing the consolidation of previous funding schedules
- allowing a one-year deferral of the start of catch-up payments required on the filing of valuation reports until the beginning of the next fiscal year
- permitting greater flexibility in the use of actuarial gains to reduce annual cash payments by plan sponsors

- adopting the revised CIA Commuted Value Standard

It is also considering additional protections for the members of DB pension plans such as:

- requiring enhanced notice to active and retired plan members
- accelerated funding of benefit improvements
- imposing temporary limitations on contribution holidays when the plan is no longer in a surplus position

Quebec

The Quebec Minister of Finance has suggested the province may extend the maximum time period to amortize the solvency deficiency of a pension plan from five years to 10 years. It may also allow plan sponsors to consolidate all solvency deficiencies as at December 31, 2008, and permit asset smoothing over a maximum period of five years when calculating the solvency deficiency and the unfunded liability of a pension plan.

Saskatchewan

Saskatchewan is looking at two solvency relief options.

Under option one, it would permit a three-year moratorium from solvency deficiency funding established by an actuarial valuation with a review date no earlier than December 31, 2008, and no later than December 31, 2009. The moratorium would apply only to a new solvency deficiency. The moratorium would relieve plan sponsors from making solvency payments in the first three years of the five-year solvency amortization period.

The second option would extend the amortization period for solvency deficiency from five to 10 years. This too would apply only to a 'new' solvency deficiency and not to solvency deficiencies previously established.

Source: Blakes Bulletin on Pension & Employee Benefits: Funding Relief for Defined Benefit Pension Plans in Canada - February 2009