

Memorandum



To: Our Ontario Pension Clients
From: Actuarial Department
Date: August 6, 2009
Re: **New Ontario Transfer Value Policy**

On June 19, 2009, Section 19 of the Regulations under the Ontario Pension Benefits Act was amended to change the rules by which pension plan administrators may transfer the commuted value of a terminated member's deferred pension. The new rules require the plan administrator to monitor the transfer ratio on a regular basis and to seek the approval of the Superintendent of Financial Services of Ontario prior to making a transfer if the transfer ratio has dropped by a prescribed amount since the last valuation.

Changes to the Regulations

Specifically, the Regulations have been amended to require the Superintendent's approval when:

- the administrator knows or **ought to know** that since the last valuation of the plan with a transfer ratio of 1.0 or greater that events have taken place that may result in the reduction of the transfer ratio of the plan to a value less than 0.9; or
- the administrator knows or **ought to know** that since the last valuation of the plan with a transfer ratio of less than 1.0 that events have taken place that may result in the reduction of the transfer ratio of the plan by 10% or more of the previous transfer ratio.

New FSCO Policy and Form

On July 7, 2009, the Financial Services Commission of Ontario published Policy T800-402 and a Request for Approval form to provide guidance in the application of these new Regulations. Copies of these documents have been attached to this memo.

While the Regulations do not specify a time period for the review of the transfer ratio, FSCO's policy notes that it would be appropriate for the plan administrator to review the transfer ratio on a "regular basis" and whenever a transfer is to be made, unless a review has been done in the prior three months.

The implication is that the transfer ratio should be reviewed and approval requests submitted as frequently as quarterly for plans that pay out transfer values on a regular basis. For plans that pay out transfer values on a less frequent basis, approval should be sought (if needed) prior to making a transfer. FSCO has indicated that they will respond to a Request for Approval within one week in order to minimize delays in the payment of transfer values.

CIA Guidance

The Request for Approval form requires that the actuary certify an updated transfer ratio in accordance with accepted actuarial practice. On July 23, 2009, the Canadian Institute of Actuaries provided guidance that the actuarial information on this form is considered to be a solvency valuation which therefore must comply with all relevant Standards of Practice, including the preparation of a supplemental report.

Deficiency Regulations Unchanged

We note that the Regulations that permit the payment of the full transfer value have not been amended. Specifically, 100% of the commuted value may be transferred out of the plan even when the transfer ratio is below 1.0 if either:

- a contribution equal to the transfer deficiency has been remitted to the plan; or
- the aggregate of transfer deficiencies for all transfers made since the last valuation does not exceed 5% of the assets of the plan at that time.

Therefore, when a new transfer ratio is established it will be applied for the purpose of determining if the 5% of asset threshold has been exceeded. If the threshold has not been exceeded then the transfer can be made without additional contributions to the plan.

Proposed Procedure

While the plan administrator (generally the Board of Directors of the plan sponsor) retains the ultimate responsibility for compliance with the Pension Benefits Act and the Regulations thereto, in response to the changes to the Regulations outlined above, we propose the following procedure:

- ASI will review the transfer ratio regularly (at least quarterly) unless the plan administrator specifically declines this service.
- If the estimated transfer ratio has decreased by 7% or more ASI will notify the plan administrator to confirm whether or not to seek the Superintendent's approval prior to making the next transfer.
- If requested, ASI will prepare a "roll-forward" solvency valuation report in accordance with accepted actuarial practice and complete the Request for Approval form.

We are in the process of estimating current transfer ratios for each client and we will begin by contacting those clients whose transfer ratio appears to have decreased by more than 7%. It will be our recommendation to clients in this situation to immediately suspend transfer value payments and to seek the Superintendent's approval. We note that even if the transfer ratio has not dropped by 10% or more that approval may nevertheless be sought in order to establish a new transfer ratio as the benchmark for future 10% declines.



Next Steps and Timing

Over the next two weeks we will personally contact each of our Ontario clients to answer any questions or concerns regarding these changes.





SECTION:	Transfer Values
INDEX NO.:	T800-402
TITLE:	Commutated Value Transfers - PBA ss. 42 and 43 - Regulation 909 s. 19
APPROVED BY:	Superintendent of Financial Services
PUBLISHED:	FSCO website (July 2009)
EFFECTIVE DATE:	July 07, 2009

Note: Where this policy conflicts with the Financial Services Commission of Ontario Act, 1997, S.O. 1997, c. 28 (FSCO Act), Pension Benefits Act, R.S.O. 1990, c. P.8 (PBA) or Regulation 909, R.R.O. 1990 (Regulation), the FSCO Act, PBA or Regulation govern.

*Note: The electronic version of this policy, including direct access to all linked references, is available on FSCO's website at www.fSCO.gov.on.ca. All pension policies can be accessed from the **Pensions** section of the website through the **Pension Policies** link.*

This policy describes the limitations, prescribed in section 19 of the Regulation, in relation to the transfer of the commuted value of a pension, deferred pension or ancillary benefit to which a member or former member is entitled under section 42(1) of the PBA and provides guidance in obtaining the approval of the Superintendent to effect the transfer, where required.

General

Generally the rules that apply to commuted value transfers under section 42 and annuity purchases under section 43 of the PBA are as follows:

1. For the purposes of section 42(1), the commuted value of a pension, deferred pension or ancillary benefit must not be less than the value determined in accordance with section 3800 of the *Canadian Institute of Actuaries Standards of Practice*, effective April 1, 2009.
2. Section 43(2) provides that the purchase of an annuity by the administrator is subject to the same limitations as a transfer under section 42(1).
3. Section 19(2) of the Regulation limits the amount of the commuted value that the administrator can transfer to the amount of the commuted value multiplied by the lesser of the most recently determined transfer ratio of the plan or 1.0.

4. Section 19(6) of the Regulation provides that where the most recently determined transfer ratio is less than 1.0, the administrator may still transfer 100% of the commuted value of the plan if:
 - a. the amount of the transfer deficiency is paid into the pension fund in a lump sum prior to the payment of the commuted value, or
 - b. the total of all transfer deficiencies for transfers since the valuation date of the most recently filed valuation report is less than 5% of the assets of the plan at that time.

As provided in sections 19(7), 19(7.1) and 19(7.2) of the Regulation, if the administrator transfers less than the full commuted value, the balance, with interest, must be transferred within 5 years after the date of the initial transfer.

However, section 19(6) of the Regulation has been amended so that in situations where the administrator knows or ought to know that the transfer ratio in the most recently filed valuation report has declined by 10% or more, the administrator is required to seek the prior approval of the Superintendent before transferring any funds under section 42 or 43 of the PBA.

The requirements for seeking the approval of the Superintendent and the process for submitting such a request are set out below.

Most Recently Determined Transfer Ratio Equal to or Above 1.0

- Where the transfer ratio set out in the most recently filed valuation report was equal to or greater than 1.0 and the administrator knows that the transfer ratio remains at or above 0.9, the administrator may transfer the full commuted value of a pension, deferred pension or ancillary benefit in respect of a terminating member without referral to the Superintendent.
- Where the transfer ratio set out in the most recently filed valuation report was equal to or greater than 1.0 and the administrator knows, or ought to know, that the transfer ratio has dropped to a value less than 0.9, the administrator **shall not** transfer any part of the commuted value of a pension, deferred pension or ancillary benefit in respect of a terminating member without obtaining the prior approval of the Superintendent.

Most Recently Determined Transfer Ratio Less Than 1.0

- Where the transfer ratio set out in the most recently filed valuation report was less than 1.0 and the administrator knows, or ought to know, that the transfer ratio has dropped by 10% or more of that ratio, the administrator **shall not transfer any part** of the commuted value of a pension, deferred pension or ancillary benefit in respect of a terminating member without obtaining the prior approval of the Superintendent.

Timing of Transfer Ratio Review

- While the PBA does not specify a time period for the review of the transfer ratio, it would be appropriate for the plan administrator to review the plan's transfer ratio on a regular basis to determine if a request pursuant to section 19(4) or 19(5) of the Regulation is required. It would be appropriate for the administrator to review the transfer ratio whenever a transfer under section 42 or 43 of the PBA is to be made, unless a review has been done in the prior three months.

Request for the Approval of the Superintendent under section 19(4) or 19(5) of the Regulation

The [Request for Approval form](#) is to be signed by both the Actuary (actuarial certification) and the Plan Administrator (declaration of the plan administrator).

Actuarial Certification

The Actuarial Certification that accompanies the request for approval **must** include:

- the effective date of the updated transfer ratio calculation (the “determination date”),
- the market value of the plan assets as of the determination date,
- the prior year credit balance, if any,
- the solvency liabilities of the plan,
- the liabilities for benefits, other than pension benefits and ancillary benefits payable under qualifying annuity contracts, that were excluded in calculating the solvency liabilities,
- the updated transfer ratio,
- a statement of opinion from the actuary certifying that the updated transfer ratio has been determined in accordance with accepted actuarial practice.

The liabilities included in the Actuarial Certification may be determined on the basis of a solvency valuation as at the determination date or a reasonable projection of the liabilities to the determination date.

The updated transfer ratio set out in the Actuarial Certification shall be deemed to have amended the transfer ratio in the most recently filed report and shall be deemed to be the “most recently determined transfer ratio” for the purposes of section 19 of the Regulation.

Where a valuation report is filed subsequent to the filing of a request for approval that has a determination date on or after the valuation date of the report being filed, the transfer ratio set out in the report must not be greater than the most recently determined transfer ratio at the determination date of the request under section 19(4) or (5) of the Regulation. For example, a valuation report with a valuation date of January 1, 2009 is filed on September 30, 2009. A request for approval was filed in July 2009. The transfer ratio set out in the report filed in September 2009 must consider the request for approval filed in July 2009, and the transfer ratio for purposes of section 42(1) or for section 43 may not be greater than the most recently determined transfer ratio set out in that request for approval.

Other Requirements

The administrator must indicate a proposed method to address the transfer deficiencies resulting from the decline in the transfer ratio of the plan.

Where a request for approval has been filed, in determining if a transfer may be made under section 19(6)(b) of the Regulation, the administrator must consider if the total of all transfer deficiencies for transfers since the valuation date of the most recently filed valuation report is less than 5% of the market value of the assets as of the most recent determination date.

Pursuant to section 42 of the PBA and section 19 of the Regulation, the Superintendent may approve the transfer of the full commuted value, or a lesser amount, to terminating members with terms and conditions as are considered appropriate in the circumstances. The Superintendent may also approve the transfer to purchase annuities by the administrator pursuant to section 43 of the PBA.

The Superintendent's approval to the request will remain in effect until the earlier of, the date the next valuation report under section 3 or 14 of the Regulation is filed or the date a subsequent request is made pursuant to section 19(4) or (5) of the Regulation, which will set out an updated transfer ratio.

Requests for the approval of the Superintendent must be on the [Request for Approval form](#) and forwarded to the [Pension Plans Branch staff member](#) assigned to the plan:

Pension Plans Branch
Financial Services Commission of Ontario
5160 Yonge Street
Box 85
Toronto ON M2N 6L9



**Request for Approval
to transfer commuted values
or purchase annuities**

Approved pursuant to the Pension Benefits Act

Use this form to request approval of the Superintendent under Subsections 19(4) or 19(5) of Regulation 909 to transfer commuted values pursuant to section 42 or to purchase annuities pursuant to section 43 of the *Pension Benefits Act*

Part A – Plan Information

Registration Number
Name of Pension Plan
Employer/Plan Sponsor

Part B – Actuarial Information

<p>(1) Valuation date of the last filed Actuarial Valuation Report: _____</p> <p>(2) If a previous s. 19(4) or s. 19(5) request was filed after the above valuation date, the Determination Date Indicated in the last filed Actuarial Certification: _____</p> <p>(3) Transfer Ratio set out in the last filed Actuarial Valuation Report or, if applicable, the last filed Actuarial Certification, whichever is lower: _____</p>		
Actuarial Certification		
<p>(4) Determination Date: _____</p> <p>(5) Market value of assets: _____</p> <p>(6) Prior Year Credit Balance: _____</p> <p>(7) Solvency liabilities: _____</p> <p>(8) Liabilities for benefits, other than pension benefits and ancillary benefits payable under qualifying annuity contracts, that were excluded in calculating the solvency liabilities: _____</p> <p>(9) Updated Transfer Ratio (the most recently determined transfer ratio): _____</p> <p>(10) If (3) was less than 1.0, indicate the percentage reduction from (3) to (9): _____</p>		
<p>The liabilities in (7) and (8) are determined, based on:</p> <p><input type="checkbox"/> a solvency valuation of the Plan as at the Determination Date, or</p> <p><input type="checkbox"/> a reasonable projection of the Plan's solvency liabilities from the last valuation date to the Determination Date.</p>		
<p>I certify that the information contained in this Actuarial Certification has been determined in accordance with accepted actuarial practice.</p>		
<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px 10px;">Dated (day/month/year)</td> </tr> </table>		Dated (day/month/year)
Dated (day/month/year)		

Signature of actuary	Print name of actuary
Name of firm	Telephone number ()

Part C – Approval of the Superintendent Requested

PBA (check one only)

- Section 42 – approval to transfer commuted values, or
- Section 43 – approval to purchase annuities, or
- Section 42 and 43 – approval to transfer commuted values and to purchase annuities

Regulation - (check one only)

- Section 19(4) of the Regulation - the last transfer ratio was equal to or greater than 1.0 and has since declined to a value less than 0.9, or
- Section 19(5) of the Regulation - the last transfer ratio was below 1.0 but has since declined by 10 per cent or more of that ratio

Part D – Proposal for Payment of Commuted Values

(check one only)

- Sections 19(2), 19(7), 19(7.1) and 19(7.2) of the Regulation – transfer a portion of the commuted value on the basis of the most recently determined transfer ratio with the transfer of the residual amount plus interest within 5 years of the initial transfer; or
- Section 19(6)(a) of the Regulation - transfer the full commuted value after an amount equal to the transfer deficiency based on the most recently determined transfer ratio has been remitted to the pension fund; or
- Section 19(6)(b) of the Regulation - transfer the full commuted value if the aggregate of transfer deficiencies for all transfers, based on the applicable most recently determined transfer ratio, made since the valuation date of the most recently filed actuarial valuation report does not exceed 5 per cent of the market value of the assets of the Plan at the Determination Date; or
- Other - attach a detailed description of the administrator's proposal.

Part E – Proposal for Purchase of Annuities

- Attach a detailed description of the administrator's proposal.

Part F – Declaration of Pension Plan Administrator

I certify that:

- I am the duly appointed administrator of this pension plan, or
- I am the duly appointed agent of the Administrator of this pension plan

and the information shown on this request for approval (and supporting documents, if any) is, to the best of my knowledge and belief, complete, true and correct

Dated (day/month/year)

Signature	Print name
Title and name of firm	Telephone number ()