

# Memorandum



To: Our Ontario Pension Clients

From: Actuarial Department

Date: November 16, 2012

## Re: Solvency Funding Relief Revisited - Update

### Introduction

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The purpose of this memo is inform our clients with Ontario registered pension plans of the recent amendments to the Regulations of the Ontario Pension Benefits Act which implement the extension of the solvency funding relief measures announced in the 2012 Ontario Budget. Detailed Regulations were released on November 1, 2012.

### Solvency Funding Relief Revisited

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#### 2012 Solvency Funding Relief Measures

As noted in our memo dated May 23, 2012, as part of the 2012 Ontario Budget, the Ontario government announced a repeat of the temporary Solvency Funding Relief Measures that were last effective for the period September 30, 2008 through September 30, 2011 (the “2009 Solvency Relief”)

With the recent release of the detailed regulations, we are now able to confirm the details of the extension of the temporary Solvency Funding Relief (the “2012 Solvency Relief”). The following is a summary of the two options available under the 2012 Solvency Relief provisions, which can be applicable to the first valuation report filed on or after September 30, 2011 (and before September 30, 2014). The regulations refer to these options as Option 4 and Option 5 as a continuation of Options 1, 2, and 3 established in the 2009 Solvency Relief:

- Option 4 (Consolidation into New 5-Year Solvency Payment Schedule): allows for previously scheduled solvency special payments to be consolidated and amortized over a new five year period commencing on the valuation date<sup>1</sup>.
- Option 5 (10-Year Amortization of New Solvency Deficiency): allows any new solvency deficiency payments established on the valuation date to be amortized over a period of up to ten years in the event that no more than one-third of the eligible active, former, and retired members object.

In addition, the Regulations were permanently amended to allow for the deferral of up to 12 months the special payments required to fund any new going concern unfunded liability or new solvency deficiency. While this relief item was “Option 1” in the 2009 Solvency Relief provisions, it is now a permanent feature of the Regulations and is applicable for all future valuation reports. This deferral also applies to the payments established in Option 5 above.

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<sup>1</sup> excluding special payments established under Option 3 of the 2009 Solvency Relief

As was done in the 2009 Solvency Relief measures, plan administrators who wish to implement any of the 2012 Solvency Relief measures will need to provide a notice containing certain information pertaining to the implementation of the Solvency Relief measures to active, former, and retired members, and the Union (if applicable). Also, an election notice is required to be filed with the Superintendent when the valuation report is filed if any of the 2012 Solvency Relief provisions are utilized.

Consistent with Option 3 from 2009 Solvency Relief measures, plan administrators who wish to implement Option 5 must not receive objections from more than one-third of the total number of active, former, and retired members (where an applicable Union may wish to respond on behalf of the active members).

Finally, if the plan administrator elects to implement either Option 4 or Option 5, any subsequent increase in the going concern unfunded liability resulting from a plan amendment will be required to be funded over a 5 year period.

### Deadline for Filing Valuation Reports

The amendments to the Regulations also extend the filing deadline for valuation reports with a valuation date between September 30, 2011 and May 31, 2012. Such valuation reports now have a filing deadline of February 28, 2013.

### Other Measures

The recent amendment to the Regulations did not address the allowance of letters of credit to cover up to 15% of the plan's solvency liabilities. It is our understanding that this and other funding measures are expected to be implemented in the future.

## Next Steps

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For clients with pending funding valuations with a valuation date of December 31, 2011, we will be contacting you in the very near future to discuss the implications of the 2012 Solvency Relief provisions on your pension plan(s).

Clients who are not required to file a funding valuation as at December 31, 2011 are welcome to contact us to discuss these Solvency Funding Relief Measures and how they may apply to your particular situation. Given that the 2012 Solvency Relief provisions apply to the first valuation performed between September 30, 2011 and September 30, 2014, clients will not need to move up the timing of the next scheduled valuation to ultimately take advantage of these provisions.

Please let us know if you would like to schedule a conference call to discuss the 2012 Solvency Relief provisions and how they may apply to your particular situation. Given the additional communication required to utilize Option 5 of the 2012 Solvency Relief provisions, we ask that our clients advise us if they are considering seeking consent from their members to extend the solvency payment schedule to ten years.

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Please feel free to contact your consultant (Jason, Dean or Joe) if you would like to discuss any of the above.

