

## **Reform of Ontario's Funding Rules for Defined Benefit Pension Plans: Proposed Changes to Pension Benefits Guarantee Fund (PBGF) Assessments**

### **Overview**

On May 19, 2017, the government announced a proposed new funding framework for defined benefit (DB) pension plans. These changes are intended to help protect workers' retirement benefits while helping to keep workplace pension plans affordable. A description of proposed regulations relating to this new framework was posted on the Regulatory Registry on December 14, 2017.

Unproclaimed amendments to the *Pension Benefits Act* would increase protections provided by the Pension Benefits Guarantee Fund (PBGF) by increasing the guarantee from \$1,000 per month to \$1,500 per month, and eliminating the age and service eligibility requirements for PBGF coverage for future wind ups.

The PBGF plays an important role in Ontario's pension landscape. Ontario is the only jurisdiction in Canada with a fund intended to ensure that a minimum pension benefit level will be paid to members in the event that a plan winds up with insufficient funds.

The enhancements to the PBGF are a key component of the balanced set of reforms under the proposed new funding framework. To help ensure the sustainability of the fund the Ministry of Finance is proposing changes to the formula used to calculate a plan's annual employer-paid PBGF assessment. The changes would be effective for assessment dates on or after January 1, 2019. A plan's assessment date is nine months after the last day of the plan's fiscal year.

### **Overview of Current PBGF Assessments**

The PBGF assessment formula currently has three components:

- A basic assessment of \$5 per Ontario plan beneficiary.
- A risk-based assessment that depends on a plan's PBGF assessment base, i.e., the most recently reported solvency deficiency in respect of Ontario plan beneficiaries. The risk-based assessment levels are ladderred in three tiers based on the size of the plan's solvency deficiency.
- An assessment on plant closure and permanent layoff benefits that only applies to certain employers that have opted to exclude all plant closure benefits and permanent layoff benefits in calculating their plans' solvency liabilities.

The total of the basic assessment and the risk-based assessment is subject to a maximum plan assessment of \$300 per Ontario plan beneficiary. Also, there is a minimum PBGF assessment of \$250 per plan.

## Details of Proposed Changes

The proposed regulation would amend the PBGF assessment formula to:

- Increase the maximum assessment per member from \$300 to \$600;
- Subject to the maximum assessment per member:
  - Increase the existing risk-based assessment by 50%; and,
  - Add an assessment component equal to .015% of a plan's PBGF liabilities (i.e. solvency liabilities in respect of Ontario plan beneficiaries).
- For employers that had previously elected to exclude all plant closure benefits and permanent layoff benefits in calculating the solvency liabilities, increase the plant closure/permanent layoff benefit assessment component by 50%; and
- Eliminate the basic \$5 assessment per Ontario plan beneficiary and the \$250 minimum assessment per plan.

The following table compares the current and proposed PBGF assessment formulas.

Assessment Component	Current Formula	Proposed Formula
<b>Basic Assessment</b>	\$5 per member	\$0
<b>Risk-based Assessment</b>	Tier 1 + Tier 2 + Tier 3	
Tier 1	0.5% times the portion of the PBGF assessment base up to 10% of PBGF liabilities	0.75% times the portion of the PBGF assessment base up to 10% of PBGF liabilities
Tier 2	1.0% times the portion of the PBGF assessment base between 10% and 20% of PBGF liabilities	1.5% times the portion of the PBGF assessment base between 10% and 20% of PBGF liabilities
Tier 3	1.5% times the portion of the PBGF assessment base in excess of 20% of PBGF liabilities	2.25% times the portion of the PBGF assessment base in excess of 20% of PBGF liabilities
<b>Assessment on PBGF Liabilities</b>	0%	.015%
<b>Maximum Assessment</b>	\$300 per member	\$600 per member
<b>Plant Closure or Permanent Layoff Benefit Assessment (for applicable employers – not subject to per-member maximum)</b>	2% times the liabilities for plant closure and permanent layoff benefits that the employer elected to exclude from solvency liabilities	3% times the liabilities for plant closure and permanent layoff benefits that the employer elected to exclude from solvency liabilities
<b>Minimum Assessment</b>	\$250	\$0

The Ministry of Finance encourages interested stakeholders to provide feedback by **February 20, 2018**.