Memorandum

To: Our Ontario Pension Clients

From: Actuarial Department

Date: June 20, 2016

Re: Solvency Funding Relief Revisited

Introduction

The purpose of this memo is to inform our clients with Ontario registered pension plans of the recently announced Solvency Funding Relief effective on July 1, 2016.

Solvency Funding Relief Revisited

2016 Solvency Funding Relief Measures

With the release of the 2016 Ontario Budget, the Ontario government announced a repeat of the temporary Solvency Funding Relief Measures that were effective for the period September 30, 2011 through September 30, 2014 (the "2012 Solvency Relief") and 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 "2016 Solvency Relief"). The following is a summary of the two options available under the 2016 Solvency Relief provisions, which applies to the first valuation report filed with a valuation date on or after December 31, 2015 and before December 31, 2018. The regulations refer to these options as Option 6 and Option 7 as a continuation of Options 1, 2, and 3 established in the 2009 Solvency Relief and Options 4 and 5 established in the 2012 Solvency Relief:

- Option 6 (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[1].

- Option 7 (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.

[1] Excluding special payments established under Option 3 of the 2009 Solvency Relief and under Option 5 of the 2012 Solvency Relief.

As was done in the 2009 Solvency Relief measures and 2012 Solvency Relief measures, plan administrators who wish to implement any of the 2016 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 2016 Solvency Relief provisions are utilized.

Consistent with Option 3 from 2009 Solvency Relief measures and Option 5 from 2012 Solvency Relief measures, plan administrators who wish to implement Option 7 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). Furthermore, plan administrators who wish to implement Option 7 must be cognizant that, until the solvency deficiency is liquidated, interim progress reports must be provided to members in plan year's following the filing of a new valuation report.

Finally, if the plan administrator elects to implement either Option 6 or Option 7, 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.

Contribution Holidays

In addition, these regulations include a provision which could restrict plan sponsors from taking a contribution holiday for plan fiscal years ending after June 29, 2017 and before January 1, 2020. This provision applies irrespective of a plan sponsor's use of the 2016 Solvency Relief provisions. In particular, any plan sponsor wishing to take a contribution holiday during this period will be required to file an actuarial cost certificate confirming that the plan remains in a surplus position at the beginning of the fiscal year. Please note that we will reach out to any client who has a pension plan that would be impacted by this provision.

Next Steps

For clients with pending funding valuations in 2016, we will be contacting you in the very near future to discuss the implications of the 2016 Solvency Relief provisions on your pension plan(s).

Clients who are not required to file a funding valuation in 2016 are welcome to contact us to discuss these Solvency Funding Relief Measures and how they may apply to your particular situation. Given that the 2016 Solvency Relief provisions apply to the first valuation filed between December 31, 2015 and December 31, 2018, clients will not need to move up the timing of the next scheduled valuation to ultimately take advantage of the 2016 Solvency Relief provisions.

Please let us know if you would like to schedule a conference call to discuss the 2016 Solvency Relief provisions and how they may apply to your particular situation.

* * * * *

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