# Proposed New Ontario Regulatory Framework for Multi-Employer Pension and Target Benefit Plans

## Application:

To all MEPPs and TBPs where accrued benefits have the ability to be reduced. Pension benefits may be fully or partially established under a collectively bargained agreement. These plans exist in both the for-profit and not-for-profit environment and may have union staff or plan staff who participate in the MEPP or TBP who may or may not be covered by a collective agreement.

## Main Objectives of Proposed Regime:

- Permanent exemption from funding solvency deficiencies
- Establishment of minimum requirements for Going Concern (GC) Provision for Adverse Deviations (PfADs)
- Establishment of criteria for benefit improvements / reductions
- Allow commuted value payouts to be based on GC discount rate and mortality assumptions and GC funded ratio
- Provide for enhanced member communications
- Provide for enhanced documentation of governance procedures
- Minimum 50% member representation on Board of Trustees appointed by the union sponsor

## Guiding Principles of Proposed Regime:

- Pension sustainability – a reasonable cost to plan sponsors and members over the long term with effective risk management strategies in place
- Flexibility – Board should be able to make decisions that are appropriate for the individual circumstances, characteristics and needs of their plan
- Benefit security – a reasonable level of benefit security for plan members and retirees, regardless of plan experience
- Equity and transparency – all generations of members should be treated equitably and provided with enough information to understand their plan

- Balancing of various plan objectives, including benefit adequacy, affordability, security, stability and intergenerational equity, should be established by the Board

## PfAD Principles:

- Simple to administer
- Flexibility that PfAD can be in different forms – this could be a percentage load on liabilities and current service cost, a margin in the discount, the present value of expected excess contributions, etc.
- Strikes a balance between benefit adequacy, affordability and security that is appropriate for the individual plan as determined by the Board
- Built up in favourable times and drawn down in times of adverse plan experience
- Application of a PfAD should not increase funding variability

## Funding (after transition period):

Minimum funding standards should recognize that different MEPPs may be designed to meet different levels of benefit security/risk. Some may adopt minimum margins focusing on intergenerational equity with more frequent increases and decreases to benefit levels, while others may adopt larger PfAD provisions focusing on contribution/benefit stability. It is the Board's responsibility to ensure that the PfAD is set that meets the needs of the plan and the minimums set.

- **Methodology**
    - Best estimate assumptions (no margins)
    - Market value of assets
    - Minimum PfAD (MP) for both current service cost and liability purposes based on the following chart:

| Equity Allocation (%) | Minimum Required GC PfAD (%) |
|---|---|
| 0 | 0 |
| 10 | 1 |
| 20 | 2 |
| 30 | 3 |
| 40 | 4 |
| 50 | 5 |
| 60 | 6 |
| 70 | 7 |
| 80 | 8 |
| 90 | 9 |
| 100 | 10 |

  - The Board may establish a Target PfAD (TP) that is higher than the minimum
  - This is consistent with Saskatchewan but eliminates administrative fluctuations associated with the "cliff" structure and is a prudent balance between the Quebec and Alberta/BC models for MEPPs

- Current service PfAD
  - The current service MP must be funded, with the objective being to fund the TP
  - In practice, the actual current service PfAD at any given time may fluctuate between the MP and some level greater than the TP depending on market conditions/experience
  - Contributions must cover the current service cost, expenses, the amortization of benefit improvements and the greater of (i) unfunded liability payments in respect of experience shortfalls and (ii) the MP
  - In the event of insufficient contributions, then either benefits must be reduced and/or contributions increased
- Liability PfAD (or Contingency Reserve)
  - The liability MP would be funded from experience gains, with the objective being to fund the TP
  - The idea is that it will be built up during times of positive plan experience and drawn upon during periods of adverse plan experience
- Unfunded liabilities must be funded over a maximum period of 15 years
- Actuarial gains/surpluses may be used to
  - Reduce or eliminate the outstanding balance of any previously established UFL
  - Reduce special payments on a prorated basis or reduce the amortization period
  - Reduce current service contribution requirements
- As long as the plan demonstrates that the minimums have been met, there is flexibility in the actual funding methodology and use of other types of margins through asset smoothing, value of contribution excess, value of margin in the discount rate, etc.
- Solvency position will still be disclosed, but not funded
- Stress testing must be performed at the time an actuarial valuation is performed and discussed with the Board in order to identify the risks most applicable to the plan, but results would not be required to be reported to regulators. Types of stress testing could include:
  - Significant decline in the value of the fund

  - Hours of work assumption
  - Withdrawal of the largest participating employer(s) or significant portion of members
  - New groups joining with potentially different demographic profile
  - Cash flow analysis from new contributions versus internally generated from invested assets
  - Any other relevant risk identified by the plan actuary or Board

- A written funding/benefit policy in accordance with CAPSA guidelines must be prepared and discussed with the Board in order to establish the objectives and priorities of the plan.

## Benefit Improvements and Reductions:

Reductions:

- The contributions have to cover the following costs:
  - Current service cost
  - Expenses
  - Greater of
    - Current service MP
    - UFL special payments, if any
- If contributions are insufficient, the plan would be required to reduce benefits in accordance with the funding/benefit policy (in the absence of increased contributions)
- Accrued and/or future benefits can be reduced
- The order of benefit reductions would not be mandated but left to the discretion of the Board, as it is a complex process that depends on each plan's circumstances and history

Improvements:

- Benefit improvements do not need to be fully funded prior to being granted
- Benefit improvements can be funded through a provision in the contributions over an amortization period not exceeding 10 years

## Benefits on Termination:

- The determination of minimum benefits payable upon individual termination from the plan using the GC CV methodology
  - GC CV = pension amount as per plan formula x value factor using GC valuation assumptions (discount rate and mortality) based on most recently filed actuarial valuation report
- Payout = GC CV x GC Funded Ratio of plan based on most recent annual update (unless more recent update available)
- If GC Funded Ratio is < or = 1, no future payments to member required
- If GC Funded Ratio is > 1, optional to include surplus but must be applied on a consistent basis
- The plan's current filing schedule may be triennial; however, regardless of the filing schedule, at a minimum quarterly updates to the GC Funded Ratio must be performed
- If benefits are kept in plan, benefit is not reduced but has risk that could be reduced in future like all other members
- Must be given choice, otherwise pay full benefit if forcing out

## Benefits on Pre-retirement Death:

100% of GC CV calculated as above paid on pre-retirement death which may be paid as a lump sum or immediate or deferred pension to the surviving spouse.

## Communications:

Additional requirements on member statements include:

- GC Funded Ratio
- If < 100% funded then:
  - Steps being taken to address shortfall
  - Statement that failure to pay the UFL may result in benefit reductions
  - An explanation of what benefit would look like if membership terminated
- The above would be in addition to the current requirement of disclosing the transfer ratio and associated implications should plan termination occur

## Administration and Governance:

- Administrator can be a Board of Trustees, association, or any other body or group organized for the purpose of being responsible for the pension plan and acting in the best interest of the members

- May be jointly governed between employers and members, but members must have at least 50% representation given the nature of the underlying risk of a MEPP
- A governance policy is required that sets out the applicable requirements, but not required to be filed with regulators and must be reviewed/updated tri-annually
- Actuarial valuation reports can be filed triennially if the GC Funded Ratio is greater than 85%, otherwise they must be filed annually
- Retired members will be eligible to participate in plan governance – either as a member of the Administrative body (if permitted under the plan's current rules) or through an advisory role.

## Transition:

- The first filed actuarial valuation report after <effective date of legislation> would be required to reflect the new rules, including all PfADs, but funding would not be required
- Timing must be sufficiently flexible to reflect the collective bargaining cycle
- Must amend plan for GC CV methodology and then can apply immediately
- Benefit improvement provisions apply immediately
- Retiree participation in governance cannot require amendments to trust documents

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Multi-Employer Benefit Plan Council of Canada (MEBCO)

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