ACTEX Learning

F1RET
Pension Funding and Regulation Comprehensive Summary

1st Edition

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A CIA Exam

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Introduction

Welcome to the F1RET study manual, a guide to help you pass the exam and earn your FCIA. F1RET exam is tough, it is not about memorizing formulas, it is about thinking like a real pension actuary.

Think of this as your go-to resource. You can use it to prepare, and it will be a reliable reference on exam day.

This manual brings lays out everything on the syllabus in a clear, sensible way, hitting all the crucial topics

- Key terms so you are speaking the same language.
- Pension math for all the technical stuff.
- Canadian legislation, both federal and provincial.
- Tax laws and how they affect pension plans.
- Professional standards to be a great practicing actuary.

You will not just be ready for F1RET, but have the solid foundation of knowledge and judgment that every pension actuary needs.

Anna Wong

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PENSION MATHEMATICS FOR ACTUARIES (3RD EDITION)
CHAPTER 7: COST METHOD IN CURRENT ACTUARIAL PRACTICE
SECTION 7.4 CHOOSING A COST METHOD

I. OBJECTIVE

1. Recognize plan cost in an orderly way over the working lifetimes of participants
2. Choice of amortization method: Integral part of cost method

II. FROZEN PLAN

1. No normal cost
2. Cost Method to use
   a) Unit credit: If accrued benefit frozen in absolute dollar term
   b) Projected unit credit: If accrued benefit frozen as % of pay
      i) Require salary increase assumption

III. NON-HOMOGENOUS EMPLOYEE GROUPS

Exclude Plans Providing Maximum Allowable Benefits

1. Definition
   a) Large % of present value of future benefits from a group of highly paid Ees
   b) Generally older than average age
2. Turnover
   a) Little among the highly paid
   b) Substantial among the rank and file
3. Problem: Future working lives of the highly paid < average
   a) Benefits should be funded over their own future working lives
4. Cost method to avoid
   a) Aggregate
   b) Frozen initial liability
   c) Attained age normal
5. Cost method to use
   a) Individual level premium / Individual aggregate / Modified aggregate
      i) Losses due to salary increases are funded individually over each participant's future working years

Plans Providing Maximum Allowable Benefits

1. Effectively a flat dollar plan
2. Mainly tax deferral vehicle for the highly paid
3. Key individual employment termination = Plan termination
   a) Excess plan assets draw excise tax (not desirable)
4. Cost Method to use: Unit credit
   a) Accrued liabilities = present value of accrued benefits

IV. FLAT DOLLAR PLANS

1. Frequent update to benefit formulas
2. AL increase from each improvement cannot be amortized over too long a period
   a) Plan become more and more underfunded
3. Cost methods to avoid
   a) Unit credit
   b) Individual level premium
   c) Attained age normal
4. Cost Method to use: Projected Benefits Methods
   a) Entry age normal
   b) Frozen initial liability
   c) Projected unit credit

V. HOMOGENOUS EMPLOYEE GROUPS

1. Definition
   a) Large EE group
   b) Broad band of salary levels
   c) Stable demographics
   d) Small % of present value of future benefits from highly paid Ees
   e) Salary related benefits
2. Cost method to avoid
   a) Individual level premium: Record keeping burden
   b) Unit Credit: Annual cost increase faster than payroll
3. Cost method to use
   a) Attained age normal (for contributory plans)
   b) Aggregate (if plan has no unfunded liabilities)
   c) Entry age normal
   d) Frozen initial liability
   e) Projected unit credit

CANADIAN PENSION AND RETIREMENT INCOME PLANNING (6TH EDITION) BY TOWERS WATSON

Chapter 13: Introduction to Minimum Standards Legislation for RPPs

I. JURISDICTIONS

1. Typically plans with mandatory employer contributions are subject to minimum standards legislation
2. Retiring allowance, DPSP, employee profit sharing plan, RCA and group RRSP are typically are typically exempted
3. CAPSA Multi-jurisdiction Agreement covers plans with members in more than one pension jurisdiction

II. VESTING AND LOCKING IN

1. Each minimum standards pension act has its own minimum vesting schedule
2. Generally benefits are locked in at the same point as they are vested except e.g.
   a) All jurisdictions have minimum thresholds under which benefits can be paid in cash (e.g. small pension / commuted value < X% of YMPE)
3. Trend: Immediate vesting upon plan entry

III. PORTABILITY

1. The right to transfer on a locked in basis to another registered retirement savings arrangement
2. Members eligible for an immediate pension may not be offered this right
3. 3 options with respect to transferring commuted value:
   a) To an insurance company for the purchase of a deferred or immediate life annuity
   b) To other RPP if agrees to accept the transfer and to honour the locking in and certain other provisions of the original pension plan
   c) To tax-sheltered retirement savings vehicle (e.g. locked in RRSP / RRIF)

IV. MINIMUM EMPLOYER CONTRIBUTIONS (50% RULE)

1. A contributory plan must ensure at least 50% of the benefits payable when an individual exits the plan is attributable to ER contributions. (Generally apply to post-reform service)
2. Excess determined at plan exit. No ongoing calculation except the 50% rule must be properly handled in ongoing actuarial valuations
3. Excess amounts is refundable to plan members
   a) Most jurisdictions allow members to transfer the excess to other vehicles (e.g. another pension plan, RRSP) or increase the amount of pension payable from pension plans

V. EARLY RETIREMENT

1. Members can take an immediate pension upon early retirement within 10 years of NRA or earliest unreduced retirement age if allowed
2. Actuarial value of early retirement benefit cannot be less than the value of the deferred benefit payable at NRA
3. If plan is to use actuarial reduction, the resulting reduction must comply with ITA (i.e. unreduced pension if member meet the unreduced criteria specified under ITA)

VI. PHASED RETIREMENT

1. Phased retirement allows a member to receive a lump sum benefit from pension plan, to make up for a reduction in work hours.
   a) Only Quebec mandate specific provisions regarding phased retirement

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2. For hybrid plans, annual lump sum will first be paid from the DC account unless plan provides otherwise
3. For DB plans, the pension received at full retirement will be actuarially reduced to reflect the phased retirement pension paid to member
   a) employee can cease further accruals or not
   b) Reduced salary cannot be used to determine pension accrued up to the effective date of the agreement to work reduced hours
4. ITA now allows phased retirement provided member is age 55 with unreduced pension or age 60+
   a) Such changes also require changes to each jurisdiction's minimum standard pension legislation

VII. TEMPORARY PENSION (APPEAR IN QUEBEC LEGISLATION)

1. A member or spouse not yet in receipt of a pension can replace the lifetime pension with a temporary amount until eligible for government benefits
   a) Similar provisions apply to deferred vested or retired members who elected to transfer entitlement to a LIF
2. Only 1 temporary pension is permitted regardless of memberships in multiple plans
3. Other jurisdictions: plans can offer integration (level income) benefit option form

VIII. POSTPONED RETIREMENT

1. Generally members can accrue benefits after NRA
   a) Except Quebec members of provincially regulated plans
2. Maximum service / benefit limits can restrict post NRA accruals (e.g. longer-service employee)
3. Plan can actuarially adjust benefits to reflect postponement period
4. In Quebec, members can also receive pension payment during postponement period but only to offset any permanent reduction in remuneration during the period
   a) Any amount not paid during postponement must be actuarially equivalent to the value of benefits accrued up to NRA

IX. PRE-RETIREMENT DEATH BENEFITS

1. Can be payable to spouse, beneficiary or estate
   a) Spouse has right to waive the death benefit
   b) Non-spouse beneficiary may not have the same benefit options as spouse
      i) E.g. Spouse get commuted value but non-spouse beneficiary only get contributions with interest
2. Minimum pre-reform benefit generally = employee pre-reform contributions with interest
3. Minimum post-reform death benefit varies by jurisdiction E.g.
   a) commuted value as if member had terminated service at date of death / X% of accrued pension benefit /Only 60% of post reform benefit commuted value be paid

X. NORMAL FORM OF PENSION

1. Generally 60% JS pension option if has spouse at termination or retirement (Spouse can waive the entitlement)
2. All jurisdictions permit reduction in initial pension to the member in order to finance the spousal pension

XI. INFLATION PROTECTION

1. Not yet formally required in any minimum standards jurisdictions
   a) ER generally provide ad-hoc retiree COLA increase
2. Quebec mandates a partial indexation of benefits during deferral period in event of termination before 55.
   a) Only applies to post 2000 benefits and in form of additional benefits

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   b) Value of additional benefit = value of indexation during the deferral period of 50% of the CPI between termination age and 55
3. Quebec and New Brunswick require salary escalation reflected in conversion values

XII. ELIGIBILITY

1. Varies across jurisdictions. Common rule is
   a) Full time employees can join after 2 years of continuous service.
   b) Part time employees can join after 2 consecutive calendar years of continuous employment during which a minimum of 35% of YMPE is earned in each of those years

XIII. SURPLUS

1. Plan documents must stipulate how surplus is to be dealt with, for both GC and partial / full plan termination
   a) Ongoing plan: used for contribution holiday or improve benefits
   b) Plan termination / plan conversion: Paid out after basic benefit entitlement
      i) As a lump sum cash payment / Additional lifetime benefits or ancillaries which can be commuted / Combination of above
2. In some cases, may not be able satisfy both the ITA and the requirements of the pension supervisory authorities
   a) E.g. Plan to distribute surplus upon windup but minimum standards jurisdiction require surplus to be distributed in forms of additional benefits

XIV. PLAN TERMINATION AND GROW-IN BENEFIT

1. Partial wind-up – typically same rules as full wind-up
   a) Treat members as if all fully vested at wind-up
   b) With trend towards immediate vesting upon plan entry, special partial windup rules may not be needed
2. Ontario and Nova Scotia has grow-in rights for (age + service at 55 points and up)
   a) Accounts for future service after wind-up date that could have been accrued had there be no wind-up
      i) Affects entitlement to early retirement subsidy
      ii) Value of grow-in depends on plan provisions
3. Ontario requires grow-in benefits for any involuntary terminated employee with 55 points

XV. INTEREST ON EMPLOYEE CONTRIBUTIONS

1. Either fund investment return, net of administrative and investment expenses, or 5-year personal term deposit (Quebec only allows fund's rate, even if is negative)
2. Require plan amendments to change crediting interest
3. For hybrid / DC plans, is return on assets (net of administrative and investment expenses)

XVI. PENSION CREDIT SPLITTING UPON MARRIAGE OR RELATIONSHIP BREAKDOWN

1. Subject to court orders or provincial legislation affecting matrimonial property in the jurisdiction where the member resides

XVII. QUEBEC'S SIMPLIFIED PENSION PLAN

1. Quebec's Supplemental Pension Plan Act is designed to address ER funding risks and administrative burden of smaller sponsors
2. The Simplified Pension Plan is a money purchase plan offered and administered by financial institution

3. Each member has 2 accounts
   a) Locked in a/c holds ER contributions and other employee transfer in other locked in assets
   b) Non-Locked in a/c holds employee voluntary contributions and non-locked in transfers
   c) employee cont and DPSP transfer can go to either a/c
4. Must transfer out of SPPA once active membership ceased
   a) Can transfer non-locked in assets any time (no age restriction)
   b) Can transfer certain non-locked in assets at 55 even still as active member

XVIII. QUEBEC MEMBER FUNDED PENSION PLAN (MFPP)

1. DB mainly for union workers
2. ER cont – pre-determined
3. Remaining cont and deficiency catch up – By employee (who owns surplus)
4. Have restrictions to ensure employees don’t take on undue risks
   a) No final average benefit / DC provisions / automatic indexing
   b) Only Quebec members
   c) Non insured plan / Non designated plan
   d) Can’t be created from converting or amending a traditional plan
   e) M&A can only involve other MFPP
   f) Must be solvent and fully funded at inception and amendment time

XIX. POOLED REGISTERED ERED PENSION PLAN

1. Introduced by federal jurisdiction, provinces must establish its own regulatory framework if also want to adopt
2. DC plan - simple low-cost savings vehicle, attractive to small and medium business and self employed
   a) Cost includes fees, levies and other charges that cut member return
3. Providers (need licence from OSFI) are also plan administrator must
   a) If offer investments of different risks (max. 6 options)
      i) Default investment option must be balanced fund or target-date fund
   b) If does not offer investment options, administrator responsible for fund investment with a “prudent person” approach
4. All employees who are being offered PRPP must be
   a) Eligible immediately
   b) Auto-enroll (can opt-out)

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Chapter 15: Pension Plan Valuation Concepts

I. USES OF PENSION PLAN VALUATION

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4. Plan Design Changes
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6. Asset transfer
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8. Asset-Liability modeling

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4. Actuarial assumptions
5. Actuarial cost method
6. Constraints imposed by regulators and standards
7. Sponsor internal policies

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1. Results
   a) Minimum contribution based on relevant minimum standards jurisdictions
   b) Maximum contributions based on ITA
   c) Recommended contributions based on sponsor funding policy
2. Unfunded liabilities
   a) Sponsor responsibility
      i) Except shared cost plan / negotiated cost plan
3. Use of surplus
   a) Reduce contribution / Temporary contribution holiday (employer and/ or employee)
   b) Benefit improvement
   c) Paid out in cash to employer and employee (rare except wind-up)
   d) Contingency reserve

IV. SOLVENCY VALUATION RESULTS

1. Deficit generally deficiency amortized over 5 years
2. Can relax under temporary funding relief measures
3. In Quebec (from 2016)
   a) No longer need to fund solvency deficit
   b) Calculate contributions based on strengthening going concern requirements
   c) Must establish stabilization provision and funded

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4. Solvency results may affect
   a) Frequency of future valuations and other monitoring activities by regulators
   b) Ontario Pension Benefit Guarantee Fund assessment
   c) Transfer ratio
   d) Plan member perceptions as to security of their retirement income

V. <u>ACCOUNTING VALUATIONS</u>

1. "Management best estimate" assumptions
2. Prescribed cost allocation method
3. Applicable accounting standards depends on corporate ownership structure
   a) For subsidiaries of foreign companies, the domicile of parent company
4. Question of materiality is discussed more frequently with employer and auditors than GC basis

VI. <u>FUNDING POLICY</u>

1. A clearly articulated set of guidelines describing ER decision making process for
   a) How, When and How Much to contribute
   b) Subject to periodic review
2. Forces ER to acknowledge
   a) Financial commitment to the pension plan
   b) Understand impact of funding decision on financial health
3. Uses of funding policy
   a) Determine recommended contributions
   b) As input to evaluation of other pension plan policies
4. Funding policy is a product of ER prioritizing competing objectives.
   a) Contribution stability
   b) Maximizing or minimizing contribution
   c) Maximizing tax effectiveness and tax-sheltered funding
   d) Maximizing shareholder value
   e) Pre-funding possible future plan improvements
   f) Security of benefits
   g) Avoidance of regulatory intervention due to excessive under or over-funding
   h) Minimizing impact of pension plan accruals on corporate balance sheet
   i) Intergenerational equity among contributors and beneficiaries
   j) Maintaining funding ratio comparable to competitors
5. Elements in Funding Policy
   a) Actuarial cost method
   b) Margins of conservatism
   c) Frequency of valuation
   d) Actual contribution rates
   e) Amortization rate

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Chapter 3: Employer Pension Plans — Terms and Conditions

I. THE PRINCIPAL PROVISIONS

1. Eligibility;
2. Pension formula;
3. Pensionable service;
4. Employee contributions (for contributory plans);
5. Retirement age;
6. Normal and optional forms of pension;
7. Death benefits before retirement;
8. Termination benefits;
9. Disability benefits; and
10. Inflation protection

II. ELIGIBILITY REQUIREMENTS

1. Determine the date on which an employee may (or must) become a plan member I.e. when pension credits accruals and contributions (if has employee contribution) start
2. Most provinces requires plan eligibility after 2 years of service
   a) For part-time employees in the same class as eligible full-time employees, and earn at least 35% of the Year's Maximum Pensionable Earnings (YMPE) for 2 consecutive years
3. Eligibility rules set to balance administrative complexity with employee enrolment objectives e.g. eligibility after the probationary period

III. PENSION FORMULA

1. Defines how pension benefits will accumulate during years of plan participation
2. Difficult to decide on the amount of retirement benefit. Consider target income replacement ratio, typically between 50% to 70% over full career
3. Definition of earnings may include commission, overtime and bonus (on top of basic salary)
4. The nature of the pension formula varies with sponsor's objectives, can be one of several types or a combination of the types
5. Final Average Earnings Formula (DB)
   a) Step-Rate Formula Integrated with YMPE (year's maximum pensionable earnings)

<table>
<tr><td>Pension from Canada Pension Plan</td><td rowspan="2">Employer Pension on income above YMPE</td></tr>
<tr><td>Employer pension on income up to YMPE</td></tr>
</table>

   b) Direct offset method: Directly deduct employee's CPP/QPP benefit from employer pension
   c) Most provinces prohibit explicit reduction for Old Age Security benefit in the pension formula
6. Career Average Earnings Plan (DB)
   a) The formula is equivalent to averaging earnings over career, multiply this average by years of service and the formula rate
   b) Very common to get updates to reflect increases in wag. With regular updates, it approximates final average earnings plan

   c) Variation - apply a final earnings minimum to the basic career average earnings plan.
7. Flat Benefit Plan (DB)
   a) Most common in labour negotiated plans
   b) Easy to explain and administer
   c) May have different benefit levels for employees in different wage classes
8. Bridge Benefits (DB)
   a) payable from retirement until the age when public pensions can be received

<table>
<tr><td>Bridge paid from retirement to age 65</td><td>Canada pension plan pension</td></tr>
<tr><td colspan="2">Lifetime pension from employer on early retirement</td></tr>
</table>

9. Shared Risk/Target Benefit Plans
   a) Currently permitted in only a few provinces with strict restrictions on the types of employers who can offer this type of plan.
10. Capital Accumulation Plans (DC, money purchase plans, group savings plan, profit sharing plans)
    a) many variations for structuring the contributions
    b) formula highly dependent on sponsor's guiding principles, objectives and constraints including
       i) whether to deliver a certain adequacy within a reasonable probability,
       ii) desired level of competitiveness for their programs,
       iii) view on employer/employee sharing
       iv) cost constraints
    c) Decumulation options
       i) Purchase annuity
       ii) withdraw an income each year out of a Life Income Fund (LIF)
       iii) Advanced life deferred annuities (May defer annuity start date to age 85) - Subject to legislated limits
11. Uniformity in the Plan
    a) Can link benefits levels or qualifying conditions to employee's position / salary level.
       i) But employees in the same class must receive the same benefit.
    b) No discrimination by age, sex, or marital status
12. Past Service Benefits
    a) Ideally, the past service pension formula same as for future service
    b) past service benefits can only be established on DB basis (not DC basis)

IV. PENSIONABLE SERVICE

1. Define the period of service for which the employee will earn pension benefits
2. Legislation requires to count certain periods of absence (e.g., parental leave)
3. Income Tax Act set the maximum service years that can be recognized for DB pension

V. EMPLOYEE CONTRIBUTIONS

1. Advantages of contributory plan
   a) Lower employer contribution or alternatively employer to offer better benefits
   b) More interest from employees who contribute
2. Advantages of non-contributory plan
   a) Simpler and less costly to administer.

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   b) All eligible employees covered by plan.
   c) More employer autonomy in investment and benefit provision decision making (no employee asset)
3. Required Employee Contributions
   a) More common in Canada (contributions are tax deductible)
   b) Contribution level reflects factors such as benefit level and employer's willingness/ability to pay.
   c) If DB formula is integrated with C/QPP, likely see lower contribution requirement than non-integrated formula (equity between benefit received and contributions paid)
4. 50% Rule (does not apply to capital accumulation plans)
   a) Legally requires employer to fund at least 50% of the value of benefits paid to each member (respect to service after the legislation became effective)
   b) Any excess employee contribution is refunded to members or used to provide additional benefits.
5. Additional Voluntary Contributions (AVCs) by Employees
6. Some employers remove the voluntary contribution clauses in DB plan
   a) Cannot justify extra administrative costs due low employee uptake (employees may prefer to use personal RRSP instead)
   b) More popular in DC plans
      i) Minimal administrative cost for employers
      ii) encourage the asset accumulation single program easier employee retirement planning
      iii) Employees benefit from lower group investment management fees and wider investment options
   c) Also offered by flexible pension plans, allowing tax-deductible contributions toward ancillary benefits (i.e. indexing) without triggering a pension adjustment which cuts into personal RRSP contribution room.

VI. RETIREMENT AGE

1. specify the normal retirement/earliest retirement age, and conditions that apply when a pension starts early or is postponed.
2. Normal retirement age
   a) age when an employee has the right to retire on a full, unreduced pension.
   b) Usually same as the start age for unreduced C/QPP public pension. (age 65)
3. Early Retirement
   a) Income Tax Act states the conditions on which an unreduced DB pension can be paid out
   b) More common for DC members to keep working beyond age 65 (especially during volatile market)
   c) Most pension statues allow retirement 10 years before normal retirement age
4. A DB plan member who is considering early retirement must
   a) Member choose between an immediate reduced pension or deferring start date to age 65 with an unreduced pension
5. Phased Retirement
   a) Is the gradual reduction of work by older employees transitioning into full retirement.
   b) Cannot impose on employee (only offer as an option)
   c) must structure a formal agreement to minimize litigation risk from misunderstanding
   d) Income Tax Act permits DB pension accrual while receiving pension from the same plan during phased retirement, subject to limits on accrual, limits, and the permissiveness and timing of distributions.
   e) Most jurisdictions have formally implemented regulations on phased retirement

VII. POSTPONED RETIREMENT

1. Some design
   a) allows pension accruals to continue after normal retirement date (a larger pension at actual retirement)
   b) No pension accruals but set the pension on postponed retirement be the actuarial equivalent of that at normal retirement age.
2. Income Tax Act requires the latest age to start pension is age 71 for both DB and DC

VIII. NORMAL AND OPTIONAL FORMS OF PENSION

1. Normal Form of Pension
   a) Must define the normal form (may be different for single and married members) that will determine what benefits, if any, the beneficiary or estate will receive when the retiree dies
   b) Contributory plans may provide "refunding life annuity" or "modified cash refund annuity" guarantee.
      i) If death occurs before the amount of pension paid is equal to his/her contributions with interest up to retirement date, the balance will be paid in a lump sum to the estate or beneficiary.
   c) May provide
      i) Minimum pension benefit period e.g. life with 5 year guarantee
      ii) Joint and survivor annuity (pension continue to surviving spouse for spouse's lifetime)
         - Form required by all pension standards unless spouse signed a waiver
         - Income Tax Act allows normal form to be a generous joint and survivor 662/3% annuity, combined with a guaranteed period of five years. If survivor annuity is not provided, the maximum guarantee period is 15 years.
2. Optional Forms of Pension
   a) Pension with a Guarantee Period (Income Tax Act restricts maximum guarantee period to 15 years)
   b) Joint and Survivor Option
   c) Integrated/Level Income Option (higher pension before receiving public pension)
3. Small Pension Commutation
   a) "small" pension is one where annual pension due < less than 4-10% of the YMPE or commuted value < 10-40% of YMPE
   b) Some provinces permits 25% of pension, earned before legislation was revised, be paid in cash for pre-retirement terminations
   c) Some provinces permit the commuted value transfer to another locked-in arrangement but benefits must be paid out in annuity or stream of income payments.
4. Death Benefit Before Retirement
   a) must define what benefits employee's spouse, beneficiary, or estate will receive
   b) Definition of spouse, marriage breakdown rules and treatment upon remarriage vary by jurisdiction.
5. Termination Benefit
   a) An employee is always entitled to his or her own contributions.
   b) If pension is locked-in, all contributions must use to provide a pension and not withdrawn in cash
   c) Vesting, Locking-In, and Portability standards vary across provinces
      i) Employers to decide whether to adopt the minimum vesting rules of each jurisdiction or a common vesting rule that meets all provincial standards
      ii) Also to decide whether to have one vesting standard for all service (pre- and post legislation change)

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      iii) Legislation allows terminating employees to transfer commuted value of vested pension to another retirement savings arrangement. The new institution must administer it on locked-in basis
   d) Interest on Employee Contributions
      i) If employee terminates before meeting vesting requirement, they get own contributions with interest back (pension standards often prescribe the minimum crediting interest)
6. Reciprocal Transfer Agreements
   a) Common in public sector (many public plans are similar in design)
   b) Increasingly, transfers are done on actuarially equivalent basis. The first plan calculates the commuted value and the receiving plan calculates the amount of pension or the service period that may be granted in respect of the transferred funds
   c) Under general portability, may transfer pension reserves to any other pension fund willing to receive even without reciprocal transfer agreement.
      i) These funds are deemed as additional voluntary contributions, rather than as past service credits
7. Multi-Employer Pension Plans
   a) Employees work for several employers in one industry and continue to be in an industry-wide plan. (as if employee worked for only one employer)
   b) rules usually based on participation in the plan or employment in the industry (not service with one employer)

IX. DISABILITY BENEFITS

1. Must specify what provisions applies to those who becomes disabled and clearly defined disability
2. Payments from disability insurance plans stop after 65. Therefore it is necessary to provide an appropriate pension after age 65.
   a) Members on disability income continue to accrue pension credits (I.e. pension service based on service when active + deemed service while disabled)
   b) Income Tax Act require employee to satisfy prescribed disability definitions to continue pension accruals
   c) Usually waive any required employee contributions during the period of disability.
3. If employees not eligible for long-term disability benefits, can design the DB plan to provide an immediate pension
4. For DC plans, treatment varies based on employment standards, employer discretion and objectives
   a) Employers may choose to waive all or a portion of employer contributions during disability period.

X. INFLATION PROTECTION

1. Before Retirement
   a) Unless updated, career average earnings and flat benefit plans do not compensate for pre-retirement inflation
   b) Deferred vested pension may lose purchasing power as well
      i) possible solution - transfer commuted value to a locked-in account where investment earnings may compensate for inflation
2. After Retirement
   a) Indexation according to wage / price index
   b) No legislation require mandatory inflation protection
   c) More employers like adhoc increases (no promise of future increase)
      i) Costs are completely under employer control
      ii) Allow corporate financial position, changes in social security to be accounted for

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HANDBOOK OF CANADIAN PENSION & BENEFIT PLANS (17TH EDITION) BY MORNEAU SHEPELL

Chapter 9: Pension Standards Legislation

EXECUTIVE SUMMARY

1. Pension standards legislation governs the terms and operations of registered pension plans. Jurisdictions have similar frameworks but differ in details.
    a. Sets minimum standards: eligibility, vesting, locking-in, retirement age, death benefits, marriage breakdown rules, etc.
    b. Impacts financial operations: solvency liabilities, contribution holidays, surplus use, and investments.

REGISTRATION REQUIREMENTS & APPLICABLE LAWS

1. Pension standards legislation provides rules for plan operation and regulator with enforcement authority
2. If employers choose to have a plan, register with pension standards legislation and ITA
3. Alternative vehicles (DPSPs, SERPs, group RRSPs, PRPPs, etc.) governed by ITA only
4. Plans registered in provinces with plurality of members; must apply benefit standards of each member's jurisdiction.
    a. 2020 Multi-Jurisdictional Pension Plans (MJPP) Agreement (not signed by every jurisdiction) covers plan registration, funding, investments, member rights, transfers of jurisdiction, wind-ups, and buy-out annuities.

MINIMUM STANDARD

1. Eligibility for Membership
2. Vesting & Locking-In
    a. Immediate vesting in most jurisdictions
    b. Unlocking allowed in certain cases:
        i. Refund of contributions (if not vested).
        ii. Small benefit unlocking (thresholds vary by jurisdiction).
        iii. Non-residency
        iv. Shortened life expectancy.
        v. Financial hardship (only via locked-in accounts in some provinces).
        vi. One-time unlocking at specific ages (rules differ by province; SK most flexible).
3. Portability
    a. On termination, members can transfer pension value to various locked-in vehicles.
    b. Applies to DB and DC plans, but rules vary. Can transfer to another RPP, LIRA, LIF, RRIF, PRPP/VRSP, or annuity purchase.
    c. Quebec (from 2016): DB commuted value payout limited to solvency ratio (except in specific cases).
    d. Spousal consent is often required for transfers to LIFs or variable benefit accounts (risk of depletion before death) and after early retirement age (the latter under Federal rule)
4. Variable Benefit Accounts (DC Plans)
    a. DC plans normally pay pensions via annuity purchase.
    b. Members often transfer to LIRAs, then to LIFs for withdrawals.
    c. ITA and legislation allow direct variable benefits within DC plans.
5. Retirement Ages & Options
    a. Normal retirement date: typically age 65, but specifics vary:
    b. Early retirement: within 10 years of normal retirement date or age 55 (NL only)
    c. Phased retirement: Allowed in most jurisdictions
    d. Postponed retirement:
        i. Generally allowed. Pension may or may not be actuarially adjusted.
        ii. May be actuarially increased if deferred.
        iii. In Quebec, postpone postponed if still employed; partial payment possible

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6. Death Benefit
   a. Pre-retirement: Most allow 100% of commuted value to spouse.
   b. Post-retirement: All jurisdictions require at least J&S 60% unless waived by spouse.
7. Cost Sharing – The 50% Rule
   a. If employee contributions + interest > 50% of pension value → excess refunded or used for extra benefits.
   b. Jurisdictions differ in effective date and options for excess contributions
   c. Federal: exception: rule not required if plan provides full indexation.
   d. Quebec has a 100% rule - member contributions cannot exceed the value of benefits.
8. Inflation Protection - generally not mandatory
9. Employer & Employee Contributions
   a. Deadlines for employer contributions (monthly deposit)
   b. Employee contributions: deemed held in trust until deposited.
10. Interest on employee contributions:
    a. Required contributions: either 5-year bank deposit rate or fund return
    b. Voluntary contributions: often credited with actual fund return.
    c. Quebec requires fund return for both required and voluntary contributions.
11. Marriage Breakdown & Pension Splitting
    a. Pensions = matrimonial property
    b. Rules vary by province for timing and method of division.
    c. Most allow immediate transfer to former spouse
    d. Maximum payable to spouse varies by jurisdiction: 50% of pension earned during marriage, 50% of entire pension, court order, up to 100% of entire pension
12. Same-Sex Marriage & Spousal Definitions
    a. Spousal rights extended to same-sex couples
    b. Jurisdictions define "spouse" and "common-law partner" differently
    c. Some provinces remove spousal rights if separated for a period, others never lose status by separation.
13. Gender Discrimination
    a. Almost all jurisdictions prohibit differences in: membership eligibility, employee contribution rates and benefits based on gender
    b. Quebec requires sex-distinct mortality tables for benefit calculations

FINANCIAL ISSUES

1. Funding Requirements – Defined Benefit Plans
   a. Most DB plans must fund on Ongoing and solvency basis
   b. Some jurisdictions: replaced solvency funding requirement with stabilization provision (PfAD), require solvency funding only to 85%; allow going-concern amortization shortened from 15 to 10 years
2. Contributions - Employers contribute Current service cost, Special payments (amortized over 5–15 years
3. Contribution Holidays allowed if has actuarial surplus. Some jurisdictions
   a. Allow to use up to 20% of actuarial excess or if surplus exceeds a prescribed% of liabilities or require Superintendent consent
   b. require disclosure to members
   c. Must fully fund PfAD; requires annual cost certificate + member notice.
   d. Allow member consultation to block the use of surplus; introduced "banker's clause" (using surplus to pay contributions/benefits).
4. DB Funding Relief Measures
   a. Moratoriums on solvency payments.
   b. Extending solvency amortization (5 → 10 yrs).
   c. Consolidating deficits.
   d. Often required member notice + restrictions on benefit improvements.
   e. Targeted relief also granted (e.g., Air Canada, GM, Stelco, universities, healthcare).
   f. Some MEPPs and JSPPs were exempted from solvency funding altogether.

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5. Letters of Credit
   a. Used instead of cash solvency contributions.
   b. Generally limited to 15% of solvency liabilities
   c. Must be irrevocable, renewed annually. If not renewed, bank needs to pay the plan
6. Buy-in & Buy-out Annuities
   a. Buy-in Annuities
      i. Insurance companies reimburses plans for monthly benefit payments.
      ii. Employer remains legally liable if insurer fails
      iii. Treated as a plan investment matching liabilities.
   b. Buy-out Annuities - Insurer pays members directly.
   c. Some jurisdictions allow discharge of liability after buy-out if certain conditions are met.
   d. Surplus rights after discharge vary: ON members keep the same surplus rights. QC - rights retained for 3 years only, Multi-jurisdictional plans: discharge rules vary depending on majority vs minority authority under 2020 MJPP Agreement.
7. Insufficient Assets in DB Plans
   a. Upon wind-up, employer usually must fully fund in most jurisdictions
   b. MEPPs, JSPPs, and target benefit plans are often exempted
   c. Benefit reductions possible if assets are insufficient (pro rata or class-based).
   d. Only Ontario has Pension Benefits Guarantee Fund (PBGF).
      i. Funded by plan sponsor assessments
      ii. Government bailouts provided when claims exceed assets.
8. Investment Rules
   a. Income Tax Act
      i. Prohibits investments in employer or related company securities
      ii. Foreign property limits has been abolished
   b. Pension Standards Legislation
      i. Uses prudent portfolio standard
      ii. Administrators must act with care, diligence, skill, and fiduciary duty.
      iii. Require Statement of Investment Policies & Procedures (SIPP) except DC plans with member-directed investments
         - Must be reviewed annually
         - QC: SIPP must align with funding policy.
         - ON: SIPPs must include an asset allocation table.
         - Most provinces adopt investment limits in the federal PBSA regs: e.g. 10% maximum in one entity, 30% maximum voting shares

SPECIAL SITUATIONS

1. Successor Employers
   a. If not hired by the purchaser → treated as terminated.
   b. If hired by purchaser → keep accrued benefits in vendor's plan.
   c. The purchaser may assume liability (with assets transferred), subject to regulator approval.
   d. In most jurisdictions: if the purchaser sets up a new plan but doesn't assume vendor obligations, employment is deemed continuous for service/eligibility purposes.
2. Transfers of Assets
   a. Regulators are less prescriptive than ITA.
   b. Approval requires: Actuarial valuation showing funded status, Member notification and protection of accrued benefits.
3. Plan Mergers
   a. Not specifically addressed in most legislation.
   b. Regulators oversee transfer-of-assets approval powers.
4. Termination.
   a. May be voluntary (employer decision, business event) or ordered by regulator (bankruptcy, business closure, contribution failure, solvency failure, non-compliance).

   b. On termination:
      i. Members must be fully vested.
      ii. Transfer rights to commuted value apply
      iii. Surplus allocation issues arise.
5. Grow-In Benefits **(**grow into" early retirement benefits if age + service ≥ 55) in certain jurisdictions.
   a. Benefits:
      i. Immediate pension (if eligible).
      ii. Pension at normal retirement date or earliest unreduced retirement date.
      iii. Reduced pension if entitled under plan
      iv. Includes bridge benefits if ≥10 years service/membership.
   b. Exemptions: MEPPs and JSPPs can opt out
6. Wind-Up Procedures (most jurisdictions)
   a. Written notice to: members, regulator, unions, advisory committees.
   b. Asset freeze: no payout until regulator approval (pensions-in-pay continue).
   c. Wind-up report: must show assets, liabilities, allocation method.
      i. Members must receive statements of benefits/options.
      ii. Most require employer to fund windup deficiencies
7. Surplus on Plan Termination
   a. Full wind-up: must distribute according to plan terms or court order.
   b. Employer withdrawal of surplus requires regulator consent + entitlement under plan (or court ruling).
   c. Varies among provinces. Some allow negotiated surplus-sharing agreements between employer and members.
   d. Permit solvency reserve accounts permitted. Surplus first allocated to reimburse contributions ("banker's clause"), then shared according to plan rules
8. Surplus in Ongoing Plans
   a. Harder to withdraw than on termination (protect plan solvency).
   b. Require regulatory approval, often with member consent or court ruling.
   c. Most legislation requires plan text to specify surplus treatment; if silent, the employer typically has no withdrawal rights.
   d. ITA rules limit tax-sheltered surplus - to prevent excess surplus accumulation while ensuring DB plan security.

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HANDBOOK OF CANADIAN PENSION & BENEFIT PLANS (17TH EDITION) BY MORNEAU SHEPELL

Chapter 11: Multi-employer pension plans

I. Main MEPP Types

1. Classic MEPP (traditional MEPP set up by trade unions)
2. Public sector MEPP
3. Co-operative MEPP (established to achieve administrative efficiency and economies of scale)
   a) No collective agreement (i.e. unlike classic MEPP)

II. Characteristics of MEPP

1. Managed by board of trustees - Most with equal representation from union and employers
2. Fixed employer contribution - Fixed by collective bargaining agreement (i.e. board has no power to change)
3. Funding rules
   a) With fixed contributions, the scheduled contribution must be sufficient to cover the minimum require contributions.
   b) If not, board must submit an action plan to reduce benefits / increase contributions (underfunded single employer plans most often increase employer contributions)
4. Offer Target benefits
   a) Single employer plan offer fixed benefits
   b) MEPP: apply prescribed formula to covert negotiated contributions into a DB pension (i.e. pension is not fixed in advance)
5. Membership and worker mobility - Can work for more than 1 participating employers
6. Benefit formula - do not vary much from single employer plan
7. Ownership of funds and surplus - clearly belong to members
8. Pooling and shared administration cost

III. Important MEPP documents

1. Trust agreement establishes MEPP
   a) Source of trustees ‘power to operation the fund (e.g. delegation of power)
   b) Removal / resignation / replacement of trustee
   c) Requirements (meeting frequency, quorum etc.)
   d) Procedures for breaking trustee deadlock
2. Collective bargaining agreement stipulate the defined contributions
3. Employer participating agreement and reciprocal agreement

IV. Legislative Requirements

1. The terms MEPP and SMEPP (specified multi-employer pension plan) are defined in the Income Tax Act.
   a) 100% members cannot be employed by related employers (I.e. employers that do not deal at arm’s length with each other)
2. Under most jurisdictions a pension plan is MEPP if established and maintained for employees of 2 or more employers who contribute to a pension plan by reason of agreement, statue or municipal by-law to provide a pension benefit determined by service with one or more employers

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V. MEPP ADMINISTRATION

1. Board is responsible for overall administration as per relevant documents e.g. trust agreement, plan text
2. Trustee as fiduciary
   a) act solely for the benefit for the trust (not self-interest)
   b) Exercise duties with integrity and due standard of care
   c) Must educate themselves and seek expert opinion if necessary
   d) Attend trustee meetings
   e) Act impartially between beneficiaries
   f) Methods used by trustees to administer plans
3. In MEPP (unlike single employer plans), there is a separation in the legal identity between the administrator and sponsors. Methods by trustees to perform administrative functions
   a) Salaried self-administration (by staff employed by trust)
   b) Client owned self-admin. (by corporation owned by one or more of the benefit trust it serves)
   c) Cooperative self admin. (by non-profits organization that serves several unrelated trusts)
   d) Contract administration by a person/firm usually unrelated to the trust / union / employers
4. Functions assumed by MEPP trustees
   a) Maintain database of all participating employers and employees
   b) Maintain trustee documents e.g. collective bargaining agreement, trust agreement
   c) Maintain plan documents (e.g. reciprocal agreements)
   d) Prepare meeting minutes
   e) Create and modify trust administration rules
   f) Verify for deposit all negotiated contributions to trust fund as per employer participation and collective agreements / reciprocal agreements; as well as timeliness
   g) Record required contributions and update members' credit
   h) Receive, verify and record additional voluntary contributions
   i) Pursue delinquent contributions
   j) Calculate and redirect monies to other trusts as per reciprocal agreements
   k) Receive and verify acceptability of benefit claims

VI. ADVERSE PLAN AMENDMENTS

1. Some jurisdiction requires advance notice be given
2. Right to cut benefits
   a) All pension legislation prohibits retroactively cutting accrued benefits
   b) However, some jurisdiction allow such reduction if and only if MEPP plan permit such amendment either expressly or by virtue of being silent

VII. FUNDING

1. Trustees responsible for ensuring the trust receives the correct amounts at the correct time
   a) Can be a difficult task (large number of employers and often contribution are reported by employees without the ability to verify the information
   b) Must tackle delinquency problem (if serious, can impair ability to deliver benefits)
2. Funding Requirements
   a) MEPP actuarial valuation: to check if the negotiated contributions can meet the legally minimum contributions requirements
      i) Contribution rate must be > or = the expected benefits cost and orderly deficit funding
      ii) If insufficient, administrator must propose to regulator remedy action e.g. benefit reduction

b) There is a shift away from full funding on a solvency basis to going-concern basis, often with additional provisions for adverse deviation.
   i) Some jurisdictions gave MEPP permanent exemption to funding on a solvency basis
c) Contribution required to fund a plan deficit is part of the required contributions
d) Funding requirements vary from province to province. Can also vary based on the type of MEPP (e.g., jointly sponsored, target benefit, etc.)

VIII. Payment of Commuted Values

1. Canadian Actuarial Standard Board has a different calculation method for Target Pension Arrangements (I.e. plans that may reduce accrued benefit while continues to be ongoing)
   a) Many MEPPs are considered Target Pension Arrangements
2. The calculation method determines commuted values using the plan's going-concern assumptions and reduces the commuted values based on going-concern funded ratio. Often gives a smaller commuted value

IX. Termination of membership

1. Members may frequently terminate employment w/o terminating participation in plan
2. Members may change employment and covered by a different MEPP but contributions sent back to original plan under reciprocal agreement – portability provision may cause premature transfer of benefits out of plan

X. Termination of MEPP

1. MEPP rarely winds up when one participating employer leaves

XI. Taxation

1. Income Tax Act defines what qualifies as a MEPP
   a) Specified MEPP is a particular MEPP administered by a body not controlled by participating employers.
2. Pension Adjustment
   a) DB or target benefit MEPP (excluding SMEPP): calculates like a registered DB Plan
   b) SMEPP: use DC pension plan rules
   c) DC MEPP: calculated the same way as a SEPP.
3. Past Service Pension Adjustments and Pension Adjustment Reversals for MEPPs (excluding SMEPP): determined same as SEPP.
4. Additional Considerations
   a) If MEPP members receive pension from employer's SEPP, they can still accrue benefit under a MEPP to which the employer is contributing on their behalf.
   b) Certain MEPPs sponsored by a non-taxable organization are exempted from the maximum limit on the pension payable on pre-1992 service.
   c) Not applicable to SMEPP: Maximum pension rule, five and three year leave of absence provisions, employee contributions not subject to the maximum limits, employer contributions not required to be recommended under an actuarial valuation to be deductible, restrictions on contributions when there is an excess surplus, indexing may be given in any amount without generating a PA or PSPA.
   d) Not applicable to MEPP: rules that limit defined benefits for "connected persons" and that that limit cross-plan restrictions on the amount of bridging benefit

XII. MEPP GOVERNANCE

1. High level duties in the administration of the plan
   a) Obtain appropriate training and ongoing education for trustees to carry out fiduciary and other responsibilities.
   b) Establish and maintain the governance framework for administration and ensure appropriate parties know the requirements applicable to them.
   c) Provide trustees with current versions of all key documentation
   d) Identify the skills and knowledge for the delegates and staff to carry out the administrative functions
   e) Establish the criteria for the selection and performance measures of delegates and administrative staff
   f) Select and appoint delegates and third party service providers to carry out the administration
   g) Establish reporting process to trustees regarding plan administration and investment options.
   h) Review performance of delegates, staff, and service providers against established standards.
   i) Monitor funding
   j) Tackle delinquent contributions
   k) Ensure the plan text and administration complies with legislation
   l) Refer to relevant CAPSA and regulatory guidelines and policies
2. Oversee the plan investment
   a) Establish and regularly review investment policy and ensure policy is provided to interested parties
   b) Select investment managers, monitor performance, and recommend/oversee changes in managers
   c) Invest in accordance with the investment policy and comply with legal requirements.
3. Day-to-day responsibilities for the administration
   a) Ensure all required documents and forms are filed
   b) Monitor contribution collection (including overdue contributions)
   c) Calculate members' benefits and provide monthly and lump sum pension benefits
   d) Ensure administrative time frames follows relevant pension legislation
   e) Respond to stakeholder inquiries
4. Provide services required in administration
   a) Periodically perform actuarial valuations and report the results to trustees
   b) Draft plan amendments and prepare related regulatory filings
   c) Hold plan assets, Maintain plan records, Pay members' benefits
   d) Prepare and provide required pension statements according to prescribed timelines.
   e) Provide information necessary for completing the Annual Information Return.

HANDBOOK OF CANADIAN PENSION & BENEFIT PLANS (17TH EDITION) BY MORNEAU SHEPELL

Chapter 15: Winding up a Pension Plan

EXECUTIVE SUMMARY

1. Winding up a pension plan = dispose pension liabilities through:
   a. Purchase of annuities
   b. Lump-sum transfers
   c. Surplus withdrawals by the employer/sponsor
2. Can be voluntary (by employer) or regulator-mandated
3. Statutory rights may exist for members: Grow-in or surplus entitlement
4. Employer obligations: may arise if the plan is underfunded
5. Insolvent employers: members may get reduced benefits
6. Certain protections exist:
   a. Pension Benefits Guarantee Fund (PBGF) in Ontario
   b. Retraite transfers in Quebec

INITIATING A WIND-UP

Employer-Initiated

1. Employer can voluntarily wind up a plan
2. No specific legal grounds required, but subject to:
   a. Collective agreements
   b. Contractual obligations
   c. Plan documentation permitting termination
3. Common reasons:
   a. Business sale without pension continuation
   b. Reorganization
   c. Significant plan surplus

Administrator-Initiated

1. Typically in multi-employer pension plans (MEPPs) or jointly sponsored pension plans (JSPPs)
2. Administrator may have authority unless plan documents assign it elsewhere
3. Federal legislation also allows single-employer plan administrators to terminate

Regulator-Initiated

1. Regulatory authorities can order wind-ups in specific situations:
2. Cessation/suspension of employer contributions
3. Business closure or downsizing
   a. Employer bankruptcy
   b. Failure to meet solvency tests or comply with legislation
   c. Sale of business to employer without pension plan
   d. Wind-up in best interest of members (AB, BC)
4. Ontario FSRA may order wind-up if PBGF liability increases, or if there are no active members or no accrual of benefits

Member-Initiated

1. Employees cannot directly initiate a wind-up under general trust law
2. Members can request employer, administrator, or regulator to consider grounds for wind-up

WIND-UP PROCESS

Execution

1. Plan administrator typically executes the wind-up
2. In single-employer plans: employer often acts as administrator
3. In MEPPs/JSPPs: same entity as initial decision-maker

Replacement Administrator

1. Appointed if employer is unwilling/incapable
2. Powers include:
   a. Acting on behalf of members
   b. Filing wind-up applications
   c. Determining surplus or deficit positions
3. Often used if employer is bankrupt or under creditor protection
4. Addresses conflicts of interest

Wind-Up Date

1. Effective date must be set:
   a. Determined by regulator (if regulator-initiated) or administrator/employer (otherwise)
   b. Jurisdictional rules may apply:
      i. Contributory plans: cannot predate last member contribution
      ii. Non-contributory plans: cannot predate member notice
2. Different jurisdiction have different notification deadline

Wind-Up Period

1. Defines commencement and end dates
2. Commencement: date of triggering activity (e.g., layoffs, business sale)
3. End: completion of activity or distribution of assets

Wind-Up Notice

1. Must send written notice to
   a. Members, former members
   b. Unions/plan advisory committees
   c. Other beneficiaries
   d. Regulator
2. There are Jurisdictional differences in notice content:
3. Ontario FSRA may issue a Notice of Intended Decision (NOID) for regulator-initiated wind-ups

Wind-Up Report

1. Must be filed for partial or whole wind-up
2. Usually prepared by an actuary, in certain cases (DC or fully insured plans) by designated individuals
3. The report must reflect plan terms + applicable pension legislation.

4. Common requirements (regulator can require additional information):
    a. Nature of benefits to members/retirees/others.
    b. Assets & liabilities of the plan.
    c. Methods for allocation & distribution of assets.
    d. Priorities for payment.
5. If surplus exists, must indicate treatment; if not, the regulator may demand a supplemental report.
6. Filing timelines varies by jurisdictions:
7. Regulator can refuse or require new report; can appeal decisions

Wind-Up Statement

1. Must provide to each person entitled to a benefit (pension, deferred pension, refund, etc.).
2. Content: same as retirement/termination statement (entitlements, options). Some regulators require extra disclosures.
3. Some jurisdictions require
    a. Employee must make elections within a specified number of days after receiving statement
    b. Administrator must discharge benefits within a specified number of days after receiving employee election:

End of Wind-Up

1. Windup ends after all assets are distributed, and regulator and CRA are notified.
2. Jurisdictions have different treatment regarding unclaimed balances (E.g. Quebec: pay to Revenue Quebec, BC: transfer to BC Unclaimed Property Society)

MEMBER ENTITLEMENTS

1. Not all jurisdictions allow partial wind-ups
2. Most jurisdictions require
    a. Immediate vesting at wind-up, regardless of age/service.
    b. Portability: members may transfer commuted value to locked-in vehicles.
    c. Pensioners (except in QC) not eligible and must get annuity
3. Grow-in rights:
    a. NS & ON: apply if age + service ≥ 55.
    b. Members may receive an unreduced pension earlier than normal retirement date.
    c. Includes bridge benefits (if ≥ 10 years service/membership).
    d. Federal (OSFI) interprets PBSA as also providing a form of grow-in.
4. Distribution of assets:
    a. Require regulator approval before distribution.
    b. Benefits already in pay can continue pre-approval.
    c. Regulators may allow early payments.

SURPLUS

1. Partial terminations: Surplus for the terminated portion must be identified.
2. Monsanto case (SCC): In Ontario (pre-2012), surplus had to be distributed on partial wind-up. Still relevant for past wind-ups or in jurisdictions with similar rules.
3. Full terminations:
    a. Employers may use surplus for benefit improvements (within ITA limits) or as cash payments if plan permits (or is amended).
    b. Employer withdrawal of surplus requires regulator consent; allowed only if plan terms permit.
    c. Some jurisdictions allow employers and members to agree on surplus distribution regardless of plan terms.

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EMPLOYER'S LIABILITY ON WIND-UP

1. All jurisdictions except SK: Employer must fund any deficiency over maximum 5 years
2. Saskatchewan:
   a. Unfunded liability reduces benefits proportionately for the related service.
   b. Each liability dealt with separately and applied only to associated benefits.
   c. If insufficient assets remain (no liabilities tied to accrued benefits), all benefits (including pensions in pay) are reduced proportionately.

UNDERFUNDED PLANS

1. If insufficient assets, benefits are reduced.
2. There are jurisdictional variations: some require
   a. Additional Voluntary Contributions refunded first.
   b. Remaining benefits paid pro rata
   c. Plans may specify payment priority (e.g., retirees first)
   d. Benefit improvements (within 5 years before termination) only paid if funded by special payments
   e. Prospective indexation is eliminated unless all non-indexed benefits are fully funded.
3. General order of payment:
   a. Member contributions (required, voluntary, transfers-in).
   b. Accrued benefits with no unfunded liability.
   c. Accrued benefits with unfunded liability.

ONTARIO PENSION BENEFITS GUARANTEE FUND (PBGF)

1. Only Ontario has a pension guarantee fund
2. Covers Ontario beneficiaries of DB single-employer plans (including out-of-province plans with ON members)
   a. Include out of province plans with ON members
   b. Exclude JSPPs, MEPPs, IPPs, designated plans, SE-NC plans, plans < 5 years old, some public sector plans.
3. Funding: Employer assessments (can be paid from plan surplus under conditions).
4. Assessment rules:
   a. Risk-based component (up to $600/beneficiary).
   b. Tiered % applied to solvency deficiency relative to liabilities.
   c. Plus 0.015% of PBGF liabilities.
   d. Plus 3% of plant closure/layoff liabilities (if excluded from solvency liabilities).
5. Coverage:
   a. For plans wound up - guarantees first $1,500/month of Ontario-earned pension.
   b. Age/service conditions for eligibility removed.
   c. Example: Plan is 60% funded; member entitled to $2,000/month,
      i. Receives $1,200 from plan + $600 from PBGF.
6. Exclusions from guarantee: benefit improvements in last 5 years, prospective indexation.
7. Limits: Liability restricted to PBGF assets. Government is not obligated to loan or grant additional funds

INSOLVENT WIND-UPS (QUEBEC)

1. Special rules for retirees of underfunded plans where the employer is bankrupt/insolvent.
2. Retiree pensions transferred to Retraite Québec, which:
   a. Continues payments at a reduced funded ratio.
   b. Invests funds (with market risk).
   c. May increase payments if excess investment income is realized.
   d. No longer guarantees against losses (earlier guarantee eliminated).
   e. After 10 years, settles by purchasing annuities.

CLAIMS AGAINST THE BANKRUPT ESTATE OF THE EMPLOYER

1. Employers liable to fully fund benefits on wind-up → administrator has claim vs. bankrupt estate.
2. Bankruptcy & Insolvency Act
   a. Priority for: unremitted member contributions + unpaid current service costs (past due at insolvency date).
   b. No priority for unremitted special payments or future required payments.
3. Trust & lien provisions. Provisions vary across jurisdictions:
   a. employee contributions deemed held in trust.
   b. corporate directors personally liable for unremitted member contributions.
   c. employer contributions due but unpaid also deemed trust.
   d. administrator has lien over employer assets for accrued but unpaid contributions; ON → lien also for amounts PBGF paid.
4. Litigation status:
   a. Deemed trusts/liens often found not to outrank secured creditors.
   b. Indalex (SCC): Deemed trust covers entire wind-up deficiency, but does not outrank CCAA debtor-in-possession financing.
   c. Future cases expected.

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R.S.O. 1990, CH. P.8 UNDER ONTARIO PENSION BENEFITS ACT

PURPOSE AND SCOPE

1. Governs the regulation of pension plans in Ontario.
2. Protects the benefits of plan members and beneficiaries.
3. Ensures proper funding, administration, and governance of pension plans.
4. Applies to defined benefit (DB), defined contribution (DC), and hybrid pension plans.

KEY DEFINITIONS

1. Such as Pension Plan, Administrator, Plan Member, Beneficiary

PLAN REGISTRATION AND APPROVAL

1. Pension plans must be filed and registered with the Superintendent of Financial Services.
2. Plans must meet minimum standards prescribed by the Act and regulations.
3. Amendments to plans must be approved and registered.

FUNDING REQUIREMENTS

1. Defined benefit plans must be funded according to prescribed actuarial standards.
2. Regular actuarial valuations are mandatory (at least every 3 years).
3. Funding rules ensure solvency and ongoing viability of plans.
4. Special funding rules for wind-up situations and solvency valuations.
5. Minimum funding standards to protect members in case of employer insolvency.

PLAN ADMINISTRATION

1. Administrators must act prudently and in the best interest of members.
2. Record-keeping and reporting requirements.
3. Members have rights to information about their pension benefits.
4. Requirement to provide annual funding and financial statements.

BENEFITS AND ENTITLEMENTS

1. Details on calculation and payment of pension benefits.
2. Vesting rules: Members become entitled to benefits after a minimum period.
3. Portability rules for transferring pension credits between plans.
4. Survivor benefits and death benefits provisions.

WIND-UP AND TERMINATION

1. Procedures for orderly wind-up or termination of pension plans.
2. Priority of payments on wind-up (benefits, expenses, surplus).
3. Protection of members' accrued benefits on wind-up.
4. Requirements for notices to members and the Superintendent.

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COMPLIANCE AND ENFORCEMENT

1. Superintendent of Financial Services oversees compliance.
2. Powers to investigate, audit, and enforce the Act.
3. Penalties for non-compliance, including fines and imprisonment.
4. Ability to suspend or cancel plan registration for violations.

SPECIAL PROVISIONS

1. Rules for multi-employer plans.
2. Provisions for surplus management and distribution.
3. Provisions related to pension plan mergers and transfers.
4. Rules addressing employer insolvency and pension benefit guarantee fund.

APPEALS AND DISPUTE RESOLUTION

1. Rights of members to appeal decisions under the Act.
2. Processes for dispute resolution through the Financial Services Tribunal.
3. Rights to review by courts on certain decisions.

MISCELLANEOUS

1. Protection from creditors for pension plan assets.
2. Confidentiality provisions regarding member information.
3. Regulations may set additional detailed rules and exceptions.

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Who We Are

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QUESTION 19 OF 704 | Question # | Go! | Prev | Next

Question — Difficulty: Advanced

An airport purchases an insurance policy to offset costs associated with excessive amounts of snowfall. The insurer pays the airport 300 for every full ten inches of snow in excess of 40 inches, up to a policy maximum of 700.

The following table shows the probability function for the random variable X of annual (winter season) snowfall, in inches, at the airport.

Inches	[0,20)	[20,30)	[30,40)	[40,50)	[50,60)	[60,70)	[70,80)	[80,90)	[90,inf)
Probability	0.06	0.18	0.26	0.22	0.14	0.06	0.04	0.04	0.00

Calculate the standard deviation of the amount paid under the policy.

Possible Answers

A 134 | ✓ 235 | X 271 | D 313 | E 352

Help Me Start

Find the probabilities for the four possible payment amounts: 0, 300, 600, and 700.

Solution

With the amount of snowfall as X and the amount paid under the policy as Y, we have

$$\begin{array}{c|c} y & f_Y(y)=P(Y=y) \\ \hline 0 & P(Y=0)=P(0\le X<50)=0.72 \\ 300 & P(Y=300)=P(50\le X<60)=0.14 \\ 600 & P(Y=600)=P(60\le X<70)=0.06 \\ 700 & P(Y=700)=P(Y\ge 70)=0.08 \end{array}$$

The standard deviation of Y is $\sqrt{E(Y^2)-[E(Y)]^2}$.

$$E(Y)=0.14\times 300+0.06\times 600+0.08\times 700=134$$

$$E\left(Y^2\right)=0.14\times 300^2+0.06\times 600^2+0.08\times 700^2=73400$$

$$\sqrt{E\left(Y^2\right)-[E(Y)]^2}=\sqrt{73400-134^2}=235.465$$

Common Questions & Errors

Students shouldn't overthink the problem with fractional payments of 300. Also, account for probabilities in which payment cap of 700 is reached.

In these problems, we must distinguish between the REALT RV (how much snow falls) and the PAYMENT RV (when does the insurer pay)?. The problem states "The insurer pays the airport 300 for every full ten inches of snow in excess of 40 inches, up to a policy maximum of 700 ." So the insurer will not start paying UNTIL AFTER 10 full inches in excess of 40 inches of snow is reached (say at $50+$ or 51). In other words, the insurer will pay nothing if X<50.

Rate this problem | Excellent | Needs Improvement | Inadequate

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