

Special Communiqué

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Ontario Pension Regulation Changes

About Us

Morneau Sobeco Income Fund is the largest Canadian-owned firm providing human resource consulting and outsourcing services.

Through Morneau Sobeco and Shepell•fgi, its two operating entities, the firm delivers solutions to assist employers in managing the financial security, health and productivity of their employees.

With over 2,300 employees in offices across North America, Morneau Sobeco Income Fund offers its services to organizations that are situated in Canada, in the United States and around the globe.



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On June 23, 2009, the Ontario Government published *Ontario Regulation 239/09* that provides defined benefit pension plans with, among other things, previously promised temporary solvency funding relief. Certain exceptions apply for some plans, such as specified Ontario multi-employer pension plans. The new regulation includes a new and unexpected requirement to obtain approval for commuted value transfers. Because of the financial crisis, this requirement will apply to nearly all plans.

Approval for Transfers

A new requirement to obtain the Superintendent's approval will apply for commuted value transfers where the most recently reported transfer ratio was less than 1.0. The requirement applies if the administrator knows or ought to know that, since the last valuation report, the transfer ratio has declined by 10 per cent or more. An existing requirement continues to require the Superintendent's approval where the transfer ratio falls from 1.0 or higher to below 0.9.

Temporary Solvency Funding Relief

For the first filed valuation report with a valuation date on or after September 30, 2008 (referred to as the "solvency relief report"), a defined benefit plan administrator may choose one or more of the three following options:

Option 1 – Defer, up to one year from the valuation date, the start of special payments required to liquidate a new going concern unfunded liability or new solvency deficiency determined in the solvency relief report.

Option 2 – Consolidate special payments for pre-existing solvency deficiencies into a new five-year payment schedule that starts on the valuation date of the solvency relief report (there is no one-year-deferral of these payments).

Option 3 – With the consent of members and former members, extend the period for liquidating a new solvency deficiency from 5 years to a maximum of 10 years. Pre-existing solvency deficiencies are not eligible for this funding relief.

Notice is required for all options, but only Option 3 requires member consent. Notice must be provided to members, former members with an interest in the plan (which include pensioners), and collective bargaining agents. Employers had been concerned about the requirement to obtain member and former member consent. However, the new rules require that no more than 1/3 of members and former members with an interest in the plan object. There is no requirement for active consent. The member and former member groups are treated as a single group for the purpose of determining consent. Collective bargaining agents may consent or refuse consent on behalf of active members.

As a one-time transition measure, for an actuarial valuation date between September 30, 2008 and October 31, 2008, the filing deadline has been extended from 9 to 10 months after the valuation date. Also, a plan can re-file a previously submitted valuation report within the filing deadline using the new rules.

In addition to the above measures, the new regulation makes the following changes:

> **Contribution Holidays**

Temporary limits apply to contribution holidays. The limits are a response to the financial crisis and apply to plans with fiscal years ending between June 30, 2010 and December 31, 2012. Contribution holidays in a fiscal year will not be permitted unless an actuarial cost certificate filed at the beginning of the fiscal year demonstrates sufficient funding.

> **Expanded LIF Unlocking**

The one-time unlocking option available to members upon transfers to a new Life Income Fund (LIF) is expanded. The permitted unlocking is increased from 25% to 50% of transferred assets as of January 1, 2010. Currently, an individual who transfers funds to a new LIF has 60 days to unlock the funds by transferring them to a RRSP. Transitional measures provide a time-limited opportunity to make the 50% withdrawal for old LIFs and Locked-In Retirement Income Funds (LRIFs) held at the end of 2010. Holders of new LIFs purchased prior to January 1, 2010 will be allowed to withdraw an additional 25% of assets on a time-limited basis.

> **Revised Commuted Value Standard in Solvency Valuations**

The revised Standard of Practice for Pension Commuted Values published by the Canadian Institute of Actuaries, which took effect April 1, 2009, applies for solvency valuations. The revised standard can be used for solvency valuations with valuation dates on or after December 12, 2008. This change had been announced by the Government previously. The revised commuted value standard cannot be used until April 1, 2009 for the purpose of determining commuted values for individual terminating members. The revised standard results in lower solvency liabilities and makes funding costs lower.

Concluding Comments

Temporary solvency funding relief will be welcome by plan sponsors. However, the new transfer rules impose an additional administrative burden and require immediate action. Plan sponsors, who have been waiting for months for the new regulations, can now work with their advisors to decide the appropriate course of action.