ONTARIO EASES SOLVENCY FUNDING REQUIREMENTS

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In a quick follow-up to the measures announced in its 2017 Budget, and following consultations on pension solvency conducted in 2016, the Ontario government has announced proposed changes that will ease the burden on single-employer defined benefit pension plan sponsors.

The most notable announced change will reduce the present pension solvency funding requirement from 100% to 85% – meaning that sponsors will need to fund plans on a solvency basis should the plan's funded status fall below 85%. The Financial Services Commission of Ontario estimates that 15% of Ontario defined benefit plans will need to fund on a solvency basis under the relaxed rule.

Other planned changes to Ontario's solvency funding regime include the following:

- Plan sponsors will be required to fund a reserve known as a Provision for Adverse Deviation (PfAD);
- Shortening the amortization period for funding a plan shortfall from 15 years to 10 years;
- In a measure meant to protect benefit security should an employer go bankrupt, the maximum monthly guarantee provided by the Pension Benefits Guarantee Fund will increase from $1,000 to $1,500 (this will likely also lead to increased Fund premiums);
- Introducing funding rules for benefit improvements and restricting contribution holidays; and
- Introducing requirements geared toward boosting plan transparency, including requiring funding and governance policies.

Finally, Ontario will introduce changes to permit plan sponsors (employers) and administrators to reduce risk by purchasing annuities (so-called "buy-out annuities") for retirees or deferred plan members. Under the proposed new rules, a sponsor's liabilities would be satisfied upon purchase of such an annuity.

Ontario has said that it will introduce legislation in Fall 2017 to enable these changes and that it also plans to consult with stakeholders in the interim. The changes, particularly the solvency funding reduction, are in response to years of building pressure on defined benefit plan sponsors, who have more frequently been required to utilize publicly-funded solvency relief measures, given record low interest rates and the demographic pressure of an ageing workforce.

by Kyle Lambert

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.