Goodmans LLP Update

Ontario's New Funding Framework for Defined Benefit Pension Plans

The Province of Ontario implemented a new "**Funding Framework**" for defined benefit pension plans. The Funding Framework, which generally took effect on May 1, 2018, is a fundamental change. Whereas the old funding regime focused on solvency funding, the new regime emphasizes going concern funding which includes a new funding reserve.

Background

Implementation of the Funding Framework completes a review process that has been ongoing since 2016. Defined benefit pension plans are funded by ongoing normal cost contributions as well as special payments to pay for funding deficiencies identified in periodic actuarial valuations. These valuations measure the plan's value on both a solvency and going concern basis and if the valuations indicate shortfalls special payments will be required. The existing solvency funding regime had become increasingly difficult for employers as low interest rates helped create unpredictable and often severe funding requirements. The government enacted a series of temporary funding relief measures to assist employers but there has been a general trend away from defined benefit pension plans to defined contribution pension plans.

New Solvency Funding Rules

Under the old rules, special solvency payments were required if the plan's solvency status was less than 100%. Under the new rules, these payments will only be required if the solvency deficiency is less than 85%. The deficiency must be funded over five years starting no later than one year after the valuation date.

New Going Concern Funding Rules

Under the old rules, special payments were required to fund shortfalls identified in going concern valuations. The new rules generally change the amortization schedule for these payments from 15 to 10 years and also introduces a new funding requirement known as the Provision for Adverse Deviation (PfAD).

The PfAD serves as a new funding cushion for both normal cost and going concern liabilities. The amount of the PfAD contribution is calculated by multiplying the amount of normal cost and going concern liability by the PfAD percentage. The PfAD percentage calculation is complex and depends on a variety of features of the pension plan including whether the plan is open or closed, the proportion of fixed income and non-fixed income assets in the target asset mix and any going concern discount rate.

Transitional Rules

The Funding Framework applies to actuarial valuations dated on or after December 31, 2017. In the event the contribution requirements for a plan under the new Funding Framework are greater than the contribution requirements under the old rules, transitional rules permit the increases to be phased in over a three-year period following the valuation date of the first report filed under the Funding Framework.

Plan Amendments and Disclosure Requirements

Pension plan texts must be amended to reflect the Funding Framework within 12 months of the date of the first valuation report using the new rules after December 31, 2017. The Funding Framework also requires plan administrators to send annual statements to active members and biennial statements to retired and former members. The first statement sent under the Funding Framework must include an explanation of the funding rule changes, describe the reduction in solvency funding requirements from 100% to 85%, describe amortized going concern unfunded liabilities and describe the requirement to fund PfAD on a going concern basis.

The Funding Framework also contains other changes including revisions to the manner in which benefit improvements are funded, the availability of contribution holidays and increases in assessments paid to the Pension Benefits Guarantee Fund.

Please contact any member of our Pensions Group for further information or advice concerning the new changes.

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