FTR Now

Change on the Horizon: Ontario Pension Plan Funding Reform is Coming Soon

Date: September 19, 2017

Earlier this year, the Ontario government announced proposed reforms to pension plan funding that will have a significant impact on employers and plan administrators with plans registered in Ontario. These changes are expected to be part of the government's Fall agenda, and will be of particular interest to employers who provide single employer defined benefit (DB) pension plans or participate in multi-employer pension plans (MEPPs) in Ontario. Learn more about these pending reforms in this *FTR Now*.

Background on the Proposals

In 2017, the Ontario government made two key announcements setting out proposed reforms for pension plan funding in Ontario:

- On May 19, 2017, the Ontario government released an outline of the proposed changes to the Ontario DB pension plan funding rules resulting from the review on solvency funding led by David Marshall (the DB Funding Proposals)
- On June 29, 2017, the government announced the proposed funding and governance framework for target benefit MEPPs (the MEPP Proposals).

The government has indicated that its proposals will be implemented through amendments to the *Pension Benefits Act* (PBA) and PBA Regulations to be released in Fall 2017 (likely in conjunction with the Fall Economic Statement).

We review the changes proposed to date below, and identify important details we are waiting to learn more about when the legislation is introduced this Fall.

Current Rules for Single Employer DB Plan Funding

Under the current PBA funding framework applicable to plans registered in Ontario, employers that sponsor single employer DB pension plans must fund the normal cost of the pension benefits accruing under their DB pension plan each year, as well as any going concern deficiency (amortized over 15 years). In addition, employers are required to fund any solvency deficiency (amortized over five years).

Both going concern and solvency funding are determined on the basis of regular actuarial valuations. The going concern valuation examines the pension plan as if the plan were to continue indefinitely and establishes the funding necessary to satisfy plan liabilities over the long term. On the other hand, the solvency valuation examines the funded status of the pension plan as if the plan were to wind up on the date of the valuation and all liabilities became due.

Especially in an extended low long-term interest environment, the current solvency funding requirements result in volatile and unpredictable cash funding requirements, and have proven particularly onerous for employers. As a result, over the past decade, a large number of exceptions to the solvency funding requirements were created through various temporary solvency funding relief measures and, in some cases, through special regulations for named pension plans.

Proposed DB Plan Funding Rule Changes for Single Employer Plans – What We Know

The DB Funding Proposals are the culmination of an extensive consultation process that the government undertook in 2016.

The DB Funding Proposals will apply only to single employer DB pension plans and, while not expressly stated in the announcement, we understand that the DB Funding Proposals are not intended to apply to jointly sponsored pension plans or MEPPs. The DB Funding Proposals modify the solvency **and** going concern funding rules for single employer DB pension plans in the following ways:

Type of Funding	Current Rules	New Rules
Solvency		