



# ISSUE 02

# InfoPensions

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## InfoPensions - Issue 2 – November 2009

*InfoPensions* is the Office of the Superintendent of Financial Institutions' (OSFI's) electronic newsletter on pension issues. *InfoPensions* includes announcements and reminders on issues relevant to federally regulated private pension plans as well as descriptions of how OSFI applies selected provisions of the *Pension Benefits Standards Act, 1985 (PBSA)*, its regulations and directives and other OSFI guidance. Plan administrators should obtain appropriate legal and actuarial advice on how the legislation and guidelines affect their particular pension plan.

*InfoPensions* and *PBSA Update* (OSFI's predecessor pension newsletter) are available on the [Pensions Page](#) of the OSFI Web site. To automatically receive new issues of this newsletter by e-mail please use the [Subscription Centre Link](#)

The next issue of *InfoPensions* will be posted in May 2010.

## Finance Legislative Process

On October 27<sup>th</sup>, 2009, Finance Canada released its pension reform proposals for the federal private pension legislative and regulatory framework. Details on the proposals are included in a [Background](#) document available on the Finance Canada Web site.

Some of the proposed changes will be implemented by legislation and others can be made through changes to the Regulations. Legislation is expected to be introduced in the coming months.

## Draft Defined Contribution Disclosure Guide

In September 2009, OSFI issued a draft [Defined Contribution Disclosure Guideline](#) to inform the pension industry of the general principles as well as more detailed requirements that OSFI will expect to be disclosed to plan members, eligible employees, and spouses as required by the *PBSA* and its regulations.

As the pension reform proposals include several initiatives that would impact disclosure to members, the comment period for this draft guideline has been suspended and a revised draft guideline will be posted for comments after the legislative process is complete.

# Canada

## Finalized Defined Benefit Termination Report Instruction Guide

In March 2008, OSFI issued a draft instruction guide for filing and reporting requirements in respect of the termination of defined benefit pension plans and invited comments on the guide from stakeholders. The comments were reviewed and in October 2009, OSFI issued the finalized [Instruction Guide for Filing and Reporting Requirements for Defined Benefit Pension Plan Terminations](#). This instruction guide sets out OSFI's expectations for filing and reporting requirements where a defined benefit pension plan has terminated under the *Pension Benefits Standards Act, 1985 (PBSA)*. This includes plans with both a defined benefit and defined contribution component. OSFI has also developed a standardized [Approval Request Form](#) to accompany the termination report.

## Solvency Funding Relief 2009

To date, approximately 80 federally regulated defined benefit pension plans have indicated that they have taken advantage of one or both of the options available as part of the [Solvency Funding Relief Regulations, 2009](#), - ten year funding or smoothing up to 115% of the market value of assets. As provided in the *Solvency Funding Relief Regulations, 2009*, the amount of any deferral of funding that results from the use of an asset value in excess of 110% of market value is subject to a deemed trust.

OSFI would like to remind plan administrators that in order for the 10 year amortization to continue after the first year of funding relief, the plan must, by the end of the 2009 plan year:

- obtain the members' consent to the plan's continuation of funding relief ; or
- obtain a Letter of Credit.

If not, the remaining deficiency at the end of the 2009 plan year must be amortized over the following 5 years.

## ESR Results and Charts

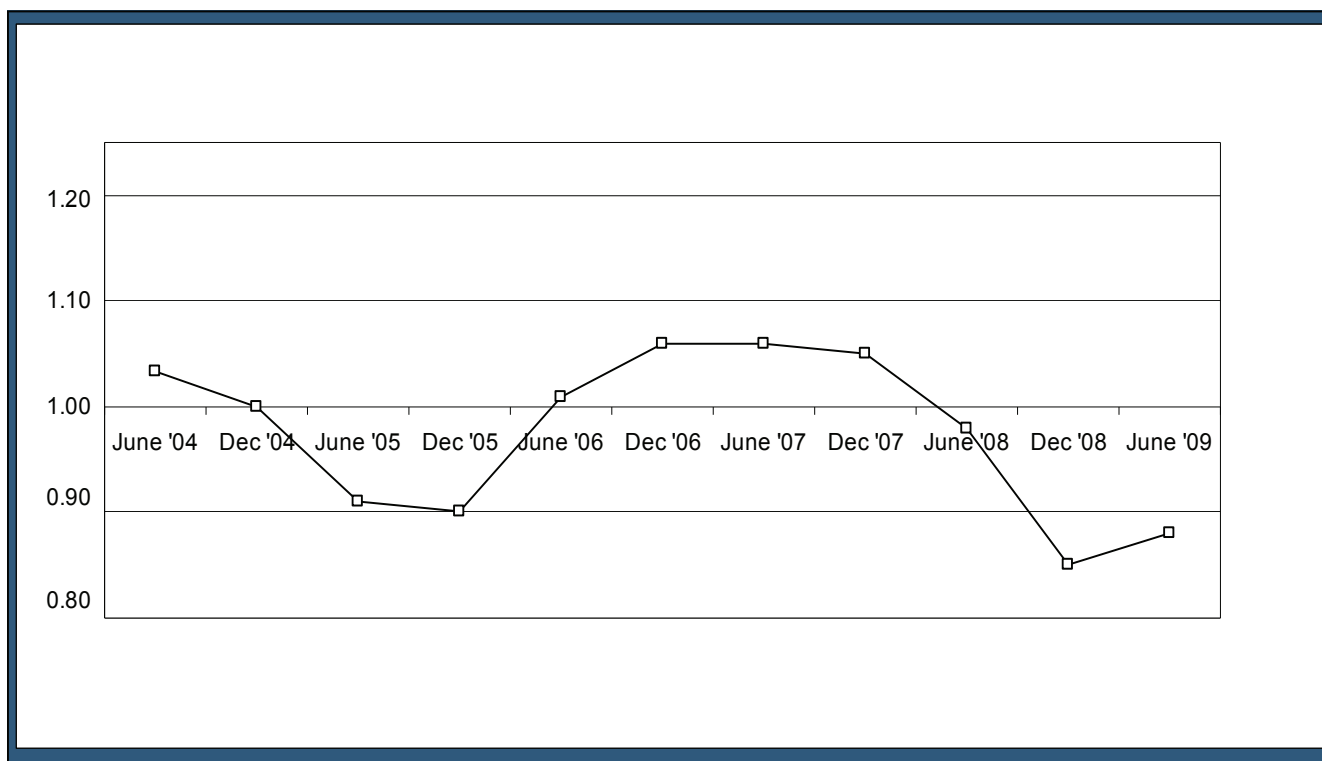
OSFI estimates solvency ratios for the approximately 400 defined benefit pension plans it regulates to assist with the early identification of solvency issues that could jeopardize the security of promised pension benefits.

OSFI tests solvency using the most recent actuarial, financial and membership information filed with OSFI for each plan before the analysis date. Assets are projected, based on either an actual rate of return provided on the [Solvency Information Return](#) (SIR) or an assumed rate of return for the plan. Solvency liabilities are projected using relevant CIA commuted value and annuity proxy rates. Expected contributions, benefit payments and expenses are taken into account and an estimated solvency ratio (ESR), based on the assumed market value of the fund, is then calculated for each plan.

The ESR for any particular plan is an estimate only. The actual solvency ratio of a plan can differ from the ESR for a number of reasons.

The weighted average ESR was 0.88 at June 2009. The average ESR at June 2009 shows a modest improvement over the ratio of 0.85 at December 2008 which was the lowest since OSFI started estimating the funded status of defined benefit pension plans in 2003.

## Weighted average of ESRs for plans over OSFI's solvency testing period



OSFI estimated that 79% of the approximately 400 defined benefit plans were less than fully funded on a solvency basis at June 2009, compared to an estimated 83% at December 2008. At June 2009, 65% of the 400 plans had ESRs below 0.9 and 30% had ESRs below 0.8.

## OSFI's Intervention Activities Based on Solvency Testing Results

If a plan administrator does not provide OSFI with any additional information concerning the solvency position of the plan, OSFI assumes that the ESR accurately reflects the plan's solvency position at that date. OSFI will contact administrators of plans with an ESR below 1.05 that are taking a contribution holiday, and administrators of plans with an ESR below 0.9, to discuss the estimated solvency position and future funding requirements of the plans. The level of intervention will be based on the ESR for that plan and any other relevant information. OSFI may request that the administrator of a plan take certain actions or provide certain information including:

- the preparation of an actuarial report before the next regular report is due
- notification to members, retirees and other beneficiaries of the administrator's estimate of the solvency ratio for the plan
- information on the financial position of the employer
- the resumption of current service contributions for the plan, if the plan is currently taking a contribution holiday or

- if the plan does not resume current service contributions for the plan, provision of documentation showing that the employer has made a deliberate decision to continue taking the current contribution holiday; OSFI may also request that the plan administrator inform members, deferred vested members, retirees and other beneficiaries of the current ESR level and of the decision to continue contribution holidays.

If plan administrators have not heard from OSFI but know that the plan's solvency ratio is below 1.0, they are expected to inform the employer and take steps to bring about the resumption of current service contributions

## Stress Testing

In a [memo to plan administrators](#) dated December 10, 2008, the Superintendent of Financial Institutions encouraged employers and administrators to consider a range of longer-term scenarios and possible responses that are consistent with their risk tolerance. As part of its [Risk Assessment Framework for Federally Regulated Private Pension Plans](#), OSFI emphasizes that stress testing (including scenario and sensitivity testing) is a proactive way to manage risk.

OSFI recently contacted a select group of plan administrators in order to survey the prevalence of stress testing as a risk management tool for pension plans. The group that was contacted included plan administrators of multi-employer pension plans, plans with a high exposure to equities, large and medium sized plans and large plans in relation to the size of the company.

Questions posed to plan administrators included:

- what they saw as the main benefits of their testing exercise
- what types of scenarios were being used (i.e. what parameters are examined)
- what information about the stress testing program was reported to the Board
- what was the frequency of testing and reporting and
- what specific actions or decisions resulted from the testing exercise, if any

If there was no stress testing program in place, plan administrators were asked if they were considering implementing a stress testing exercise at a future date and what considerations did they expect to be part of their decision making process.

## On-Site Examinations - 2008-09 Findings and Recommendations

OSFI's risk-based supervisory approach includes periodic on-site examinations of select pension plans registered under the PBSA. On-site examinations are a tool used to assess the quality of controls and oversight, enhance the assessment of the financial situation and quality of the administration of a plan, and improve communication between employers, plan administrators and OSFI.

OSFI conducts approximately 15 on-site examinations each year. Plans are generally selected based on an analysis of their inherent risks, which may be exhibited by one or more of the following:

- solvency ratio below one
- negotiated contributions defined benefit (NCDB) plan
- high ratio of pensioner liabilities to active members liabilities
- history of late regulatory filings
- significant number of member complaints to OSFI

- recent corporate activity such as mergers, purchase or sale of businesses, etc.
- media reports of plan sponsor or industry financial difficulties and
- lack of response to previous examination findings.

Based on these risk factors and their potential impact on promised benefit levels, most of OSFI's on-site pension examinations involve defined benefit plans; however, defined contribution plans that appear to have administrative problems, particularly with respect to remittance of contributions, may also be considered for an on-site examination.

On-site examinations performed in the past year revealed some recurring areas of concern. Most of the common findings and recommendations related to following OSFI and/or Canadian Association of Pension Supervisory Authorities (CAPSA) guidance or complying with certain provisions of the *PBSA* and its regulations. Common findings and recommendations included:

- Incomplete and/or inaccurate Member Statements: Plan administrators should review the plan's annual, termination, retirement and death statements to ensure they include all of the required information as specified in subsection 28(1) of the [PBSA](#) and section 23 and schedule IV of the [Regulations](#).
- CAPSA [Governance Guideline and Self Assessment Questionnaire](#) not completed: Plan Administrators should perform a governance self-assessment on a periodic basis as part of their fiduciary responsibilities as plan administrator.
- Performance of third party service providers not reviewed: Written contracts should be in place with all service providers (e.g. actuary, investment manager) and these contracts should establish minimum criteria that enable the plan administrator to monitor and assess the performance of the service providers. (See the [OSFI Governance Guideline](#) and the [CAPSA Governance Guideline](#)).
- Inadequate internal governance processes and procedures: Written guidelines or procedures on a plan's internal controls and activities should be established in accordance with the [OSFI Governance Guideline](#) and the [CAPSA Governance Guideline](#).
- Statement of Investment Policies and Procedures (SIP&P) not completed or not reviewed annually: In accordance with section 7 of the [Regulations](#), all plans must have a SIP&P that is reviewed and confirmed or amended at least once a year.

## Pension Plans Survey Findings

As mentioned in [InfoPensions 1](#), OSFI commissioned TNS Canadian Facts, an independent research firm, to conduct a confidential survey with administrators and professionals associated with the private pension plans that OSFI regulates. The primary objectives of the pensions consultation were to assess OSFI's effectiveness as a supervisor and regulator and to collect suggestions for improvements. The final report is available on the OSFI Web site - [Pension Plan Administrator Survey](#).

Close to 800 administrators and professional advisors of private pension plans were invited to participate in the consultation. The survey had an excellent response rate and OSFI wishes to thank all of those who took the time to provide their feedback.

OSFI appreciates the feedback provided in this consultation and has developed an action plan to address a number of the areas identified for improvement including:

- improving communications around OSFI's
  - ◊ mandate and risk assessment framework for private pension plans



- ◇ intervention activities resulting from the ESR exercise, review of actuarial reports, late filing of actuarial reports and risk indicators
- ◇ processes and timelines for approvals and
- ◇ use of industry consultation in its policy development process
- improving the turnaround time for correspondence with pension plan administrators and
- increasing awareness of this pensions newsletter.

Some of OSFI's initiatives to improve communications in response to the survey findings are included in this issue of *InfoPensions*.

Future consultations will monitor OSFI's overall effectiveness and its progress in addressing areas for improvement. For further information about the study methodology or the results, please send an e-mail to [information@osfi-bsif.gc.ca](mailto:information@osfi-bsif.gc.ca)

## Approvals - Submitting Requests

As mentioned in [InfoPensions 1](#), OSFI has recently published additional approval instruction guides and is continuing its process of updating existing guides. In some cases, standardized forms have been developed to streamline the approval process including forms for terminations and asset transfers. Based on the success of the use of the standardized forms for defined contribution plans, OSFI has developed or is developing similar forms for defined benefit plans where appropriate.

The waiting time to obtain an approval can be substantially reduced when administrators follow the requirements of these instruction guides, complete any available forms and submit approvals packages without delay. These guides and standardized forms are available on the [Instructions and Guidelines](#) page of the OSFI Web site.

Whenever a plan administrator is seeking the Superintendent's approval of a transaction or a report, an approval request (a standardized form if available or a letter if not) should be submitted along with any required supporting documents such as an actuarial report and/or amendment. This approval request enables OSFI to acknowledge receipt of the application documents and facilitates an efficient review of the approval request.

## OSFI Pension Guidance – a Consultative Approach

As mentioned previously, OSFI has been issuing new instruction guides and guidelines and updating existing ones. OSFI has been actively seeking input and feedback in the guidance development process from plan administrators and consultants who are responsible for implementing this guidance in approval requests and other plan administration matters.

OSFI pension guidance development incorporates the opportunity for stakeholder input at two stages of the process. Once a guide or guideline has been drafted, OSFI approaches selected individuals in the pension industry to provide feedback on the draft guide. These comments are reviewed and a draft is then posted to the OSFI Web site and input from the wider pension industry is requested. A finalized version is issued after all industry input received has been reviewed. The input received is appreciated by OSFI and has resulted in many clarifications or adjustments to the finalized version of the guides.

If anyone is interested in providing input to OSFI's pension guidance or policy development process, please contact Sylvia Bartlett, Manager - Policy Team at (613) 990-7856 or [sylvia.bartlett@osfi-bsif.gc.ca](mailto:sylvia.bartlett@osfi-bsif.gc.ca).

## Revised Actuarial Information Summary (AIS) – Form T1200

The Actuarial Information Summary (AIS) was designed to capture relevant data from actuarial reports submitted for pension plans that contain a defined benefit provision. It is required when filing an actuarial report pursuant to the *Pension Benefit Standards Act, 1985*.

The form was recently amended, in collaboration with the Financial Services Commission of Ontario and the Canada Revenue Agency. The revised form may now be used when filing actuarial reports, and will be mandatory for plans with valuation dates of December 31, 2009 and beyond. [AIS Form and Instructions](#)

## Accurate Completion of the AIS and SIR forms

OSFI uses the information provided in the AIS and the Solvency Information Return (SIR) to calculate the Estimated Solvency Ratios (ESRs) for its defined benefit plans. As the ESR is used in the risk assessment process for each plan, it is important that the forms be completed correctly.

One particular area of the AIS that is often incorrectly completed is Part I - G (Contributions). We would like to remind those completing the forms that the AIS should report the current service cost and special payments as calculated in the actuarial report (i.e before taking into account the limitations of the Income Tax Act and before any contribution holiday recommendation).

## AIR – Reporting Members in Included Employment

A number of pension plans subject to the PBSA cover both members in “included employment” and members whose benefits are subject to provincial pension legislation. “Included employment” is employment in connection with any work, undertaking or business that is subject to the legislative authority of Parliament. (Further details are provided in the [Application for Registration Instruction Guide](#) available on OSFI’s Web site.) Plan administrators should note that if a plan includes any members whose benefits are subject to the pension legislation of Quebec or Newfoundland and Labrador, the plan must be registered in those provinces in addition to being registered with OSFI.

When a plan administrator completes an Application for Registration under the PBSA, they are asked to indicate the number of members in each jurisdictional category. OSFI would like to remind plan administrators that they are expected to review the jurisdictional status of its plan membership on an annual basis and ensure that the figures reported in the membership area of the [Annual Information Return](#) (AIR) are correct.

## Electronic Filing of CFS and AIR- Automated Data Transfer Initiative

Since 2007, pension plans registered with OSFI have been filing Annual Information Returns (AIR or OSFI-49) and Certified Financial Statements (CFS or OSFI-60) electronically.

In April, 2009, OSFI introduced an optional Automated Data Transfer (ADT) facility through the Bank of Canada to help improve the efficiency of the annual filings process. This facility allowed pension plans to file their annual returns without having to submit electronic media directly to OSFI. It also provided pension plans with the immediate reassurance that the files submitted had been received by OSFI.

This initiative was well received and over 25% of pension plans took advantage of the ADT facility in this first year of availability. As a result, we are strongly encouraging pension plans to use the ADT for future annual filings.

Detailed procedures for the ADT facility along with other information on electronic filing are available on the [OSFI Web site](#)

OSFI would like to remind administrators that OSFI no longer requires administrators to submit signed copies of the returns however printed and signed copies should be maintained by the plan administrator.

## Determining a Member's Transfer Value - DB

OSFI has recently received a question regarding subsection 9(1) of the [\*Directives of the Superintendent\*](#) (determining transfer values) and delayed transfer dates. We would like to confirm that if there is a delay in the transfer of a member's pension benefit credit and a new actuarial report has been filed with OSFI prior to the actual transfer date, the solvency ratio of the plan on the actual transfer date should be used to determine the transfer value of the pension benefit credit rather than the solvency ratio of the plan on the member's termination date.

## Filing Requirements in Effect Prior to Receiving a Registration

In accordance with section 10 of the *PBSA*, an administrator of a pension plan that is subject to the requirements of the *PBSA* must, before administering the plan, file all documents that create and support that pension plan with the Superintendent within 60 days after the plan is established. Plan administrators are reminded that the plan must be administered in accordance with the *PBSA* whether or not it has received confirmation of registration from OSFI. This includes the requirement to fund the pension plan and submit regular filing requirements.