Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

# ADMINISTRATION OF THE *PENSION BENEFITS STANDARDS ACT, 1985*

# Annual Report

## 2002-2003

Canada

Office of the Superintendent of Financial Institutions Canada
255 Albert Street
Ottawa, Canada
K1A 0H2

Bureau du surintendant des institutions financières Canada
255, rue Albert
Ottawa, Canada
K1A 0H2

www.osfi-bsif.gc.ca

The Honourable Ralph Goodale, P.C., M.P.
Minister of Finance
Ottawa, Canada
K1A 0A6

Dear Minister:

I am pleased to submit to you the Annual Report on the Administration of the *Pension Benefits Standards Act, 1985* (PBSA). The report covers the period from April 1, 2002, to March 31, 2003.

Section 40 of the PBSA provides that the Superintendent shall, as soon as possible after the end of each fiscal year, submit this report to the Minister and the Minister shall cause the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after the day the Minister receives it.

Yours sincerely,

Nicholas Le Pan
Superintendent

Ottawa, February 2004

cc: The Honourable Denis Paradis, P.C., M.P.

Canada

# Table of Contents

## Message from the Superintendent

The current environment is a challenging one for pension plan administrators and for the Office of the Superintendent of Financial Institutions (OSFI). The pressures on pension plans in fiscal year 2002-2003 resulted from the downturn on the equity markets over the past three years, declining interest rates and, in some cases, improvements to members' benefits and/or contribution holidays. These pressures have eroded the surpluses accumulated during the 1990s and created significant deficits for some plans. The pension sector has received unprecedented public attention as a result.

At OSFI, we will continue to pursue our mandate with vigour, and to encourage stakeholders to respond to these challenges in ways that protect the interests of pensioners and pension plan members. Plan members should not hesitate to exercise their fundamental right to obtain information on their plan from the plan administrator.

OSFI is taking action in a number of areas. Pension plans file actuarial valuation reports every three years, or annually, if reports reveal a solvency deficit. Two years ago, we introduced a model to estimate the current solvency position of all defined benefit plans, including those plans that had shown a healthy surplus in their last report. This was timely. Estimating the impact of changes in key variables, such as investment returns and interest rates, has paid off in helping OSFI to identify more quickly higher risk plans. We are now conducting these tests every six months.

OSFI is intervening vigorously with those plans we identify as being in the higher risk category. Before we act, however, we verify a plan's situation with administrators and determine whether a reasonable plan of action is in place to deal with the problems.

For any plans operating with a deficiency or very close to one, OSFI has introduced new measures to encourage appropriate plan funding. These include earlier notification from plan sponsors who are taking contribution holidays, so that OSFI can take earlier action if required. In some cases, OSFI has requested that plan sponsors obtain a board of directors' resolution prior to taking a contribution holiday. Finally, some of our actions have culminated in requiring the earlier filing of a valuation report. We believe that increased awareness and accountability at all levels will strengthen plan governance and fiduciary discipline.

Private pension plans are voluntary arrangements between employers and employees. OSFI's actions cannot be so onerous as to discourage the creation of pension plans or to cause employers to terminate existing plans. Therefore, balance and judgment are essential in carrying out our intervention activities.

In the end, while we can't guarantee there will not be any losses to members' benefits, we are confident that our efforts will minimize that risk. We are also in no doubt that employers, in their role as plan administrators, will cooperate through these difficult times and continue to fulfill their responsibilities under the PBSA to act in the best interests of plan members and other beneficiaries.

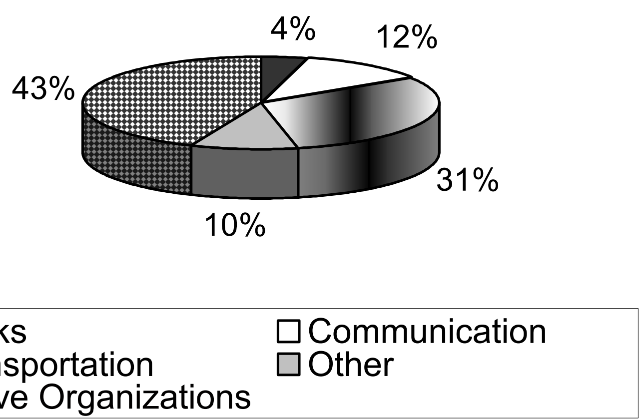
# INTRODUCTION

## *Pension Benefits Standards Act, 1985*

*Private pension plans established for employees working in areas that fall under federal jurisdiction include banking, inter-provincial transportation and telecommunications.*

Employer-sponsored pension plans are a major component of Canada's retirement system, along with the Old Age Security, Canada/Quebec Pension Plans and Registered Retirement Savings Plans. Private pension plans established for employees working in areas that fall under federal jurisdiction are subject to the *Pension Benefits Standards Act, 1985* (PBSA). These include banking, inter-provincial transportation, telecommunications, and undertakings outside the legislative authority of the provinces. The latter category includes businesses or undertakings in the Yukon, Northwest Territories and Nunavut. Also falling under federal jurisdiction is any work, undertaking or business declared by the Parliament of Canada to be for the general advantage of Canada or for the advantage of two or more provinces. Uranium mining is an example of an undertaking that falls into this category. All other private pension plans are governed by the pension legislation of the provinces in which their members are employed (with the exception of Prince Edward Island, which does not have private pension plan legislation).

**Pension Plans by Industry**
**As at March 31, 2003**




## Highlights

*OSFI is strengthening its supervisory and intervention strategies...*

There are close to 580,000 members covered by approximately 1,200 federally regulated pension plans. Largely as a result of declines in equity values, the total market value of assets of pension plans registered under the PBSA fell to approximately $85 billion at the end of the 2002-03 fiscal year, compared to $91 billion in 2001-2002.

If all federally regulated defined benefit pension plans had been scheduled to file a valuation report at December 31, 2002, OSFI estimates that close to half would have reported a solvency ratio less than 1. Using different methodologies, recent private sector reports estimate that approximately 75 per cent of defined benefit plans in Canada are under-funded.

*A plan with a solvency ratio of less than 1 is not necessarily a cause for concern, as long as the employer is financially sound and contributes in accordance with legislative requirements.*

As the legislation allows this to occur, what matters is the sponsoring organization's ability to fund the deficit or to restructure the plan so it is affordable. A plan with a solvency ratio of less than 1 is therefore not necessarily a cause for concern, as long as the employer is financially sound and contributes in accordance with legislative requirements.

In light of the deteriorating solvency situation of pension plans, OSFI strengthened its supervisory and intervention processes to accelerate funding, with special focus on those plans taking contribution holidays.

## STRATEGIC FRAMEWORK

### Mandate

To supervise federally regulated private pension plans to determine whether they are in sound financial condition and comply with the provisions of the legislation and OSFI policies and guidelines. We rely on plan administrators for good governance and prudent management. We inform them of situations that require attention and actively promote appropriate corrective actions being taken.

*OSFI strives to protect the rights, interests and information needs of members*

In fulfilling its mandate, OSFI strives to protect the rights, interests and information needs of members of regulated pension plans, having due regard for the voluntary nature of pension plan sponsorship and the need to allow plan administrators to take reasonable risks.

In promoting public confidence in the financial system, we are committed to carrying out our responsibilities in an effective, efficient and transparent manner and to maintaining high professional standards.

### Roles and Responsibility

OSFI administers the PBSA. In supervising and regulating federal pension plans, OSFI's actions are directed toward reducing the risk that plans will fail to pay expected pension benefits. The PBSA sets minimum standards for funding, investments, membership eligibility, vesting, locking in, portability of benefits, death benefits, and members' rights to information.

*OSFI's actions are directed toward reducing the risk that plans will fail to pay expected pension benefits*

Supervision includes direct dealings with plan administrators, trustees and their expert advisors to assess whether pension plans are operating within OSFI's regulatory framework to require action to correct identified problems or concerns. OSFI strives to protect the rights and interests of members by:

- Providing oversight and leadership in the supervision of pension plans;
- Performing timely assessments for the early identification of concerns;
- Requiring timely and effective corrective action.

Strong pension governance across Canada will help in securing a financially strong Canadian pension environment and in maintaining the public's confidence.

## Priorities and Goals for 2003-04

Supervising private pension plans and protecting the rights and interests of their members requires having the proper tools in place at all times to enable timely intervention. OSFI focussed on:

- Enhancing the reliability of the early warning tests and the flow of information on emerging risks;
- Improving its solvency testing model and communicating results to plan sponsors;
- Improving the efficiency of the approval process for asset transfers, refunds of surplus, termination reports, etc.;
- Developing more proactive, innovative and win-win intervention solutions;
- Reviewing and validating the risk-based portfolio approach to supervision;
- Reviewing the need for regulations to void plan amendments when the solvency situation of a plan is a concern;
- Implementing electronic filing of the Annual Information Return and Certified Financial Statements;
- Making better use of OSFI's Web site to improve communications with plan administrators, plan members and other stakeholders.

## Strategic Objectives for April 1, 2003, to March 31, 2006

OSFI has identified the following medium-term strategic objectives with respect to the supervision of private pension plans and protection of the rights and interests of plan members and beneficiaries:

- Accelerate intervention activities and contingency planning processes to deal with stage-rated plans;
- Continue to implement a risk-based supervisory process that directs time and attention to problem pension plans at risk;

- Continue to promote governance best practices, including self-assessment, in order to increase awareness by plan administrators and trustees of their accountability for compliance with regulatory requirements;
- Review legislation to ensure appropriate intervention powers and funding mechanisms are in place;
- Work with the Canadian Association of Pension Supervisory Authorities in pursuit of a model law, improved governance standards and the review of minimum funding standards and investment regulations;
- Promote timely and clear disclosure to pension plan members.

# INDUSTRY OVERVIEW

## Federally Regulated Pension Plans

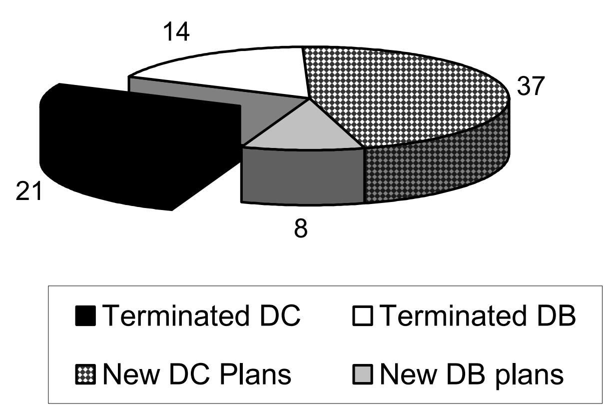
| | *Defined Benefits* | *Defined Contribution* | *Combination* | *Total* |
|---|---|---|---|---|
| **Total Plans** | *346* | *789* | *70* | *1205* |
| **Total Membership** | *397,000* | *94,000* | *88,000* | *579,000* |
| **Total Assets** | *$70 Billion* | *$2 Billion* | *$13 Billion* | *$85 Billion* |

*As at March 31, 2003, there were 1,205 pension plans registered under the PBSA, covering nearly 580,000 employees.*

As at March 31, 2003, there were 1,205 pension plans registered under the PBSA, covering nearly 580,000 employees. During the period, 45 new plans were registered, and 35 registered plans, affecting some 500 members, informed OSFI that they were terminating or consolidating with other plans.

Of the 35 plans that terminated in 2002-03, one plan, with one member, wound up in a deficit position, resulting in a 23% reduction of benefits to that member. Since 1987, over 625 plans have been terminated and all but nine were fully funded at wind-up. The nine plans that were in deficit affected a total of 997 members; the fully funded plans covered over 100,000 beneficiaries.

**Change in Plans Regulated by OSFI**

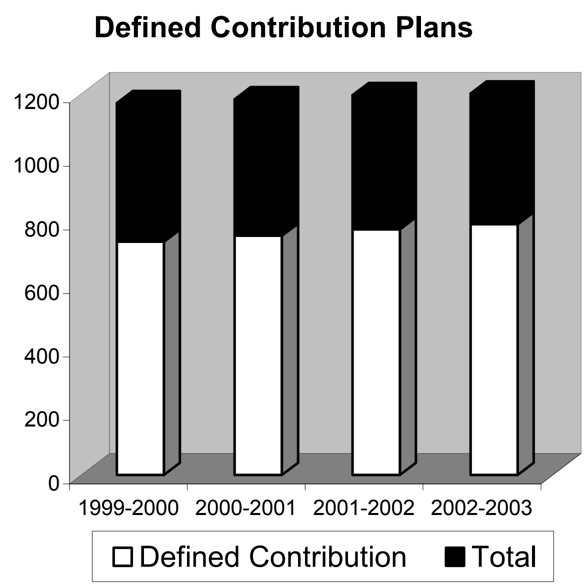


| Total number of plans registered and terminated for the fiscal years 1998-2003 | | | |
|---|---|---|---|
| ***Fiscal Year*** | **Plans registered** | **New Plans** | **Plans Terminated or consolidated** |
| ***2002-2003*** | 1205 | 45 | 35 |
| ***2001-2002*** | 1195 | 42 | 31 |
| ***2000-2001*** | 1184 | 55 | 41 |
| ***1999-2000*** | 1170 | 56 | 47 |
| ***1998-1999*** | 1161 | 51 | 35 |

## Defined Contribution Plans

*There has been an increase in the proportion of defined contribution plans relative to the total number of plans.*

The straightforward nature of defined contribution plans makes them the choice of small companies. This type of plan is simple to start and to terminate because the members' individual defined contribution accounts are easily transferable to individual or group locked-in RRSP accounts.




Over the past five years, there has been a small but steady increase in the proportion of defined contribution plans relative to the total number of plans.

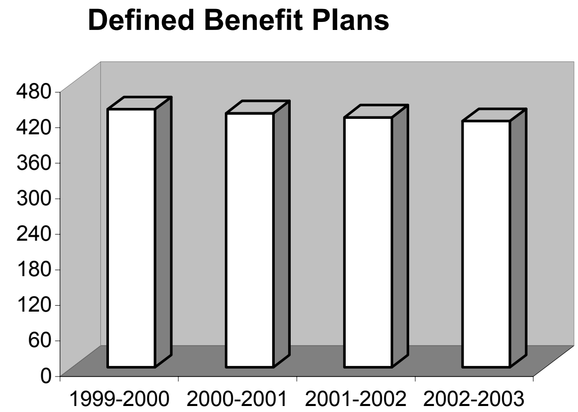
## Defined Benefit Plans

*Defined benefit plans are generally sponsored by large companies such as banks, railroad, and telecommunication organizations.*

Defined benefit plans are generally sponsored by large companies, such as banks, railroads, and telecommunications organizations.

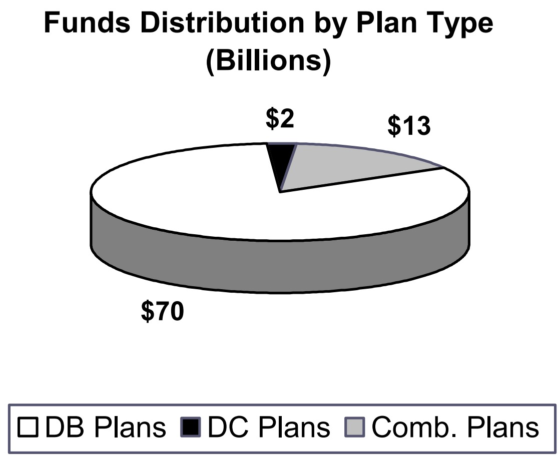
The number of pension plans providing defined benefits continues to show a slow but steady decline, with the mix in total number of plans changing in favour of defined contribution plans or other retirement vehicles offered by employers. In some cases, this change is due to mergers and consolidations in some industries.

During the 1990s through to the end of 2002, in response to the desire of members to benefit from strong equity markets, employers of large defined benefit plans offered members the option of accruing future benefits on a defined contribution basis. In 2002-03, there were no similar plan amendments. There are currently 70 such combination plans registered under the PBSA.




## Market Value of Assets

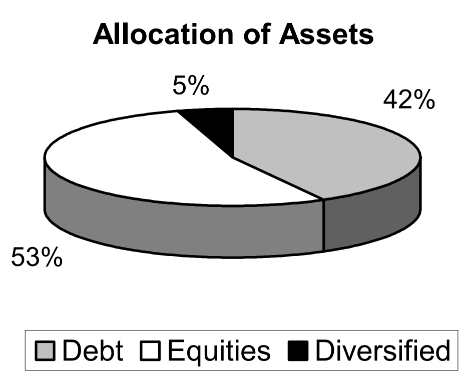
The total market value of assets of pension plans registered under the PBSA was approximately $85 billion at the end of the 2002-03 fiscal year. This represented a 7% decrease from the 2001-02 fiscal year, when the total market value of assets was $91 billion. Poor equity market performance is the major reason for this decrease. More than 82% of the $85 billion in assets belongs to defined benefit plans.




*Poor equity market performance is the major reason for the decrease in the value of pension funds.*

## Allocation of Assets

The most recent pension plan financial statements filed during the 12-month period ending March 31, 2003 report that 53% of pension funds are invested in equities, 42% in debt instruments and 5% in diversified and other assets. *Equities* include investments in pooled funds, stocks, and shares in real estate, resource and investment corporations. *Debt* instruments include government and corporate bonds, mortgage




*Pension plans have maintained essentially the same asset allocation as in the previous period.*

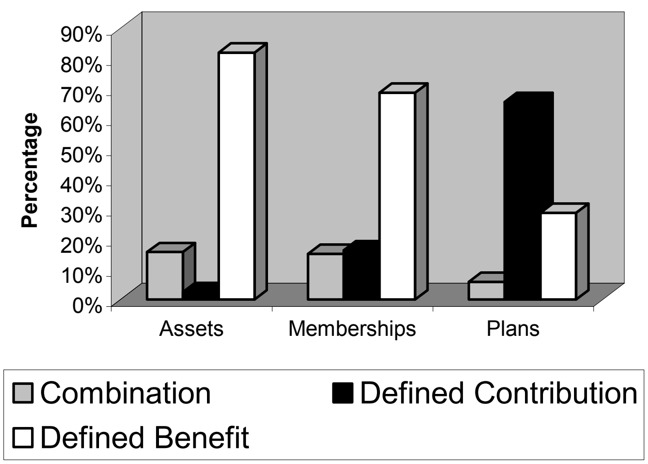
loans and deposits. *Diversified* covers balanced mutual and segregated funds and miscellaneous assets or other investments that are not included in the other two categories. Foreign investments were reported at approximately $18 billion or 21% of total investments. Of the $18 billion in foreign investments, 89% were in equities. Pension plans have maintained essentially the same asset allocation as in the previous period.

## Distribution of Plans, Membership and Assets

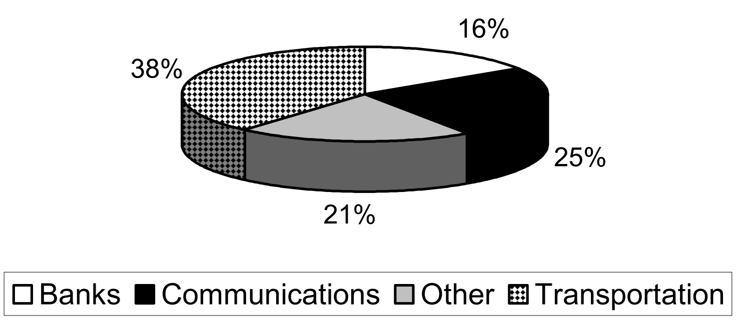
*Defined benefit plans account for 29% of total plans, but cover 69% of members and 82% of assets.*

Defined contribution plans account for 65% of federally regulated plans, 16% of total membership, and 2% of assets. In contrast, defined benefit plans account for 29% of plans and cover 69% of members and 82% of total assets. Combination plans represent the balance. There are 70 combination plans, or close to 6% of the total, which represent 15% of membership and 16% of assets of all plans.

**Distribution of Plans, Membership and Assets by Plan Type as of March 31, 2003**




**Distribution of Assets by Industry as of March 31, 2003**




Assets held in the pension funds of companies involved in transportation, communication and banking account for 78% of all assets held in federally regulated pension plans. Twenty-one percent of total assets are held by plans of undertakings in the Yukon, Northwest Territories and Nunavut, and industries covering atomic energy, mines, seed mills, harbours, bridges and some Crown corporations.

# SUPERVISION

## Approach to Supervision

Private pension plans are voluntary arrangements between employers and employees. OSFI must strike a balance that provides effective prudential supervision while at the same time creating an environment that does not discourage employers from establishing and maintaining pension plans. A balanced approach to supervision recognizes that plan administrators need to take reasonable risks in their investment and funding strategies and that plans or their sponsors can sometimes experience difficulties that lead to loss of benefits. Legislation specifically permits defined benefit pension plans to operate in a deficit position.

*Private pension plans are voluntary arrangements between employers and employees.*

In deciding whether and how to intervene, OSFI takes into account the size of the deficit and the sponsor's capacity to fund it. The number of pension plans on OSFI's watch list rose during the year from 50 to approximately 80. Of these, about 60 were defined-benefit plans and 20 were defined contribution plans. A pension plan can be on the list because of concerns about its financial condition or for other reasons.

Early detection of solvency and funding problems is a key element in safeguarding members' benefits. To help in this area, in 2002, OSFI developed a model to estimate the solvency of a plan between its reporting periods. In 2003, we refined our estimates and next year we plan to enhance our disclosure of results with individual plans. We have also increased the number of plans where we conduct on-site examinations. These initiatives are in addition to OSFI's regular review of reports and other information.

## Solvency of Plans

Generally, the continuation of any defined benefit plan depends on the employer's commitment and ability to remit amounts sufficient to fund future benefits and any unfunded liabilities and/or solvency deficiencies that may occur.

During the period under review, 106 active plans reported, in their actuarial valuation report, a solvency ratio of less than 1 compared to 53 one year ago, reflecting the decline in equity values and interest rates.

The *solvency ratio* of a pension fund is the ratio of the market value of assets (includes adjustment for wind-up expenses and smoothing due to market fluctuations) to the liabilities, assuming plan termination on a specific date. Such plans are required to file an actuarial report on an annual basis and fund the solvency deficiency over a five-year period. Funding of a pension plan is determined by the actuarial valuation report; filing annually may accelerate the funding of a deficiency. Plans that report a solvency ratio greater than 1 are required to file an actuarial valuation report on a triennial basis, unless OSFI directs otherwise, based on its assessment of the risk profile of the plan, including the calculation of the plan's estimated solvency ratio (ESR) during the three years.

Defined contribution plans are fully funded upon timely remittance of required contributions.

## Solvency Testing

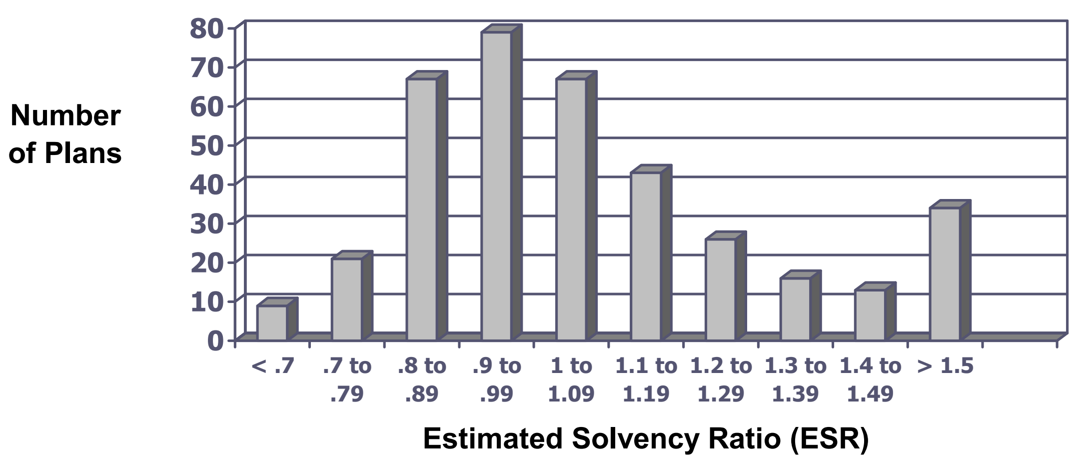
The equity market performance in 2001 and 2002 and its effect on pension plans continue to be of concern to OSFI. Early in 2003, OSFI calculated ESRs of all defined benefit pension plans and identified the plans most at risk on a solvency basis.

A summary of this exercise and the actions following are provided here:

*If the estimated solvency ratio was close to or less than 1, various interventions were considered…*

- The analysis involved projecting the liabilities and equity portions of the plans' assets, and then assessing the overall effect on the solvency ratio.
- Depending on the results of the solvency estimates, plan administrators were contacted and asked to provide more accurate estimates and/or information on their pension plans.
- If the estimated solvency ratio was close to or less than 1, various interventions were considered, including early filing of valuation reports, board approvals of contribution holidays and disclosure to members.
- As new information is submitted or filed with OSFI, it will be assessed and compared with the results of our model.

**Defined Benefit Plans, Solvency Testing Results**
**As at December 31, 2002**



Weak investment returns in the last two years and a decline in interest rates have had a significant adverse impact on many pension plans. ESRs calculated by OSFI using year-end 2002 data showed that approximately 47% of all defined benefit plans supervised by OSFI were under funded, meaning their estimated liabilities exceeded assets. Of these, some 97 plans were under funded by more than 10%.

| ***Estimated number of Plans with ESR <1<br>As at December 31, 2002*** | | |
|---|---|---|
| ***ESR*** | ***2002-2003*** | ***% of Total Plans*** |
| *.90 and 1* | *79* | *21%* |
| *.80 and .89* | *67* | *18%* |
| *.55 and .79* | *30* | *8%* |

A small number of the under-funded plans continued to take contribution holidays in 2003, which, in OSFI's view, was not prudent given the particular circumstances of some of these plans. Although a number of plan sponsors are taking steps to deal with deficits in their plans, OSFI took action, ranging from issuing direct orders that plan sponsors cease the contribution holidays to requiring enhanced notification to members. OSFI also announced that, going forward, it would increase the frequency of solvency testing.

## Monitoring and On-site Examinations

OSFI's risk-based supervision includes review of required filings and on-site examinations of selected pension plans. The selection of plans for on-site examination is based primarily on the assessed risk to beneficiaries. Additionally, some plans are selected for on-site review at random. On-site examinations enable OSFI to enhance its assessment of the financial situation and quality of the administration of plans. It also provides OSFI with the opportunity to meet the individuals involved in the administration, thereby improving communications between administrators and our Office. In the past year, OSFI performed eleven on-site examinations.

Our examinations found that the daily administration of plans is generally good. Governance remains the area where plan administrators need to further develop, especially for small to medium-sized plans. OSFI expects to conduct about 20 on-site examinations in 2003-2004. The focus will continue to be on governance, along with an emphasis on disclosure to members and the review of investments.

# REGULATORY AND OTHER SIGNIFICANT ACTIVITIES

## Governance

OSFI has continued to stress the benefits of good governance by participating in educational programs, giving speeches and co-operating with associations to promote good governance. These associations included the Association of Canadian Pension Management, the Pension Investment Association of Canada, the Canadian Pension Benefits Institute, and several employee benefit foundations and educational institutions.

OSFI has also been a contributor to the work of the Canadian Association of Pension Supervisory Authorities (CAPSA) in developing principles of good governance for guiding pension plan administrators and trustees across Canada.

## Pension Plan Surplus

During the period covered by this report, two new applications for refunds of surplus to employers were received, both from continuing pension plans, bringing to six the total number of applications to process.

Of these six applications, two refunds were approved, both with respect to terminated plans, for a total of approximately $12.5 million. This leaves four applications pending approval as at March 31, 2003.

## Legislative Changes

No legislative changes were implemented during the reporting period.

Under review are potential changes related to minimum funding, including a provision for full funding on plan termination, application of actuarial gains, and other minor amendments. During the year, OSFI reviewed and analyzed the comments received during consultation with the pension industry on these matters. In light of the significant recent changes in the pension environment, additional consultation will be required. As well, discussions of other funding proposals continue with provincial regulators in an effort to harmonize pension plan funding across Canada.

In addition, work is underway to draft and implement regulations authorizing the Superintendent to disallow any benefit improvements that would cause the solvency ratio of a plan to fall below a prescribed level.

### Canadian Association of Pension Supervisory Authorities (CAPSA)

OSFI is a member of CAPSA, which was established in 1974 as a federal-provincial forum to discuss common issues faced by federal and provincial pension plan supervisory authorities.

As indicated earlier in this report, OSFI has been most active with CAPSA members in the development of principles for sound governance of pension plans, and also in reviewing areas of the investment regulations.

## ADJUSTMENTS TO PENSIONS

As required by the PBSA, plan sponsors report the extent to which they have provided inflation protection and the source of funds for the adjustments.

### Inflation

As has been the case over the past three years, close to 30% of the plans that offer defined benefits reported increases in pensions in pay, i.e., retirees' pensions.  Of these plans, 26% also increased deferred pensions.

Increases were based on full Consumer Price Index (CPI) in 41% of cases, 29% on partial CPI and 30% using other formulas, such as excess interest, a flat dollar amount, or a percentage of pension payment.

In 78% of cases (74% last year), adjustments were made as a result of collective agreements or were required by the plan text.  In the remaining cases, employers made voluntary adjustments.

### Source of Funds

During the period under review, 48% of the plans that made adjustments to pensions did so using surplus funds or gains.  This is down from 65%, reported for the past three years. The remainder used sources outside the pension fund, created unfunded liabilities, or used some combination of options to improve pensions.

### Application of Surplus/Gains

In 33% of cases, plans used surplus/gains to improve benefits, while in 40% of the cases the employer reduced contributions through using surplus/gains.  This is a change from the previous year, when only 26% improved benefits and 43% used surplus/gains to reduce contributions.  The remaining defined benefit plans either did not have surplus/gains or chose to let their surplus funds/gains accumulate.

# FINANCIAL HIGHLIGHTS

## Revenue and Expenditure

OSFI's costs for regulating and supervising pension plans are recovered from an annual assessment charged to plans.

Plans are assessed a fee when applying for registration under the PBSA and when filing the Annual Information Return. Total revenues during the fiscal year ending March 31, 2003, were $3,270,000, down from $3,332,000 a year earlier. The decline in revenue reflects a lower fee rate in 2002-03. The cost of administering the PBSA for fiscal year 2002-03 was $3,163,000, down from $3,439,000 the previous year, due primarily to stable human resources costs and a reduction in overhead expenses.

## Basic Assessment

The fee rate is established based on OSFI's estimate of costs to supervise pension plans, adjusted for any excess or shortfall of fees in the preceding years, divided by an estimate of the fee base, i.e. assessable membership.

The rate established for fiscal year 2002-03 was $10 per assessable member. Because of anticipated increases in OSFI's monitoring and intervention activities, it is expected that the fee rate will be increased to $11.00 for the next two years.

**Revenue and Expenditure**
**For Fiscal Years 1997-98 to 2002-03**
**($000, except basic fee rate)**

| *Year* | *1997-98* | *1998-99* | *1999-00* | *2000-01* | *2001-02* | *2002-03* |
|---|---|---|---|---|---|---|
| ***Revenue*** | 2,736 | 2,347 | 3,875 | 3,765 | 3,332[1] | 3,270 |
| ***Expenditure*** | 3,016 | 3,190 | 3,589 | 3,239 | 3,439 | 3,163 |
| **Basic Fee rate[2] Per member** | 10.00 | 8.00 | 12.00 | 12.00 | 11.00 | 10.00 |

[1] Restated from $3,439 to report revenue on a cash basis.

[2] The minimum and maximum annual assessment per plan is derived by multiplying the annual assessment by 20 and 10,000 respectively. With an annual assessment of $10.00 per member, the minimum annual assessment is $200 and the maximum is $100,000.

# APPENDIX A – Summary of Asset Breakdown[1]
## ($000, except percentages)

| | 2002 | | 2001 | |
|---|---|---|---|---|
| **CASH** | **302,409** | **0.35%** | **284,523** | **0.31%** |
| **DEBT SECURITIES** | | | | |
| Short Term Notes, Other Term Deposits | 3,360,802 | 3.96% | 3,318,908 | 3.64% |
| Government Bonds | 19,256,573 | 22.68% | 16,706,011 | 18.32% |
| Corporate Bonds | 6,573,867 | 7.74% | 6,253,135 | 6.86% |
| Mutual Funds - Bonds, Cash Equivalents & Mortgage | 4,916,773 | 5.79% | 4,759,436 | 5.22% |
| Mortgage Loans | 1,322,410 | 1.56% | 993,569 | 1.09% |
| General Fund of an Insurer | 122,349 | 0.14% | 114,772 | 0.13% |
| | **35,552,774** | **41.87%** | **32,145,831** | **35.26%** |
| **EQUITY** | | | | |
| Shares in Investment, Real Estate or Resource Corporation | 4,381,339 | 5.16% | 4,102,702 | 4.50% |
| Common and Preferred Shares | 30,191,471 | 35.55% | 32,736,637 | 35.91% |
| Mutual Funds - Stocks | 8,729,028 | 10.28% | 8,262,775 | 9.06% |
| Mutual Funds – Real Estate | $256,081 | 0.30% | 280,308 | 0.31% |
| Real Estate | 1,417,556 | 1.67% | 1,363,054 | 1.50% |
| | **44,975,475** | **52.96%** | **46,745,476** | **51.28%** |
| **DIVERSIFIED AND OTHER INVESTMENTS** | | | | |
| Mutual Funds - Balanced | 1,659,284 | 1.95% | 2,016,841 | 2.21% |
| Segregated Funds | 1,021,094 | 1.20% | 1,044,133 | 1.15% |
| Other | 1,363,300 | 1.61% | 4,629,174 | 5.08% |
| | **4,043,678** | **4.76%** | **7,690,148** | **8.43%** |
| **ACCOUNTS RECEIVABLE (Net of liabilities)** | **48,054** | **0.06%** | **4,304,699** | **4.72%** |
| **TOTAL NET ASSETS** | **84,922,390** | **100.00%** | **91,170,677** | **100.00%** |

[1] Represents asset distribution as reported in the financial statements of pension plans whose year-ends fall between January 1 and December 31 of respective years.

# APPENDIX B – Guidelines and Other OSFI Publications on Pension Plans

**Visit the OSFI Web site, www.osfi-bsif.gc.ca, for access to these publications:**

**Risk-Based Supervision of Pension Plans**

**Governance of Federally Regulated Pension Plans**

**Development of Investment Policies and Procedures for Federally Regulated Pension Plans**

**Securities Lending**

**Derivatives Best Practices**

**Termination of Pension Plans**

- **Defined Benefits**
- **Defined Contributions**

**Converting pension plans from defined benefit to defined contribution plans**

**Disclosure to Plan Members**

**Update (OSFI newsletter to pension plans and other stakeholders)**

**Industry Notices**

# APPENDIX C – Glossary of Pension Terms

**ACTUARY –** A professional in the pension area who is responsible for calculating the liabilities of pension plans and the costs of providing pension plan benefits. In Canada, a person must be a member of the Canadian Institute of Actuaries (CIA) to be recognized as a professional actuary.

**CONTRIBUTION HOLIDAY –** A contribution holiday occurs when the employer does not pay into the fund in a given year, in full or in part, the contributions to cover the cost of the accruing pension benefits in that year. Contributions are therefore taken from the surplus reported in the most recently filed actuarial report. A contribution holiday may be discretionary or imposed on the employer by the *Income Tax Act*.

**DEFERRED PENSION –** A specified pension determined when a member's employment or plan terminates that is not payable until pensionable age.

**DEFINED BENEFIT PLAN –** A pension plan that defines the pension benefit to be provided based on years of plan membership, average earnings, etc., in accordance with the terms of the plan.

**DEFINED CONTRIBUTION PLAN –** A pension plan that defines the amount of employer and employee contributions to the pension fund, determined on an individual account basis. Also known as a money purchase pension plan. The benefit the member will receive on retirement is calculated at the date of retirement and is based on accumulated contributions and investment income.

**INCLUDED EMPLOYMENT –** Employment in connection with the operation of any work, undertaking or business that is subject to the legislative authority of the Government of Canada, such as banking, shipping, radio, television, etc.

**LIFE INCOME FUND (LIF) –** means a registered retirement income fund, as defined in subsection 146.3(1) of the *Income Tax Act* that meets the requirements set out in section 20.1 of the Pension Benefits Standards Regulations.

**LOCKED-IN REGISTERED RETIREMENT SAVINGS PLAN –** A personal retirement savings account offered by financial institutions. Similar to a **Registered Retirement Savings Plan** (RRSP), except that it is locked in. A locked-in RRSP is used to hold money that is transferred out of a pension fund on termination of employment. Locked-in RRSPs are governed by the *Pension Benefits Standards Act, 1985* and the *Income Tax Act*.

**LOCKING IN –** A legislative requirement whereby pension benefits cannot be used for any purpose other than to provide a retirement pension. Also applies to LIF and **Locked-in Registered Retirement Savings Plans**.

**PENSIONABLE AGE –** in relation to a member, means the earliest age (taking into account the period of employment with the employer or the period of membership in the pension plan, if applicable) at which a pension benefit, other than a benefit in respect of a disability (as defined in the regulations), is payable to the member under the terms of the pension plan without the consent of the administrator and without reduction by reason of early retirement.

***PENSION BENEFITS STANDARDS ACT, 1985* (PBSA) –** The law regulating private pension plans of employees working in areas of included employment in Canada. It sets out minimum standards for benefits, administration, information to members, and investments.

***PENSION BENEFITS STANDARDS REGULATIONS, 1985* (Regulations) –** Regulations that support the PBSA and provide additional specifications.

**PLAN ADMINISTRATOR –** Depending on whether the pension plan is established by a collective agreement or is a multi employer plan, a single employer plan or a simplified pension plan, the plan administrator shall be either a board of trustees or similar body, a pension committee, the employer or a prescribed person or body, as determined by section 7 of the PBSA.

**PLAN DEFICIT –** A deficit exists in a plan when liabilities exceed the value of assets, as reported in the actuarial report.

**PLAN SURPLUS –** A surplus exists in a pension plan when the value of assets exceeds liabilities as reported in the actuarial report.

**PLAN TERMINATION –** See Wind-up.

**PRIVATE/EMPLOYMENT PENSION PLAN –** An employer- and/or union-sponsored plan that provides a regular income for a retired member's lifetime and that of his or her survivor. This term includes plans covering both public- **and** private sector employees, but does not include the Canada Pension Plan or other public programs.

**REGISTERED RETIREMENT SAVINGS PLAN (RRSP) –** A personal retirement savings account offered by financial institutions, to a specified amount. RRSP contributions can be deducted from an individual's taxable income. RRSPs are governed by the *Income Tax Act*.

**STAGE-RATED PENSION PLAN –** As part of its assessment of a pension plan, OSFI determines the degree of intervention required, ranging from “stage 0” for plans of no concern, to “stage 4” for plans on the verge of winding-up.

**WIND-UP –** Discontinuation of all or part of a pension plan by the employer. Often results from bankruptcy of the employer or from corporate restructuring or downsizing.