

Ontario - Temporary Solvency Funding Relief Measures

The Ontario Government has just released details of the measures they have implemented with respect to temporary solvency funding relief. There are three funding options – one or more of these options can be chosen in the first filed report with a valuation date on or after September 30, 2008 (the solvency relief report). Relief is available to all plans (including IPPs) except for those which are deficient in their contributions from previous valuations and plans established after September 28, 2008 (unless the plan is formed as a result of a merger of plans, at least one of which was established before September 30, 2008, or is formed as a result of splitting a plan that was established before September 30, 2008).

The Options are as follows:

Option 1 - Defer, up to one year, the start of special payments required to liquidate any new going concern unfunded liability or new solvency deficiency determined in the solvency relief report. No member consent is required, but the plan administrator must provide “enhanced” notice to the members and the former members of the plan within 60 days of the start of the special payments required under the solvency relief report.

Option 2 - Consolidate special payments for pre-existing solvency deficiencies into a new five-year payment schedule that starts on the valuation date of the solvency relief report. No member consent is required, but the plan administrator must provide “enhanced” notice to the eligible members and the eligible former members of the plan within 60 days of the start of the payments required under the solvency relief report.

Details of the way this Option works are as follows:

- ✓ the present value of special payments relating to solvency deficiencies arising before the valuation date of the solvency relief report that remain to be paid can be consolidated, and liquidated over the 5 years beginning on the valuation date of the solvency relief report.
- ✓ To the extent that the solvency special payments made between the valuation date and the filing date exceed those that would be required under the solvency relief report as a result of the consolidation, such excess can be used to reduce subsequent contributions made up to the date at which the next report is filed.
- ✓ For the purpose of determining the new solvency deficiency in the solvency relief report, the calculation of the solvency asset adjustment will include the present value of all of the solvency special payments under the new five-year consolidated schedule.
- ✓ Any gains in subsequent solvency valuations can be used to reduce or eliminate the amount of monthly solvency special payments determined in the solvency relief report.
- ✓ If the plan is amended to increase pension benefits or ancillary benefits, any resulting increase in the going concern unfunded liability shall be liquidated over 5 years beginning on the valuation date of the report in which the increase in the going concern unfunded liability was determined.

- ✓ This accelerated funding requirement remains in effect until the consolidated prior solvency deficiency has been fully liquidated.

Option 3 - With the consent of members and former members, extend the period for liquidating the new solvency deficiency from 5 years to a maximum of 10 years.

If this option is elected, all members and former members must be sent an information statement. The option may not proceed if more than 1/3 of the members and former members oppose the election. Eligible members and eligible former members who die or transfer their entire entitlement from the plan between the date of the solvency relief report and the date the information forms are sent are not included in the election. The plan administrator must provide enhanced notice to the members and the former members of the plan within 60 days of the start of the payments required under the solvency relief report.

Details of the way this Option works are as follows:

- ✓ The five-year period to liquidate a new solvency deficiency determined in the solvency relief report may be extended to a period not to exceed 10 years (the extended liquidation period).
- ✓ If Option 1 is also elected the extended liquidation period will begin on a date not later than 12 months after the valuation date of the solvency relief report and may be extended to a period not to exceed 10 years after that date.
- ✓ For the purpose of determining the new solvency deficiency in the solvency relief report, the calculation of the solvency asset adjustment will include the present value of special payments in respect of any going concern unfunded liability scheduled for payment between the valuation date and the end of the extended liquidation period.
- ✓ Any gains in subsequent solvency valuations can be used to reduce or eliminate the amount of monthly solvency special payments determined in the solvency relief report.
- ✓ If the plan is amended to increase pension benefits or ancillary benefits, any resulting increase in the going concern unfunded liability shall be liquidated over 5 years beginning on the valuation date of the report in which the increase in the going concern unfunded liability was determined.
- ✓ This accelerated funding requirement continues to apply for plan amendments that have an effective date before the date on which the remainder of the extended liquidation period equals 5 years.

The administrator may make only one election and, once made, it cannot be rescinded.

If the administrator elects at least one of the above options, any gains in future solvency valuations may be used to reduce or eliminate any solvency special payments determined in the solvency relief report.