

# PBSA Update

Issue No. 23, Spring 2003



*PBSA Update* is issued by the Private Pension Plans Division (PPPD), Office of the Superintendent of Financial Institutions (OSFI). OSFI administers the *Pension Benefits Standards Act, 1985* (PBSA), in respect of some 1,200 federal pension plans across Canada.

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## Note to our stakeholders

During the past year, as a result of the economic environment, PPPD continued to spend considerable time on what we refer to as “special situations.” Special situations include plan mergers and spin-offs as a result of sales of businesses, plan conversions, non-remittance of contributions and plan sponsors in financial difficulty.

The stock market downturn has had a significant effect on most defined benefit and defined contribution pension plans. With lower investment returns, plan sponsors may have to adjust contributions to meet current funding requirements. Members of defined contribution pension plans are faced with the fact that investment returns may not provide the retirement benefits they had anticipated. Enhanced disclosure to plan members by plan administrators regarding the financial situation of their pension plans, and access to educational information on retirement planning for members of defined contribution plans, will enable members to gain a better understanding of their circumstances.

## I Supervision of the *Pension Benefits Standards Act, 1985* in 2001-03

### The market downturn

The stock market performance in 2001 and 2002 and its effect on pension plans have been of concern to OSFI. Early in 2003, OSFI performed a stress testing exercise on the funding status of certain defined benefit pension plans to identify the plans most at risk on a solvency basis.



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

- Stress testing was performed on all defined benefit plans.
- The stress testing 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 stress test, plan administrators were contacted and asked for asset and liability information on the applicable pension plans.
- If the estimated solvency ratio was less than 1, various interventions were considered.
- As new information is submitted or filed with OSFI, it is assessed and compared with the results of our stress test model.

OSFI has taken some additional actions in response to the downturn:

- All valuation reports filed with solvency ratios less than 1 are subject to more in depth review by the Division's actuaries.
- Plan administrators are required to communicate the financial condition of the plans to their members, if the solvency ratio is less than 1. (See later item on disclosure.)

### **CAPSA Investment Policy Committee**

Throughout 2002, OSFI continued to play an active role in the work of the Canadian Association of Pension Supervisory Authorities (CAPSA) Investment Policy Committee. The Committee met with its Investment Advisory Group and the Pension Investment Regulations Task Force (formed by PIAC, ACPM, CLHIA and ICAC) to discuss a number of proposed changes to the federal investment rules. The Committee released a discussion paper for broader consultation in late April 2003. CAPSA's proposed direction should not be construed as the official position of any provincial or federal government or agency.

The paper can be found on CAPSA's Web site at [www.capsa-acor.org](http://www.capsa-acor.org).

### **Status of regulation amendments**

#### **Minimum funding regulations**

The focus of OSFI's supervisory process is primarily on matters affecting the solvency or financial condition of pension plans. Benefit promises cannot be guaranteed, but we want to ensure that funding requirements reduce the potential for loss to members of defined benefit pension plans. Consultation with the industry and the provincial regulators on possible improvements to the funding standards for pension plans occurred in July 2000. Stakeholder comments were considered and, in November 2001, draft proposed amendments were posted on the OSFI Web site. These draft amendments included full funding on plan wind-up as well as amendments concerning the application of actuarial gains. We have again considered stakeholder comments and are currently preparing a package of regulations for consideration by the Privy Council Office – Justice Department. It is expected that these regulations would come into force January 1, 2004.

## Amendments to Regulations effective in 2002

Regulations were registered on February 21, 2002, and published in the *Canada Gazette*, Part II on March 13, 2002 (SOR/2002-78), at <http://canadagazette.gc.ca/partII/index-e.html>, setting out the rules for establishing simplified pension plans, for organizing a pension council, and outlining requirements for information that must be disclosed to members. Here is a summary of these new Regulations:

### Simplified pensions plans

**Sections 11.1, 11.2 and 11.3 of the Regulations** allow a number of smaller employers to come together to provide a pension plan for their employees using simplified procedures. The regulations allow a financial institution to act as the administrator of a simplified pension plan.

### Pension council and pension committee

**Section 5 of the Regulations** sets out the rules governing the choice of pension committee and pension council members. **Sub-sections 5(1), (2), (5) and (7)** were amended.

A pension council is a member-representative group established for providing information and education on the pension plan and pension issues. Refer to the Act and Regulations for rules on the organization and election procedures for the council representatives.

### Disclosure

**Paragraphs 23(1)(p), (q) and Section 23.1 of the Regulations** were amended with respect to information that must be disclosed annually to plan members.

**Paragraph 23(1)(p)** requires that the annual statement to members include a statement indicating the plan documents that they are to receive or that are available for them to view.

**Paragraph 23(1)(q)** requires that information about the funded status of the pension plan be communicated to plan members.

Administrators of plans with a solvency ratio of 1 or more in the last valuation report are required to include a statement in the annual statement to plan members that the plan is fully funded on a solvency basis. Where the solvency ratio is less than 1, plan administrators must disclose to plan members the solvency ratio and a definition and interpretation of the ratio. The administrator must also describe the measures implemented to bring the plan to a fully funded status and must explain the effect on the plan members' benefits, if the plan were terminated.

Administrators could consider additional disclosure such as advising the members that they are required to file an annual valuation report with OSFI until the solvency ratio is 1. Members may also be interested in knowing that the plan's actuarial position is a snapshot of the facts at the valuation date.

**Section 23.1** includes the written statement of investment policies and procedures (SIP&P) as a document available for inspection.

Plan sponsors are reminded that the Act and Regulations set the minimum standards, including those for disclosure, that pension plans must adhere to. The forms set out in the various schedules can be adjusted to provide information in addition to the minimum requirements.

## Future amendments

- 1) OSFI is considering drafting regulations to change some of the current locking-in requirements for:
  - a) Pension funds held in RRSPs and LIFs that are:
    - pension benefits of expatriates and non-residents of Canada and their survivors, who have permanently left Canada;
    - small amounts, to be specified; and
  - b) a cash payment of the excess, where a transfer value to **any** approved vehicle exceeds the maximum permitted under the *Income Tax Act*.
- 2) We are considering exempting Designated and Individual Executive Pension Plans and Retirement Compensation Arrangements from the requirements of the PBSA.

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## II General supervisory issues

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### Refund of surplus applications

Amendments to the PBSA that address refund of surplus became effective on April 1, 1999. Regulations that set out the procedures associated with an employer refund of surplus request were registered on June 14, 2001, and published in the *Canada Gazette* on July 4, 2001 (SOR/2001-222). In September 2001, we issued our *Refund of Surplus Instruction Guide* and *Application Form*. These are on our Web site under [Pensions / Filing Instructions and Returns / Application Guides](#). The Superintendent has consented to four refund of surplus applications for terminated plans. Plan sponsors distributed part of the refund to members, former members and other beneficiaries.

### Filing of actuarial reports

The effective date of actuarial reports must be at the plan's year end, unless OSFI has approved an alternative date. Please refer to [PBSA Update No. 18, article number 5](#). OSFI will accept an actuarial report prepared at an alternate date if the report is filed as a result of an amendment that changes the plan's liabilities or contribution requirements.

OSFI will also accept an actuarial report, with an effective date earlier than the required plan year-end, when the report is filed for the purpose of increasing the current contributions to the plan. Under these circumstances, the regular year-end actuarial report must also be filed at the required date.

This policy is in line with OSFI's mandate to protect the rights and interests of plan members and beneficiaries.

### A reminder to plan administrators

We remind plan administrators that **the deadline for filing a required actuarial report is six months following the effective date**. In 2002, a number of reports were filed late. We urge administrators to take the steps necessary to ensure that reports are filed on time.

In the supervision of defined benefit pension plans, we view the actuarial report as the most critical document that is filed with us. Thus, we consider lateness in filing as a serious matter, which influences the risk profile of the plan and OSFI's level of intervention.

We are currently reviewing our procedures with respect to late filings.

### Notes to the financial statements (form OSFI-60)

We also remind plan administrators that the *Financial Statements and General Interrogatories* (form OSFI-60) has a section (Page 30.030) that should be used to provide notes to the financial statements, disclosing additional information on the pension fund in accordance with GAAP. The diskette filing specifications will also capture the notes to the *Financial Statements and General Interrogatories*.

### Partial plan wind-up

On November 22, 2002, the Ontario Court of Appeal released its decision in Monsanto Canada Inc. v. Ontario (Superintendent of Financial Services) (2002), concerning partial terminations under the *Ontario Pension Benefits Act*. An application for leave to appeal this decision has been filed with the Supreme Court of Canada. In light of this recent decision, OSFI is reviewing its policy on partial terminations and is deferring decisions on any partial terminations submitted to the Office until our review is complete.

### Pension plans registered with OSFI at March 31, 2002

The following table provides information on the number of federally registered pension plans at March 31, 2002.

	<b>Defined benefit</b>	<b>Defined contribution</b>	<b>Combination</b>	<b><u>Total</u></b>
Total plans	352	767	70	1,189
Total membership	389,280	80,320	87,833	557,433
Total assets (millions)	\$74,836	\$2,087	\$14,180	\$91,103

### III Other news

#### Update on electronic filing by diskette

Further to our memorandum of May 21, 2002, we have completed the detailed specifications required to develop the diskette filing software for the *Annual Information Return* (OSFI-49) and the *Financial Statements and General Interrogatories* (OSFI-60). Plan administrators, consultants, and other related parties who are interested in developing the software may obtain the specifications through OSFI's Web site, under [Pensions / Filing Instructions and Returns / Financial Returns & Instructions / Diskette Filing](#). A hard copy of the specifications will be available upon request.

Diskette filing of forms OSFI-49 and OSFI-60 will commence with plan year-ends starting October 2002; plan administrators will be given a grace period of two years to comply with the new filing requirements. Software used to produce diskette filing will be tested and approved by OSFI. A list of approved software packages will be available through our Web site for plan administrators who do not wish to develop their own diskette filing software.

The Private Pension Plans Division will keep our stakeholders informed of all diskette filing developments through our Web site. Questions regarding this initiative should be directed to **Jasia** ("Yasha") **Foottit**, Database Applications Analyst, at (613) 990-7866 or [Jasia.Foottit@osfi-bsif.gc.ca](mailto:Jasia.Foottit@osfi-bsif.gc.ca).

#### Inquiries

OSFI pension employees continue to receive numerous calls and letters from members, retirees and other beneficiaries that take much time to reply to in a full and accurate way. Often we find that plan administrators could answer these questions in a more effective manner. Therefore, we urge administrators to take the time to respond appropriately to inquiries from plan members.

#### Staff comings and goings

The Private Pension Plans Division (PPPD) announces the following staff changes:

**Karen Badgerow-Croteau** is Managing Director responsible for both the oversight of the PPPD team and Ottawa Financial Institutions' Supervision team. **Henri Boudreau** is Director, Private Pension Plans Division. Both Karen and Henri come to their new positions with extensive supervision experience, and we look forward to working with them.



**Jean-Claude Primeau** joined us as Manager, Policy and Actuarial, with over 15 years of experience in the pension industry. He is a fellow of the Society of Actuaries and of the Canadian Institute of Actuaries. He is the senior actuary for the Division and provides advice on actuarial matters to enhance our supervisory activities.





**Candida Quast** joined us as a Supervisor. Previously, Candida worked in OSFI's Finance and Corporate Planning Division. We know her accounting background will help the division meet its mandate to protect pension plan members from undue loss.

**Micheline Poirier** joined us as PPPD's Administrative Co-ordinator. We know that her many years of experience in OSFI's Insurance Group will serve her well in her new position.

**Nancy Hrischenko** retired from OSFI after 18 years of service, most of which were spent in PPPD. Her friends and colleagues wish her a happy retirement.

**Ron Bergeron** is on education leave from OSFI. **Diana Nedvidek, Denise Codère, Kathleen Hunter and Roselee Clarke** left OSFI to pursue other career interests. We wish them all the very best with their new challenges.

### OSFI Web site

We encourage you to look at our [pension Web page](#). Recent changes have improved the visibility and accessibility of pension information on the site. A major upgrade is anticipated in the next year, and PPPD is requesting a new feature that will allow subscribers to be notified only of new pension information postings. As plans are made to change our site, we will be consulting some plan administrators for their views on what other changes could improve the site. Our aim is to ensure that all involved with pension plan administration will receive our *PBSA Update* on their virtual desktops.

**Information relating to pension plans is available under the following headings (as at May 14, 2003):**

- [Air Canada Pension Plans](#)
- [Pensions Glossary](#)
- [Acts and Regulations](#)
- Guidelines:
  - [Prudential Limits and Restrictions](#)
  - [Sound Business and Financial Practices](#)
- Filing Instructions and Returns:
  - [Financial Returns & Instructions](#)
    - [Diskette Filing](#)
  - [Non-financial Returns & Instructions](#)
  - [Application Guides](#)

- Advisories:
  - [Supervisory Advisories](#)
- Notices:
  - [Industry Notices](#)
  - [Legislative Notices](#)
- Practices:
  - [Supervisory Practices](#)
- Consultation Papers:
  - [OSFI Consultation Papers](#)
- [Actuarial Reports](#)
- [Frequently Asked Questions](#)
- A listing of private pension plans under federal jurisdiction can be found in the *Who We Regulate* section of OSFI's Web site
- [PBSA Annual Reports](#)

Please contact our Webmaster ([webmaster@osfi-bsif.gc.ca](mailto:webmaster@osfi-bsif.gc.ca)) or one of us in PPPD with suggestions or questions concerning our Web site.

In October 2002, OSFI staff received individual desktop access to the Internet. PPPD employees are now able to communicate with industry colleagues direct via the Internet. For security reasons, only unclassified information will be transmitted electronically.

If you wish to discuss content, guidelines, policies or other issues that have been covered in this or any previous editions of *PBSA Update*, please contact **Nancy Begg-Durkee** at (613) 991-9382 or [nancy.begg-durkee@osfi-bsif.gc.ca](mailto:nancy.begg-durkee@osfi-bsif.gc.ca).