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Revised Transcript of the 2016 OSFI Pension Industry Forum

Toronto, ON
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SUBJECT**:**
The 2016 OSFI Pension Industry Forum held on March 31, 2016 at St. Andrew's Club & Conference Centre in Toronto, Ontario, Canada.

Tamara DeMos: Good morning. I'm Tamara DeMos, the Managing Director of the Private Pension Plans Division at the Office of the Superintendent of Financial Institutions. I'm delighted that you're here joining us on this mucky ugly day in Toronto. Thank you very much for joining us here for OSFI's pension industry forum.

A few housekeeping items first of all. The session is being recorded and it's going to be posted on OSFI's website in the near future. Another note there's washrooms out the door to the left and women's on the left side and men on the right. Finally in your packages you have evaluation forms. Your feedback is very much appreciated. If you don't mind filling out the feedback forms and providing those at the registration desk when you leave.

I can tell you we do act on your feedback forms because many times we've been here in the past and you have had lots of questions about policy initiatives with respect to changes to the Pension Benefits Standards Act and the Pooled Registered Pension Plans Act. As you know OSFI is responsible for administering these acts but we're not the lead on making changes to those acts and regulations.

That's the Department of Finance's role. As a result of your feedback we had invited to OSFI's pension industry forum and she has kindly accepted Lynn Hemmings. She's a Senior Chief at the Financial Sector Policy Branch at the Department of Finance. Lynn will be speaking to you and answering questions after OSFI's presentation this morning.

I'm sure you can appreciate that much of what Lynn does is confidential in nature. I'm sure she wishes she could answer all your questions but unfortunately she won't be able to answer all of them. She may be limited in some of the questions she can answer for you today.

For OSFI's presentations we picked some topics that we thought would be of interest to you but we have left a question period at the end of our presentations today for you to ask your questions. Also we invite you to stay. We have some refreshments, coffee and tea after the session this morning and the management team and Lynne will be here available for individual questions at that time as well.

With no further ado we'll move along. This is the agenda to our presentation today. You have it in your packages. You'll see the presenter's name, the topic, the expected amount of time for each session. I'm not going to go through those in detail. I'm just going to go through the organizational chart. This is the management team organizational chart. I'll go through this and talk about what each of the management team will be speaking about in this morning's session by going through this chart.

The Private Pension Plans Division PPD is made up of 27 hardworking employees. They're broken up into teams and we'll speak about the managers of those teams right now. On the left hand side we have John Grace. He's the Director of Policy Approvals and Corporate Reporting. On his team there are two managers, Sylvia Bartlett, the Manager of Policy and Krista McAlister is the Manager of Approvals.

John is going to be starting off by talking about the draft PRPP Multijurisdictional Agreement. Both John and Sylvia will be talking about the March 2015 changes to the Pension Benefits Standards Regulations. Next up is Benoit Brière. Benoit is the Director of Supervision. Benoit joined us last year, August 2015. He replaced Lisa Peterson who moved over to another part of OSFI.

On Benoit's team the two managers of supervision are Kim Page and Paul Rozon sitting beside Benoit. Benoit is going to be – I should mention Kim Page is a new addition to our management team. She took over for Philippe Morrissette who retired last summer. Benoit is going to be talking about highlights of a questionnaire we sent out to a number of federally regulated defined contribution pension plans.

Paul is going to be talking about changes to our examination process. Kim Page is going to be talking about OSFI's action items as a result of our recent pension plan survey. Finally, Mark Sauvé is the Manager of Actuarial and Systems. Mark is going to be talking about work of the actuarial team including recent changes to OSFI's actuarial guide as well as a recent estimated solvency ratio or the results of the estimated solvency ratio exercise.

This chart shows the plans that OSFI supervises, federally regulated plans. We have 1,226 plans, 1,076,000 members. 6% of the pension plans in Canada, 10% of the members in Canada. A large number of our plans there's a large proportion of our plans have a lot of members. We have large pension plans we regulate. That's the reason why there is a disproportionately larger amount percentagewise of the number of members versus the number of plans.

We also have 11% of the assets of all of the pension plans in Canada. I'd now like to provide a quick overview of the pension plan environment. If you look at it economically, the economic environment, we are all here to work with pension plans, either defined contribution or defined benefit plans. In the current economic environment both volatile and vulnerable is quite concerning. We're sitting in a world of continuing low interest rates.

In fact we're hearing that low interest rates are the new normal, 150 bp lower after the crisis than before the crisis is the expectation even after monetary policy normalizes. We're looking at relatively low GDP growth and low commodity prices are expected to continue. Relatively low growth rates could continue for a protracted period. What are plan administrators doing given this environment?

First of all considering DC plan administrators, some are implementing tools to make it easier to understand and contribute to their pension plans for their employees. I heard some interesting results from a report from Blackrock Asset Management Canada, their 2016 DC pulse key findings. This survey showed that Canadian workers who participate in defined contribution pension plans need more assistance from their employers in understanding their retirement options within those plans.

It found even though more than 55% of employers felt their employees had a good understanding of their investment options and other retirement savings information, only 40% of employees confirmed this to be true. Furthermore – that was 55% versus 40%. Although 56% of employers believe their employees are on track to retire when expected, only 33% of employees feel this to be the case, 56% of employers versus 33% of employees.

Going onto defined benefit plan administrators, what are they doing? They're implementing strategies to manage these risks. We have heard that many plans are looking at what is referred to as a glide path. This is a process where the plan gradually changes its asset strategy over a period of time normally in reaction to an improved funding status.

As the status improves the plan will lock in those savings by switching their equity holdings into fixed income. Many of our large plans that we supervise are introducing bond overlays. These are generally used to hedge interest rate risk resulting from pension plan liabilities. These synthetic strategies allow an investor to gain greater fixed income exposure for every dollar invested.

When interest rates fall the underlying fixed income products on the asset side increases but this offsets the plan's liabilities which have increased as a result of the interest rate reductions. With respect to longevity risk, some plan administrators are considering longevity insurance. In 2015 Canada saw the first longevity insurance deal covering $5 billion of liabilities between Bell and Sun Life.

Finally as this next chart will illustrate plan administrators are purchasing annuities. In December 2015 the largest Canadian annuity deal totaling $530 million was completed. I want to thank Sun Life for providing this chart. It illustrates the Canadian annuity purchases market that is growing. It shows since 2007 but looking at 2015 there was a record year with over $2.5 billion of annuity purchases.

[Audio ends]

John Grace: Thank you everybody for being here. We really appreciate this opportunity to meet face to face. We don't have very many opportunities and we're very happy to have you show up this morning. I'll begin with policy developments. The two main activities of the pension policy team at OSFI are to provide technical assistance to the government in developing proposed changes to legislation and regulations and then also to provide to plan administrators and members and pension plan professionals guidance and interpretation of the legislation once it's in place.

As Tamara mentioned, Lynn Hemmings is here from the Department of Finance and she'll be able to tell you about the government's priorities going forward in the pension policy area. What Sylvia and I want to focus on are some recent changes implemented and recent developments. We'll begin with an update on pooled registered pension plans and then we'll talk about the recent amendments to pension regulations.

As you all know the federal Pooled Registered Pension Plan Act came into force December 14, 2012 and OSFI issued its first PRPP license in September 2014. There are currently four federally registered Pooled Registered Pension Plans and all were registered by OSFI on the same day in September 2014. The four PRPP's that currently operate are offered by Industrial Alliance, London Life, Manulife and Sun Life.

Today Manulife is the only pooled registered pension plan that has signed up employers and employees. It's still a relatively small plan. A number of other jurisdictions are in the process of implementing their own PRPP legislation but to date Quebec is the only jurisdiction that has similar legislation in force. As you probably know Quebec is requiring participation by employers with 20 or more employees in a VRSP by 2016.

Quebec currently has 9 VRSP administrators licensed and 9 VRSP plans registered. They have somewhere around 9,000 members in total registered. The mandatory participation in Quebec seems to have contributed to a much more rapid take-up of VRSPs in Quebec. We also know from speaking to federal administrators that there is a real challenge in offering a federal only PRPP.

It makes it very difficult to roll out the product across the country. The agreement I'm about to talk to you about is one that the Department of Finance is leading the development of in conversation with the provinces. The idea is to make it easier for PRPP administrators to offer their plans across Canada.

You may have seen the Department of Finance and the Quebec government as well published a draft of the PRPP agreement this past summer. What the agreement does is the provinces effectively recognize federal registration and license of a pooled registered pension plan administrator. That would allow a federally registered pension plan to accept provincial members.

It will also allow a federally pooled registered pension plan to operate across different jurisdictions in Canada, accept members from different provinces once those provinces sign onto the agreement without needing to meet separate rules of each jurisdiction and without being required to be supervised by the pension regulator of each jurisdiction.

Because of the status of federal PRPP licenses and registration OSFI will play a key role in the registration and supervision of pooled registered pension plans that operate across Canada with the exception of Quebec. Quebec is part of the agreement but it has much narrower application with respect to Quebec applying only to the licensing of administrators and not the operation of the plan.

Under the agreement a VRSP administrator authorized to administer a VRSP in Quebec will be permitted to apply to register a federal pooled registered pension plan that can then operate across the country without first obtaining a federal license. That's a short cut. Similarly the holder of a federal pooled registered pension plan license will face a fast track approach to obtaining a VRSP license in Quebec.

They still need to apply for a license in Quebec but having met the requirements federally it is a more streamlined process. Another key advantage of the agreement is that one set of rules would apply to a federal pooled registered pension plan offered across the country. That one set of rules would be the federal PRPP Act. There would be some carve outs. It's similar to the multilateral agreement that Quebec and Ontario signed in the sense that most matters related to the plan would be covered by the federal act but there are carve outs for areas like definition of spouse and locking in rules.

The hope is that in signing this agreement and adopting a streamlined approach that PRPPs will be able to achieve the economies of scale they're meant to capture. Moving on to guidance on pooled registered pension plans that OSFI is working on, we have provided guidance to assist corporations in applying for a federal license and there's information on our website on the features of a pooled registered pension plan.

Some of the guidance we're working on and should be coming out soon would be a member guide, licensing guide and registration guide and the PRPP member guide described members' rights and interests under the legislation. It speaks of the automatic enrolment process and the ability of members to opt out and describes the regulations around investments and the default investment options.

Licensing guide will build on what's on the OSFI website and registration guide will cover the process for registering a plan once an administrator is licensed. This would include under the new agreement if a VRSP administrator were to seek to register a plan federally. We're also considering other guidance related to investments such as more information on the default option.

Sylvia Bartlett: In this section I'm going to talk about the most recent round of changes to the regulations which finish off the federal government's pension reform process which started in 2009 with the consultation paper. The first changes to the Pension Benefits Standards Act were in 2010. There's been a series of regulation changes since then.

We have a chart on our website which lists all the major changes to the PBSA and to the regulations with a list of the references. There's quite a range of in force dates for them. For this latest round of changes John and I recorded a webinar on our website in September where we went into the details of all the changes.

We tried to address some of the questions we had up to that point. I'm not going to go through it all in detail again but today I'm going to go through some highlights that will impact most pension plans. These are the ones listed here. John will come back and explain some of the changes that relate to the investment rule changes in schedule 3 and the ones that impacted member choice DC plans.

First I'll talk about the amendments that involve enhanced disclosure to the statements provided annually to members and now would be provided annually to all former members as well. I'll try to point out some of the highlights. I'll start with the changes to the annual member statements. Here for the DB plan the intent was to try to give the plan members a better understanding of the financial situation of their plan including details on solvency position and how much the employer is contributing on an annual basis.

For DB plans and non-member choice DC plans it will also include a list of the ten largest asset holdings and the target asset allocations. For negotiated contribution plans which are multi-employer plans with a DB component but the contributions are set by a collective agreement. They will include additional information to let them know those benefits are subject to reductions. They're not guaranteed.

There's also some new disclosure requirements for member choice DC plans. John will cover them. Next up is the requirement for former member statements. After July 1st former members will be entitled to receive an annual personalized statement within six months after the end of each plan year. A former member is anyone who has retired or terminated membership but hasn't transferred their money out of the plan.

This annual statement should serve two purposes. The first is to keep these former members informed of the financial status of the plan because they still have a vested right in that plan. It should also help keep track of the members. They're getting an annual statement. Hopefully they will remember to tell the administrator of any changes of address and that statement also includes who their spousal designation is and who their beneficiary is.

That will make sure they keep that information up to date as well. A summary of the information that the plan administrator must provide is listed here but in the member guide there's a detailed list of everything that has to be included. It's any annual statement that's due to be filed on or after July 1, 2016. If you've got a plan year end of December 31, 2015 the statements to the members would be due by June 30th which means they don't have to include this additional disclosure requirement but anything after that.

That was done on purpose to give plan administrators time to adjust their systems. Now I'll talk about the notices and statements issued when a plan terminates. After July 1st instead of providing one written statement within 30 days, a fairly detailed personalized statement to the members. Now after 30 days it's a plan termination notice to go to the members and former members.

Then there's 120 days to fill out that personalized statement which will go to the members and former members. Now I'll talk about electronic communications. The PBSA now allows plan administrators to satisfy their obligation to provide the required information electronically as long as the recipient consents. It's important to remember that members and former members' spouses or common law partners are also entitled to receive this information.

They're considered recipients. They must also consent. The administrator can't rely on the plan member or former member to confirm their spouse has consented. It has to come specifically from them. Consent can be given orally or in writing and can be revoked that way but in all cases it has to be positive which means the addressee has to confirm they're saying yes to receiving that information.

An administrator wouldn't be able to assume that by not responding that meant yes. That's not positive consent. Another requirement with the electronic communications is if the plan administrator has reason to think that the information wasn't received, if it bounced back, then they're obliged to send that information by mail. Another new requirement is for spousal consent for certain portability options.

The change will require that a spouse or common law partner of a member within ten years of pensionable age but only if they're choosing to transfer it to a locked in RRSP, a life income fund or a LIF or a restricted life income fund. Not all defined benefit plans allow portability in that period so this wouldn't apply but for those that do, after July 1st this is a new requirement.

By signing this consent the spouse is acknowledging that the member is going to be managing that pension account from there on and will have flexibility in determining the annual amount withdrawn. If a member retires before July 1st the spousal consent requirement isn't there. I'm hoping all of you are going to be subscribers to our website. You will be notified every time we put something up on our website.

In case you're not here's a list of some of our recent activity. The member guide is one of our most popular guides. It's been extensively revised and reissued in January of 2016. It gives a summary of most of the legislation as it impacts a member's entitlement. It also goes through how some changes a pension plan could go through, how they could be impacted – plan termination or a sale or refund of surplus.

It might be useful for people other than members because it does provide a good explanation of a lot of the legislation. There are some checklists for what has to go out in those annual statements as well. The plan termination guides are probably more of interest to the consultants in the room.

The most significant changes to those relate to the changes to the disclosure, the differences in the statements as well as our expectations for when a plan wants to fund a termination deficit over five years including what has to be filed with us. The new disclosure guides we're working on will be posted soon. They will also have those checklists similar to the member guide.

[Audio ends]

John Grace: I will stick to the highlights of the changes to the investment rules. There is a webinar on our website that goes into more detail. The regulations build on the investment provisions of the act which require plan administrators to invest the assets prudently and in compliance with the regulations.

The regulations include a small number of quantitative limits as well as a general prohibition against transactions with parties related to the plan. The key changes are in respect of one of those quantitative limits, the 10% limit, also tightening up the restrictions on transactions with related parties and to set out some rules specific to member choice DC plans.

The major change to the 10% concentration limit is to move it from a test based on book value to one based on market value. The rule is being clarified that it is a purchase test meaning that once a pension plan fund holds 10% of its assets in one holding, that plan is prohibited from increasing its holding in that investment. It is not a requirement that the plan be at or below 10% at all times.

There's no requirement to divest if market value of the holding rises such that it's now worth more than 10% of the plan's assets but we would expect administrators to monitor any holdings that rise above 10% and consider whether divestment would be prudent. Another clarification is that the 10% limit applies to the aggregate of debt and equity, not to each separately.

There's also an amendment for DC plans that offer investment choices to members. The 10% rule applies at the member level meaning that each member's holdings must satisfy the 10%. The new regulations also include some changes to the exceptions. In addition to the exception for investments in index funds, they're allowing more than 10% of the fund's assets to be invested in index funds.

That's been broadened to include investments in a contract that provides return based on the performance of a broadly based index, a derivative based on index performance. With respect to the related party rules, as before there is a broad prohibition against transactions with related parties. An administrator is prohibited from lending money to or investing in the securities of a related party or entering into a transaction with a related party to the plan.

The most significant change is to tighten up this prohibition by eliminating the exception that was there for purchases of shares on a public exchange. That's the key change here and makes it more difficult for a pension plan to own shares of a related party. Some important exceptions that were kept in the regulations involve related party transactions that are nominal or immaterial and also transactions that are for the operation and administration of the plan provided they are at market terms and conditions and do not involve lending money to or investing in the related party.

Also permitted are investments in a fund that replicates the composition of a widely recognized index of securities, similar to the exception in the 10% rule. The regulations have a phase in period. They come into effect July 1, 2016. Any new investments after that date must comply with the rules. However the regulations give administrators five years from July 1, 2016 to divest of any existing holdings that are offside.

The regulations also provide administrators with five years to make adjustments for their holdings where the actions of a party other than the administrator put the plan offside the related party provisions. An example would be where a pension plan holds company A which is not a related party. Then company A purchases a company that is a related party. The plan would have five years from the date of that transaction to divest of company A.

The last set of changes relates to member choice DC plans or member choice accounts. The most significant changes are to the PBSA itself, not to the regulations. Specifically the PBSA has been amended to explicitly recognize that pension plans may offer investment choices to members. There's now a regime around that. It recognizes that the administrator can offer investment choices from the options offered by the administrator.

The act further spells out what the duty of the administrator to invest assets prudently means in the member choice context. Where a pension plan offers investment choices to members and a member makes a choice, the responsibility of the administrator shifts from investing the assets prudently to offering a suite of investment options that is appropriate and meets the requirements of the legislation.

What the PBSA states is administrators must offer options that are of varying degrees of risk and expected return and that would allow a reasonable and prudent person to create a portfolio of investments that is well adapted to their retirement needs. The PBSA provisions say that if an administrator does this and the member makes a choice from those options, the administrator is deemed to have complied with the requirement.

If however options are offered and the member does not make a choice, so the member's assets are invested in the default option, the responsibility to invest the assets prudently remains with the administrator. The default option has to satisfy the requirements of investing the assets prudently.

The regulations are limited. They're meant to be flexible and not be so prescriptive that most DC plans would have to change their current practices where they have good practices in place. They're not as detailed as the regulations under the Pooled Registered Pension Plans Act that speaks of the maximum number of investment options that can be offered and is more specific about the default option.

As a final note with these recent changes there's no longer a requirement that administrators establish a statement of investment policy and procedures in respect of member choice DC accounts. We would expect administrators to document the process for choosing what investment options to offer and the default option. Moving to my last slide I'm going to wrap up with a list of things we think plan administrators should be doing to respond to the recent changes.

The first item is getting ready to meet the new disclosure requirements including making changes to systems and templates needed to produce the required documents. In terms of responding to the changes in investment rules, pension plans will need to review their investment funds' investments and determine what needs to be done to come onside including the changes to the 10% rule as well as amending their statement of investment policies and procedures to reflect the new rules and changes being made by the pension plan to comply with them.

For plans that offer investment choices to members, those options will need to be reviewed against the new requirements as well as the disclosure material to see that meets the regulations. Various documents will need to be amended to reflect the changes made to the plan to comply with the new rules. Lastly, administrators should ensure that pension administration staff are aware of the changes.

[Audio ends]

Benoit Brière: Bonjour tout le monde. Now let's go back to last year to help us to get a better sense in terms of the administrational practices in place for plans with DC accounts. The 42 plan administrators that were asked to complete the questionnaire were informed that OSFI will not use the results of the study to assess a particular plan situation or to intervene in their affairs.

Moreover we do not intend to publish the results of the study. We do not assume the results give a comprehensive picture of the federal regulated pension plan, DC pension plan. The first objective is to determine whether OSFI current requirements and risk indicators are serving to continue to efficiently monitor the DC plans in accordance with our Risk-Based Supervision Framework.

In this context the study provides useful information. There are three main fiduciary responsibilities of DC plans that led us to undertake this study. First the member choice plans, we were interested to know more about the appropriateness of the investment options offered by plan administrators and in particular the default option. The second one is due to the communication to the members by the plan administrator and the service provider.

The last one is related to the reasonableness of the fees or expenses charged to the DC plan members. We have completed our analysis of the study and a report is being prepared for internal use. Basically the key finding is that OSFI should capture more information about the DC plans. First to identify DC plans that may expose members to lower retirement benefits.

For instance given there is a requirement the plan administrator act prudently in offering a default option we may be considering collecting more information on this option and also to test whether good governance around member communication is in place. It is not our intent to publish statistics. I tried to do one slide to share with you one statistic collected during the study.

We thought it should be interesting to share with you the membership distribution of one DC plan to illustrate the concerns we may have with respect to the growth of individual members' accounts. Before going further I must tell you the plan administrator of this plan may have a very good explanation but at first glance the statistic raises concern and that should be investigated further.

The table presents the distribution of the DC account value relative to the years of membership. The gold section is our concern. For instance we were surprised to see there are members with more than 30 years of service but with an account value of less than $25,000. They represent only 1% for this plan but it still seems surprising that there were any. There were members with more than 30 years of service with a DC account value of less than $5,000.

Plan administrators should be able to explain low account value relative to years of membership. Such statistics may lead us to ask questions whether the plan administrators oversight is sufficient. The results of the study are going to lead OSFI to consider reviewing the reporting requirements related to the communication to members in general.

OSFI may also consider reviewing the information with respect to the type of investments used and in particular the default accounts. Another area which may require more attention is the growth of federal members accounts, in particular the plan administrators monitoring practices, the employee behaviour towards maximizing contributions and also the fee structure.

To do this there are some options. At this stage we are considering the most effective way to monitor the DC plans in accordance with our Risk-Based Supervision Framework. New information could be collected by sending a questionnaire every year to a select group of DC plans and maybe by focusing on certain items during our DC examination. That's another possibility.

Ultimately the information could also be obtained through the annual information return or by the certified financial statement. That's some options we are considering to be sure that we effectively monitor the DC plans. We'll see what will happen in the future.

Paul Rozon: In the next few slides I'll talk about how the examinations fit within our Risk Assessment Framework, a new approach with respect to examinations as well as some of the most frequent findings when we conduct examinations. OSFI's risk assessment process is broken down into three components – ongoing monitoring and initial review, in-depth review and intervention.

This process is applied to all plans we supervise. During the ongoing monitoring and initial review phase we use several tools to determine which plans may need an in-depth review. These tools include our estimated solvency ratio exercise, the review evaluation reports as well as a series of indicators we've developed to detect risk based on regulatory filings sent to OSFI.

When the initial review establishes that a plan merits an in-depth review we'll assess the inherent risks facing the plan, quality of risk management and the financial position of the employer. This is done through risk assessment summaries and examinations. On this slide the illustration outlines our examination process. OSFI tends to examine between 10 to 15 plans annually.

What's new with our process this year is we've included desk reviews. What this means for administrators is even if your plan has been selected for an examination it doesn't mean OSFI will come on site to conduct the examination. OSFI will first determine whether we should conduct a desk review or an onsite examination. Some of the reasons we would do a desk review is situations where OSFI has decided to conduct a targeted review of significant activities such as the administration of the plan, the management of assets or communications.

Some of the reasons why we would conduct an onsite examination include plans with funding concerns or high risk plans that were identified during the ongoing monitoring. For both types of examinations relationship managers write to the plan administrator to inform them of our intention to conduct an examination and request documentation in advance for our review.

However for desk reviews, after the review of the documentation received relationship managers recommend whether the review should be finalized or should continue as an onsite review. Where the issues identified are minor it may be appropriate to finalize the examination as a desk review. Where more serious issues have been identified or if relationship managers still have questions following the review of the documentation, an onsite examination may be conducted.

In those cases OSFI would come on site and interview some of the people involved in administration. For both types of examination, once a review is complete OSFI will discuss with those involved in the plan administration our findings and recommendations and then follow up this discussion with our management letter to the plan administrator.

This slide highlights the most frequent findings in the last five years. Some plans have little documentation regarding the roles and responsibilities and accountabilities of those involved in the administration of the plan. We've also found some plan administrators don't perform periodic self-assessment to determine the effectiveness of the administration of their plans.

We understand depending on the size of the plan governance documents and self-assessment may vary. We're not looking for a specific type of self-assessment. We just want to make sure that plan administrators have a good understanding of the roles and responsibilities of those involved in the administration and they evaluate how effective their plans are.

In order to help administrators do this we encourage them to follow the passive governance guideline. The guideline provides assistance to administrators in fulfilling the governance responsibilities. It also has a self-assessment questionnaire. As an aside, an updated draft of the governance guideline has been posted to the CAPSA website. Tamara DeMos is the chair of the governance committee and has asked me to encourage you to provide comments.

We've also noticed that some statements don't have all the information prescribed by regulations. The regulations contain sample termination, retirement and death statements that administrators can use. Our member guide has been recently updated and includes checklists that outline the required information that a DB and DC plan must provide to members in their annual statements.

We've also found that some administrators don't review their statement of investment policies at least on an annual basis. We'd like to remind plan administrators that reviewing this at least once a year is a legislative requirement and the results of the review should be documented.

Lastly we noted that some plans don't have a funding policy in place for their defined benefit plans. While it's not a legislative requirement to have a funding policy we believe it's a best practice as it establishes a framework for funding defined benefit plans taking into account risk factors relevant to the plan. In order to help administrators establish funding policy we encourage them to follow CAPSA's pension plan funding policy guidelines as it provides guidance on the development and adoption of funding policies for defined benefit plans.

[Audio ends]

Krista McAlister: Good morning. The approvals team consisting of myself and two approvals officers are responsible for reviewing applications requiring the Superintendent's authorization, permission or consent under the PBSA or the PRPP Act. These transactions are outlined on this slide and include plan registrations, terminations, transfers, refunds of surplus, reductions in accrued benefits, delegations to other jurisdictions and licensing of PRPP administrators.

We then make a recommendation to the Superintendent or his delegate. The approvals team consults with other teams such as our policy team and our actuarial team as well as OSFI's legal counsel. Generally speaking transactions involving a defined benefit plan will have some kind of actuarial review done by our actuarial team. As well our OSFI relationship manager is always involved in the review of a transaction.

Once we receive an application, an approvals officer will be assigned to the file. An acknowledgment letter will be sent providing the approvals officer's name and contact information. Then the approvals officer will start the review and will either contact the applicant with questions, a request for additional information or to let them know of the Superintendent's decision.

If a transaction is being contemplated that requires disclosure to members, we strongly encourage you to submit a draft to the OSFI relationship manager for review before it's disseminated to members for comment. The table on this slide illustrates the number of transactions we've received this year as well as those where a decision has been rendered.

You can see we received 27 applications for registration of a pension plan. The majority of those were for defined contribution plans. We also registered 24 plans this year, again the majority for defined contribution plans. We received 19 applications for request to approve termination and the majority of those were for defined benefit plans. We also approved 19 termination reports and 12 were for defined benefit plans and half of those were for individual pension plans.

The main reasons given for plan termination were there were no active members remaining in the plan or that the company ceased operations or amalgamated with another company. Over the last two years we've seen an increase in the number of requests for permission to transfer assets. This year we received 13 requests. Those are from plan sponsors who have multiple plans and have decided to amalgamate their plans to save on administrative costs.

Included in this table are requests we received that were either withdrawn by the applicant or by OSFI or requests where we concluded did not require the Superintendent's authorization. This year we received two requests withdrawn from the applicant and two requests that after some analysis we did not feel the Superintendent's authorization was required.

We try to work with our plan administrators to find solutions when issues arise and there is a lot of discussion before the Superintendent ever decided to deny an application. This year all decisions rendered were favourable. You can also see that at the end of February we had 34 transactions under review -- 7 have been with OSFI for more than year. Six of the seven involve transactions where it was a request for permission to transfer assets.

The reason why those transactions are delayed, either we're waiting for information from plan administrators or service providers or we've identified as part of our actuarial review issues with members' benefits that we feel need to be addressed before we grant permission for the transfer.

Our overall processing time this year is 70 days. That changes from year to year. That's for the review of DC and DB transactions. It's the time spent reviewing transactions and making the recommendation. It does not include any time where we're waiting for a response from a plan administrator or service provider. Obviously the more complex the transaction the longer it will take to receive a response because we do a lot of internal consultation.

That tends to happen with more complex transactions. If you're submitting an application for a defined benefit plan it will take us more than our average processing time to render a decision. Now I'd like to talk about OSFI's expectations for certain types of transactions. The first one is for plan registrations. A plan that is established is expected to comply with the legislation regardless of whether they received a registration from the Superintendent or not.

Although section 10 of the PBSA requires a plan administrator to file documents with OSFI within 60 days of a plan's establishment we don't often see this time period respected. Plans that have been established are expected to be administered in accordance with the PBSA. This includes the requirement upon establishment to enrol members to fund the plan as well as to submit required filings.

With respect to plan terminations, most employers choose to fund their deficits on plan terminations in a lump sum payment. However when they elect to do so they put in their termination reports that they will be submitting the lump sum payment once the Superintendent has approved the termination report.

If the solvency deficit is not paid in a lump sum payment when the termination report is submitted to OSFI for approval, then the employer must make monthly payments until the lump sum payment is remitted. The schedule of amortization payments should also be set out in the termination report filed with OSFI.

One of the other changes made to the termination guide is we're now asking plan administrators to describe the efforts to locate all plan beneficiaries and how the administrator intends to deal with the plan's liabilities in respect of beneficiaries who have not been located. If you're dealing with a plan termination and seeking approval from OSFI be prepared to provide us with that information.

The last transactions I want to discuss are asset transfers. We've seen an increase in the number of requests for permission to transfer assets due to plan administrators wanting to amalgamate their plans. Although a plan sponsor has applied for an asset transfer and transferring members are now accruing in the receiving plan from the effective date of the asset transfer, some plan sponsors are still deciding to remit their normal cost payments to the transferring plan.

This would not be in compliance with the terms of the plan or the legislation. It does raise concerns when we're working on the applications. In these cases benefits accruing after the effective date of the asset transfer must accrue in the receiving amalgamated plan.

When this happens it tends to happen either because the plan administrator has chosen a retroactive effective date for the asset transfer or there was a delay in getting the plan amendment put into effect. Plan administrators should factor in the timing for implementing an amendment when choosing their asset transfer date.

The last thing I want to remind you of is that jurisdictions have different rules for approval requests. If you have a multijurisdictional plan that is registered and supervised by OSFI it's important you keep in mind other jurisdictions' rules. For instance Ontario has supervisor asset transfer rules and those rules contain some important time lines that must be respected. We have to respect them for Ontario.

[Audio ends]

Marc Sauvé: Good morning everyone. The actuarial team is involved in several aspects related to defined benefit pension plans. Similar to other groups actuarial supports OSFI's mandate of protecting the benefits and rights of members and other beneficiaries. My team and I provide guidance on actuarial issues related to several aspects as part of the approval supervision or policy matters.

Among all other things we do, we review actuarial reports. The reports are referred by the supervision team and based on expectations included in various guides provided by OSFI the main instruction guides used by the actuarial team is the instruction guides on the preparation of actuarial reports for defined benefit pension plans. Internally we call it the Actuarial Guide.

After a report is reviewed the results of our findings are discussed internally with relationship managers and sometimes with plan actuaries if issues are to be resolved. The actuarial team also participates in internal projects. Annually we review the maximum discount rate used in going concern valuations. The rate is included in the Actuarial Guide. It`s currently 6.25%.

We also estimate the solvency ratio for all defined benefit plans supervised by OSFI. The estimated solvency ratio or ESR is calculated annually for all pension plans supervised by OSFI. This is done only for defined benefit plans. The ESR exercise assists OSFI with the early identification of solvency issues that could affect the security of promised pension benefits.

We estimate the solvency ratios for approximately 400 defined benefit plans. The exercise uses the most current actuarial, financial and membership information based on information submitted by the plans. Assets are projected based on the actual rate of return provided on the solvency information return which is due at the latest February 15th of each year.

Solvency liabilities are projected using relevant Canadian Institute of Actuaries rates for commuted values and proxy calculations. The December 31, 2015 results will be included in the next Info Pension scheduled to be published this coming May. I have two charts on the ESR exercise. The line graph on the screen shows the ESR of 2015 and also the ESR for the previous ten years.

The ESR shown here is a weighted average of each plan's ESR which we calculated based on liabilities. The ESR for all plans as at December 31, 2015 is 0.95. This compares to 0.94 as at December 31, 2014. Special payments and investment returns increased the ESR during the year but other components also increased the ESR. One of these is the lower discount rates compared to December 31, 2014. Rates at that time were higher.

The ESR is only part of the story since the funding requirements for each plan are based on the three year average solvency ratio. This ratio is calculated for each plan and funding requirements for the following year are then estimated. The results are shared with the relationship managers internally and inform their early interventions for problematic pension plans.

The second chart shows the distribution of plans according to their estimated solvency ratio. In red we have plans with an ESR below 0.8, in orange an ESR between 0.8 and 0.9 and in yellow an ESR between 0.9 and 1.0 and in green an ESR above 1.0. A few observations on this chart: in the bar on the right hand side of the chart if we were to take the sum of the three blocks we have 79% of federally regulated defined benefit plans underfunded on a solvency basis as at December 31, 2015.

This is the same as last year's number. Another takeaway from this chart is looking at the red block again on the right. At 19% of the plans that have an ESR below 0.8 and that compares to 14% as at December 31, 2014. I could go on and compare with other numbers but I think in the end it's fair to say that the financial situation of the pension plans is pretty much the same in 2015 as in 2014.

I'll move on to the changes to the actuarial guide. Last year the guide underwent a major revision. The revised guide was posted in December 2015. The guide is reviewed on a regular basis. The purpose of the review last year is to ensure the guide continues to appropriately reflect OSFI's expectations with respect to contents of actuarial reports.

A number of key changes were made to the actuarial guide this year. The first one relates to the active investment management expenses. These expenses no longer have to be considered to determine the discount rate used in the going concern valuation meets the maximum going concern rate threshold set by OSFI. It's currently 6.25%.

I've included an example to illustrate this change. The first column shows the situation before the revision of the guide and the second column after the revision. The example begins with a net discount rate of 5.75% which is the rate after all expenses and margins have been taken into account. The next step is to determine if the rate used is considered below or above the 6.25% threshold.

To do that we must add the expense provision to the net discount rate and the two columns are identical except for active investment management. While it was previously included active investment management no longer needs to be. One thing I want to note with respect to this is we still require the provision for active investment management expenses be disclosed in the actuarial report. This is to assess the reasonableness.

Another modification to the guide reflects additional disclosure requirements, the present value of expenses and provisions for adverse deviations. Plan liabilities are threefold – the benefits, the expenses and the margins. A requirement has been added to disclose separately the actuarial present value of expenses and margins included in the liabilities under current service costs.

The additional information we believe provides a better representation of the underlying obligations of the plan and its liabilities. The second item relates to replicating portfolios. We found with the reports we reviewed the information provided for plans using a replicating portfolio approach varies a lot from one report to the other.

In order to streamline the information and enable better supervision of these plans the disclosure requirements were more fully described. We created a new form, the replicating portfolio information summary or RPIS form to collect data on the assumptions and results of the plans.

Another modification to the guide was to clarify OSFI's position with respect to alternative settlement methods. An alternative settlement method is a reasonable hypothesis for the manner in which benefits may be settled for evaluation purposes. Our position is based on federal pension legislation and reflects a realistic manner of settling benefits should a plan termination occur.

It affects only a few large plans and these plans are very much aware of these new requirements. Last October we consulted with several actuarial firms on the draft section of the guide related to alternative settlement methods and on the new RPIS form.

Feedback was received and these were included in the revised actuarial guide. One last modification I would like to note is the addition of footnotes in the guide. In order to document and better help the reader understand OSFI expectations we thought it would be useful to add these footnotes with respect to various sections of the PBSA and its regulations. We did the same thing for CIA standards of practice, educational notes and other documents.

The last topic relates to observations we've made through the revision of the reports that are referred by the supervision team. The actuarial team regularly reviews valuation reports referred by relationship managers. I will now explain OSFI's expectations.

The first one relates to disclosure. If I have to pick one, that's probably the one that comes back often relates to disclosure – missing information in actuarial reports or necessary explanations that would be required to better understand the rationale behind the setting of key assumptions in the report.

Some examples I can share with you, one being the assumptions and parameters used to support an inflation assumption for example, an inflation assumption based on stochastic modeling while we would expect information to be provided in the report related to the means, standard deviation, number of runs. The model itself, we would expect the actuary to provide at least a description of the basis of the model used in the report.

Another one is the adjustment to the going concern mortality table. Our position is the adjustment to the basic mortality table published in the CIA mortality study should be justified in the actual report. This is because the CIA mortality study provides an industry standard of expected mortality with respect to Canadian pension plans. If adjustments are made in accordance with the CIA mortality study, for example pension size or type of industry, it is not necessary to quantify the financial impact of the adjustment in the report.

However if mortality adjustments are based on plan experience then we would expect and require quantification of the financial impact through a sensitivity analysis. Going concern expense assumption, we expect that investment in administrative expenses in going concern valuation reflect expenses to be incurred in the plan by the plan in the future and that these would be based on previous years' experience. If that is not the case then we would raise this as an issue with the actuary unless a reasonable explanation is provided in the report.

Also active and passive investment management expenses and administrative expenses are expected to be disclosed separately in the report. This is required to assess the reasonableness of each assumption. Finally we expect the approach used to determine the split between active and passive investment management expenses be explained in the report. This is to address our concern that in some reports the passive management investment expense assumption appears to be abnormally low.

The next two observations relate to solvency valuation. The next one is on portability during ten years before pensionable age. If the plan provides for portability during this period then members would be offered the choice of an annuity for commuted value. This is expected to be reflected in the retirement assumptions included in the report. The actuary should then assume that at least 50% of those members will choose the option that creates the solvency liability.

This is generally not a problem. Where confusion seems to arise is when portability is not available to members eligible for early retirement. Portability options offered to members eligible for early retirement should be based on plan provisions. By default no member in this case would be assumed to take commuted value of the pension. However the plan administrator could still choose to offer the option upon plan termination even if portability is not available to members eligible for early retirement.

That's where confusion seems to arise. The assumption made by the actuary with respect to the election chosen by these members should be supported by the decision of the plan administrator of granting this option. This should be disclosed in the report. Often we find the actuary makes this assumption.

We would expect that the actuary explain that his assumption is the one made by the plan administrator and the disclosure should be made accordingly. The actuary essentially relies on the directions of the plan administrator for this assumption.

One last observation relates to termination expenses and solvency valuations. A list of all the expenses we would normally expect the actuary to use to consider in the solvency valuation is outlined in the Actuarial Guide. Among others the provision for termination expenses should include expenses up to the plan's windup date.

Based on this requirement that the plan windup date should not coincide with the plan termination, we would raise this as an issue if we were to do a review where the two dates coincide. This would not be acceptable to us.

[Audio ends]

Kim Page: Good morning. As Marc indicated I now have the nice job of talking to you about everything we do wrong. First here's a little background information on our pension plan survey. Our most recent one was conducted in November/December 2014. This was the third survey. We do the surveys every three years so the next one is scheduled for the fall of 2017.

Why do we conduct these surveys? We're trying to get an overall perspective of OSFI's performance as a regulator of private pension plans. We want to track our performance on a series of core measures that come back every three years. We also use the surveys to collect suggestions for improvements.

The surveys are conducted with pension plan administrators and professionals including actuaries, lawyers, third-party service providers that deal with OSFI on behalf of their pension plans. In 2014 the survey was conducted with over 900 potential participants. The results of the survey in 2014 for the most part are comparable to the ones in 2011. The results are generally positive but the survey does show that we might not be perfect in all areas. Here's a list of the things we have to work on. In the next slide I'll talk about the action plan we've set up and our progress to date.

The 2014 survey revealed a decrease in the overall satisfaction with OSFI compared to 2011. The analysis suggests this might be due to a number of factors not just one issue. However given the timing of the survey we feel maybe the results are projecting frustration with plan administrators having to use our new Regulatory Reporting System or RRS for the first time just a few months before the survey.

It was also clear we received a lot of unprompted comments that demonstrated a bit of frustration with the system. Another observation was the low level of satisfaction with the timeliness to which OSFI would respond to general and plan-specific inquiries. This was a new question in 2014 so we have no basis for comparison. As with RRS we received a significant number of unprompted comments that demonstrated frustration with our response times.

We also discovered more than half of administrators are still not aware of our newsletter Info Pensions. Unfortunately this is a trend that's been consistent since our first survey in 2008. This year the results show that more than 80% of the DC administrators were not aware of our newsletter. Another finding is that the perceived usefulness of the information on the pension area of our website has declined since 2011.

It's hard to say why but the unprompted comments demonstrated a lot of people had difficulty finding information on our website related to the annual filing using our new RRS system. There might be a link there. Last but not least, results that were directly related to the RRS question. Before I get into this I want to mention that RRS is a tri-agency system. It's managed by OSFI, the Bank of Canada and Canada Deposit Insurance Corporation.

RRS is not just used by pension plans. It's used by the banks and insurance companies who file regulatory information. Given the confidential nature of the data in the system there's very strict security requirements set by all three agencies. Based on this the focus of the survey was on the RRS training material rather than the functionality of the system itself.

What did we learn from the survey? The results reveal that the training materials were viewed as hard to understand, difficult to use. Unprompted comments revealed a lot of concerns with the system itself. You'll see what we're trying to do to make this annual filing exercise less painful. In response to the survey we developed action plans targeting three of the most significant concerns.

To address the low satisfaction with our response times to written inquiries we recently implemented service delivery standards with the objective of responding to written inquiries within 15 business days. The service standards were established in consultation with other government departments comparing service levels and available resources.

To put this into perspective, OSFI receives on average 3,000 pension related inquiries every year through our call centre. They answer questions immediately based on information readily available on our website but we get another 3,500 plan-specific inquiries through our @Information e-mail address and many other questions are sent directly to relationship managers and other contacts.

We've already seen improvement in our response time to written inquiries received via the @Information email address. We've gone from 17 days in October 2015 to just over 6 days in January 2016. While we realize the more complex issues take a lot more time we're making significant efforts to address them as efficiently as possible and communicate the expected timing of our response.

A trick to help prioritize your inquiries, we encourage you to send them to the @Information email address. It's available on our website and to identify the plan to which your inquiry relates. With respect to InfoPensions we're trying to incorporate a few more DC-related articles to get the DC administrators to read it. It's a work in progress. We think with the results of our DC study that Benoit mentioned earlier we might provide a new direction for DC communication.

Finally there's been a lot of work done to make the RRS experience less painful. We've developed additional pension-specific training materials. We've improved our links to RRS information on our website. There was a webinar presented in June last year to explain the filing process in RRS. It's still available on the website.

We've developed a guide to filing the pension plan annual corporate certification and updating corporate information which is quite a tricky process in RRS. The guide is on our website. We've made error messages more detailed in the forms themselves to make it easier to find the errors before submitting your return in RRS. There's more to come. The system has continuous updates through general housekeeping about two or three times a year based on the feedback we receive.

It's the RRS users who are best placed to provide feedback so we really encourage you to send in your suggestions. You can send them through our regulatory data management team. Their contact information is on the website and the slide or to your relationship manager. RRS is here to stay. We're trying to work with you to make it easier for everybody.

[Audio ends]

Tamara DeMos: We're going to open up for the question period. We had a couple of questions that were submitted so I will mention those first of all. Lynne addressed a couple in her remarks but in addition we had one for Marc. Could you describe OSFI's position in regards to the solvency portfolio replication methodology and if any changes are to be expected in the acceptance of the current market practice for developing the portfolio replication, for example credit rating implications?

Marc Sauvé: (Off microphone) With respect to the replication portfolio I did outline some of these expectations in my presentation and these expectations are outlined in detail in the guide. I'm going to briefly summarize them. Our expectations are essentially based on CIA guidance and federal pension plan legislation.

CIA guidance provides for four settlement methods in addition to the single purchase of annuities. First one is the purchase of a series of group annuities. The second one is the replicating portfolio approach. The third one the payment of a lump sum to retirees of their commuted value of their pension benefits and the fourth one being assuming that the plan provision would be modified upon termination.

For example, a plan that currently provides full CPI indexation would be modified to a fixed grade of indexation. The last two methods are not permitted under federal pension legislation essentially because benefits cannot be surrendered under PBSA. We're left with two methods. Because there's an expectation under the PBSA – do I start over?

With respect to the first two methods, the purchase of a series of group annuities and replicating portfolio approach, there's an expectation under the PBSA that benefits are benefits and liquidation of assets should occur without delay after the termination report is approved by the Superintendent.

That gives priority order with respect to these methods, the first one being the single purchase of annuity. If that's not possible because of market capacity and for market capacity we refer to CIA guidance which is $200 million for indexed annuities and $500 million for non-indexed annuities.

If that's not possible we move on to the second order which is the purchase of a series of group annuities. Again referring to CIA guidance we refer to a five-year period to purchase these annuities. If that's not possible only then we can move to the replicating portfolio. Replication portfolio would be possible to be used under solvency valuation if market capacity is related to non-indexed pension and indexed pension plans again referring to the threshold in CIA guidance, non-indexed $500 million.

Five times $500 million is $2.5 billion and for indexed pension plans $200 million is five times, $1 billion. For plans that are fully indexed we would expect these plans to use a replicating portfolio approach only if liabilities are above $1 billion and for non-indexed pension plans that would be $2.5 billion. I believe that's the first part of the question.

The second part relates to changes to the approach and credit considerations. Again we rely as much as possible on CIA guidance for that. If there were any changes to be made to CIA guidance for sure we would consider these in our expectations which are included in the guide but currently we believe the actuarial guide reflects what pension plans would be able to use under replicating portfolio approach if the plans were to be terminated. We believe the current approach is consistent with what's going on in the market currently.

Tamara DeMos: Thank you Marc. The second question, what is the plan with the multijurisdictional agreement? John.

John Grace: Not the pooled registered pension plan agreement but the other multilateral agreement, I'll give you a bit of background. Ontario and Quebec the two parties have signed the new agreement in July 2011 and at that time they were the only to sign mostly because other jurisdictions including the federal government did not have the authority in their pension legislation to sign such an agreement because the agreement is outside the laws applicable to pension plans covered by the agreement.

In the Pension Benefits Standards Act federally the authority was not broad enough to capture those kinds of provisions in an agreement that the Minister was authorized to sign. Since 2011 the federal government and other jurisdictions have broadened the authority in their legislation to be able to sign such an agreement. CAPSA has been working towards – leading the discussion of the agreement for other parties to come on board.

There's been some technical work going on. First of all it's a very valuable agreement in that it clarifies the laws applicable to multijurisdictional pension plans, a plan that includes members from many jurisdictions. The agreement sets out that the funding rules in other investment rules of the authority with the plurality of members would apply to the entire plan at the exclusion of the pension rules of other jurisdictions that have members in the plan.

That's a key feature. Another feature is there's an asset allocation scheme that would kick in on certain transactions on planned termination and asset transfers. That scheme includes priority for pension liabilities that are required to be solvency funded in the jurisdiction of the member.

At the time the agreement was drafted solvency funding was something that existed across all jurisdictions and was incorporated into the asset allocation model. In the approach of applying the major authority's rules across the board would be acceptable to all parties.

A wrinkle we're running into now, CAPSA is looking at how the changing landscape might affect that in terms of Quebec moving away from solvency funding and other jurisdictions possibly as well. CAPSA has a committee working at getting the agreement in shape that other jurisdictions could sign on. It is an agreement among governments, not pension supervisors.

CAPSA is looking at the implications of some jurisdictions not having solvency funding and what that would mean in terms of need for changes to either of those two provisions of the agreement. There's still an understanding of the value of the agreement and a desire to move forward with it but that's the latest wrinkle people are grappling with.

-30-