



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

2016 OSFI Pension Industry Forum

St. Andrew's Club & Conference Centre
Toronto, ON

March 31, 2016



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Welcome and Introductory Remarks

Tamara DeMos

Managing Director, Private Pension Plans Division (PPPD)

2016 OSFI Pension Industry Forum

March 31, 2016



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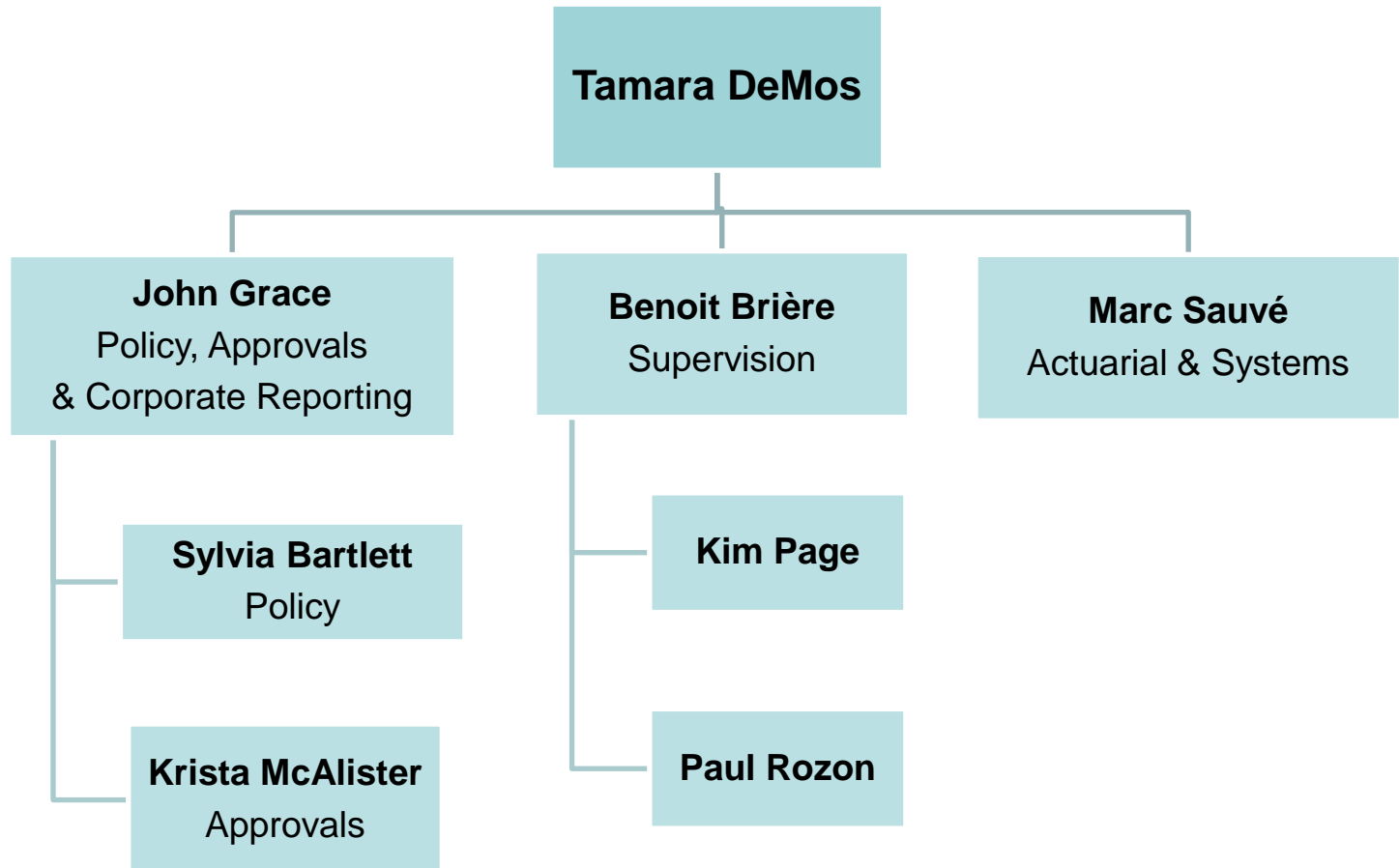
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Agenda

- **Welcome and Introductory Remarks**
- **Policy Developments**
- **Supervision of Pension Plans**
- **Regulatory Approvals**
- **Actuarial**
- **Pension Plans Survey**
- ***Pension Benefits Standards Act, 1985 and Pooled Registered Pension Plans Act Policy Initiatives***
- **Questions**

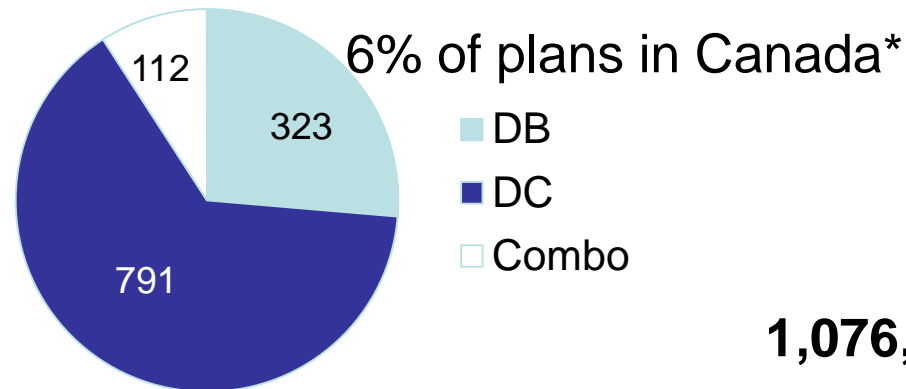


PPPD Organizational Structure

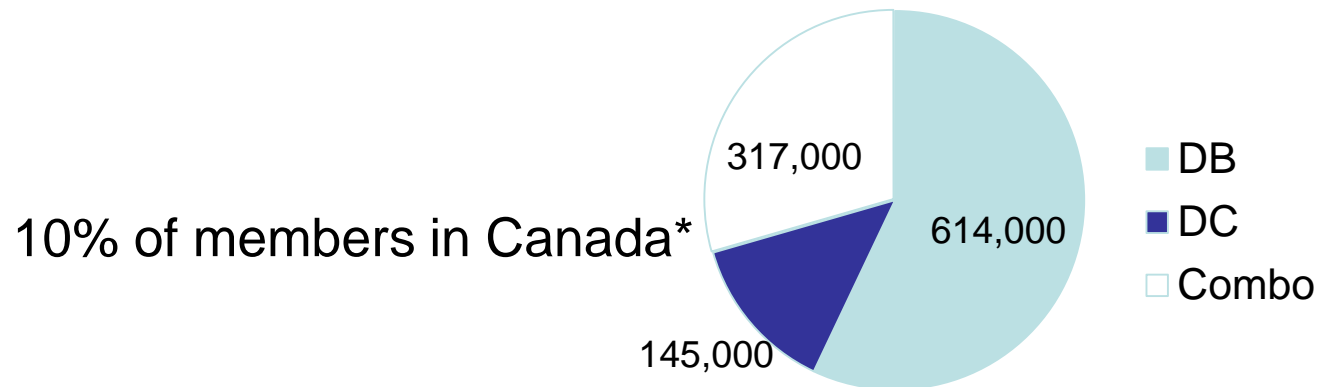


Federal Pension Plans and Members

1,226 Plans



1,076,000 Members



*Source: Statistics Canada (Pension Plans in Canada Survey as of January 1, 2014)

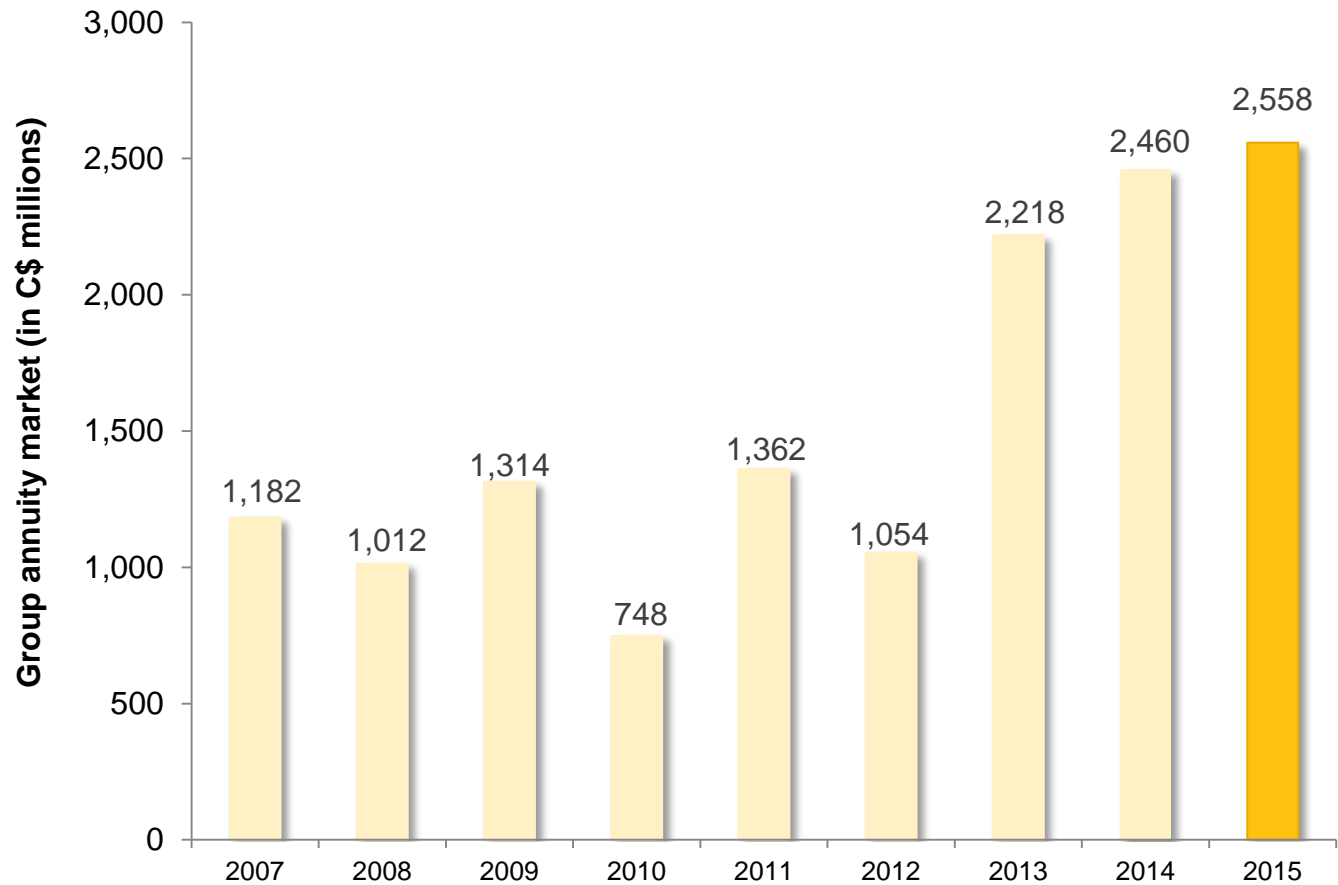


Pension Plan Environment

- Economic environment
 - Volatile/vulnerable
 - Continuing low interest rates
 - Relatively low GDP growth and low commodity prices expected to continue
- DC plan administrators are implementing tools to make it easier to understand and contribute
- DB plan administrators are managing risk by:
 - Implementing glide paths
 - Introducing bond overlays
 - Investing in longevity insurance – Bell/Sun Life covering \$5B of liabilities
 - Buying annuities – largest Canadian annuity deal for \$530M



Canadian Annuity Purchases Market is Growing



Source: LIMRA



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Policy Developments: PRPP Agreement and Changes to PBSR

John Grace

Director, Policy, Approvals
and Corporate Reporting

Sylvia Bartlett

Manager, Policy

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Pooled Registered Pension Plans

- PRPP Act came into force December 14, 2012
- Four federally registered PRPPs
- One PRPP with members
- Only Quebec has similar legislation in force:
 - Nine VRSP administrators/plans
 - Employer participation mandatory at end-2016
- Agreement to simplify regulation of multijurisdictional PRPPs



PRPP Agreement

- Released July 15, 2015 for 45 day comment period
- What the agreement does:
 - Federal PRPP licence recognized provincially, and streamlined process to become VRSP administrator
 - Federally registered PRPPs can operate provincially, except in Quebec where must be a VRSP
 - OSFI will issue PRPP licences; register and supervise PRPPs operating under the federal PRPP Act
- Advantages:
 - One set of rules apply (mostly!)
 - Much easier to offer PRPPs across jurisdictions



PRPP Guidance

- Currently working on
 - Member Guide
 - Members' rights and obligations
 - Ability to opt out
 - Investment choices
 - Licensing Guide
 - Builds on existing information on OSFI web site
 - Registration Guide
 - Address implications of PRPP Agreement



Recent Amendments to the Pension Benefits Standards Regulations, 1985 (PBSR)

- Final amendments implementing federal pension reforms
- Recorded webinar details these recent PBSR changes
- Highlights addressed
 - Enhanced disclosure to members (July 1, 2016)
 - Electronic communications (April 1, 2015)
 - Spousal consent on portability (July 1, 2016)
 - Schedule III - investment rules (July 1, 2016)
 - Member choice DC plans (April 1, 2015, July 1, 2016)



Enhanced Disclosure

- New requirements – annual member statement
- Additions intended to give members a better picture of the current position of their plans and for some, how they work.
- For example:
 - DB plans – more details on solvency position of plan and what employer is contributing annually
 - DB and non-member choice DC plans – how pension fund is invested
 - Negotiated contribution plans (NCPs) – that benefits provided under these plans can be reduced if contribution rate is not sufficient.



Enhanced Disclosure

- Annual statement for former members
- Like annual member statements, content depends on type of plan
 - All plans – name of former member, spouse or common-law partner and beneficiary
 - All plans – right to access documents
 - DB plans – details on solvency position of plan and employer contributions
 - DB and non-member choice DC plans – how fund is invested
 - NCPs – that benefits provided can be reduced
 - No individual benefit information unless former member is receiving variable benefits from a DC plan



Enhanced Disclosure

- Plan termination statements
 - 30 days after plan termination – notice of plan termination to members, former members, spouses or common-law partners and beneficiaries due
 - 120 days after plan termination – detailed benefit statements due



Electronic Communications

- Permitted if addressee consents
- Addressees include
 - members and former members and
 - members' and former members' spouses or common-law partners
- Consent must be “positive” from each addressee
 - E.g. E-mail requests with voting options
 - A non-response cannot be considered consent
- Administrator must mail a copy of required document if they have reason to believe an electronic document was not received



Spousal Consent on Portability

- Consent of spouse or common-law partner required if
 - a member is eligible for early retirement and
 - the transfer is to a prescribed retirement savings plan (locked-in RRSP, LIF or RLIF)
- No consent required if member is transferring to another pension plan or purchasing an annuity
- Applies to transfers from DB and DC plans for members who cease membership on or after July 1, 2016
- Form 3.1 of Schedule II (PBSR)



Revised Guidance

- 2016 Member Guide
 - New guide has checklists for annual statements
- DB Termination Guide
 - Disclosure – new statements on plan termination
 - New sections related to full funding on plan termination
 - Filing requirements when paying the deficit off over 5 years
 - Expectations for actuarial reports during that 5 year period
- DC Termination Guide
- Negotiated Contribution Plans Guidance Note
 - Authority to reduce accrued benefits subject to the Superintendent's authorization (s 10.11 of PBSA)
 - Additional disclosure requirements
- DB and DC Disclosure Guides (coming soon)



Amendments to PBSR: Federal Investment Rules

- Regulations complement requirement to invest plan assets prudently
- Key changes:
 - 10% concentration limit
 - Related party transactions
 - Member choice DC plans



Changes to 10% Limit

- Changed from book value to market value
- Clarifications:
 - Purchase test: cannot invest more if 10% limit already reached
 - Aggregate of debt and equity
 - At member level for member-choice DC plans
- Exceptions:
 - Index funds, or similar contracts or agreements



Related Party Rules

- Key change:
 - Eliminated exception for shares purchased on a public exchange
- Retained exceptions for transactions that are:
 - Nominal or immaterial to the plan
 - For the operation or administration of the plan, at market terms and conditions
- Can invest through:
 - Index fund (or similar contract or agreement)
 - Investment fund subject to certain conditions
- Five years to comply
 - From July 2016 – for existing holdings
 - When put offside by actions of others



Member Choice Accounts

- Explicit mentions in PBSA that administrator may offer investment options
- Duties of administrator re: options offered:
 - *“varying degrees of risk and expected return”*
 - *“allow a reasonable and prudent person to create a portfolio of investments that is well adapted to their retirement needs...”*
- Compliance with prudent person rule if options meet the requirements and member makes a choice
- Regulations describe investment information that administrators must provide to members
- SIP&P not required for member choice accounts



Plan Administrators Need To...

- Prepare for new disclosure requirements
- Prepare to comply with revised investment rules
 - 10% rule and related party amendments
 - Update SIP&P
 - Review DC investment options offered
- Amend plan documents to reflect new PBSA and PBSR provisions
- Ensure pension administration staff are aware of changes



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Supervision of Pension Plans

Benoit Brière
Director, Supervision

Paul Rozon
Manager, Supervision

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Defined Contribution Study Results

- Background
 - In May 2015, 42 plans invited to participate in the DC study
 - Objective: Determine whether OSFI current filing requirements and risk indicators are sufficient to continue to efficiently monitor pension plans in accordance with our Risk-Based Supervision Framework
- Fiduciary responsibilities
 - Appropriate investment options
 - Available communication tools
 - Reasonable fees/expenses



Defined Contribution Study Results

- Key Finding - OSFI should capture more information...
 - To identify DC plans that may expose members to lower retirement benefits
 - To test whether good governance around member communication is in place



Is Plan Administrator's Monitoring/Oversight Sufficient?

- Membership distribution for one DC plan in the study

Membership Distribution				
	Years of Membership			
Account Value (\$)	Under 10	11 – 20	21 – 30	Over 30
Under 25,000	54%	5%	2%	1%
25,001 – 100,000	16%	13%	2%	0.5%
100,001 – 500,000	1%	3%	1%	0.3%
Over 500,000	0%	0%	0%	0%
Total	71%	22%	5%	2%

- Plan administrator should be able to explain low accounts relative to years of membership
- Should this lead to targeted communication with affected members?



Next Steps

- Reviewing reporting requirements related to
 - Communication to members
 - “Default Accounts”
 - Type of investments
 - Growth of individual member’s accounts
 - Plan administrator’s monitoring practices
 - Employee behaviour – Maximize contributions
 - Fee structure
- Options being considered by OSFI
 - Annual questionnaire to a select group of plans
 - Examination (desk review or on-site)
 - Additions to the Annual Information Returns (AIR) and the Certified Financial Statement (CFS)

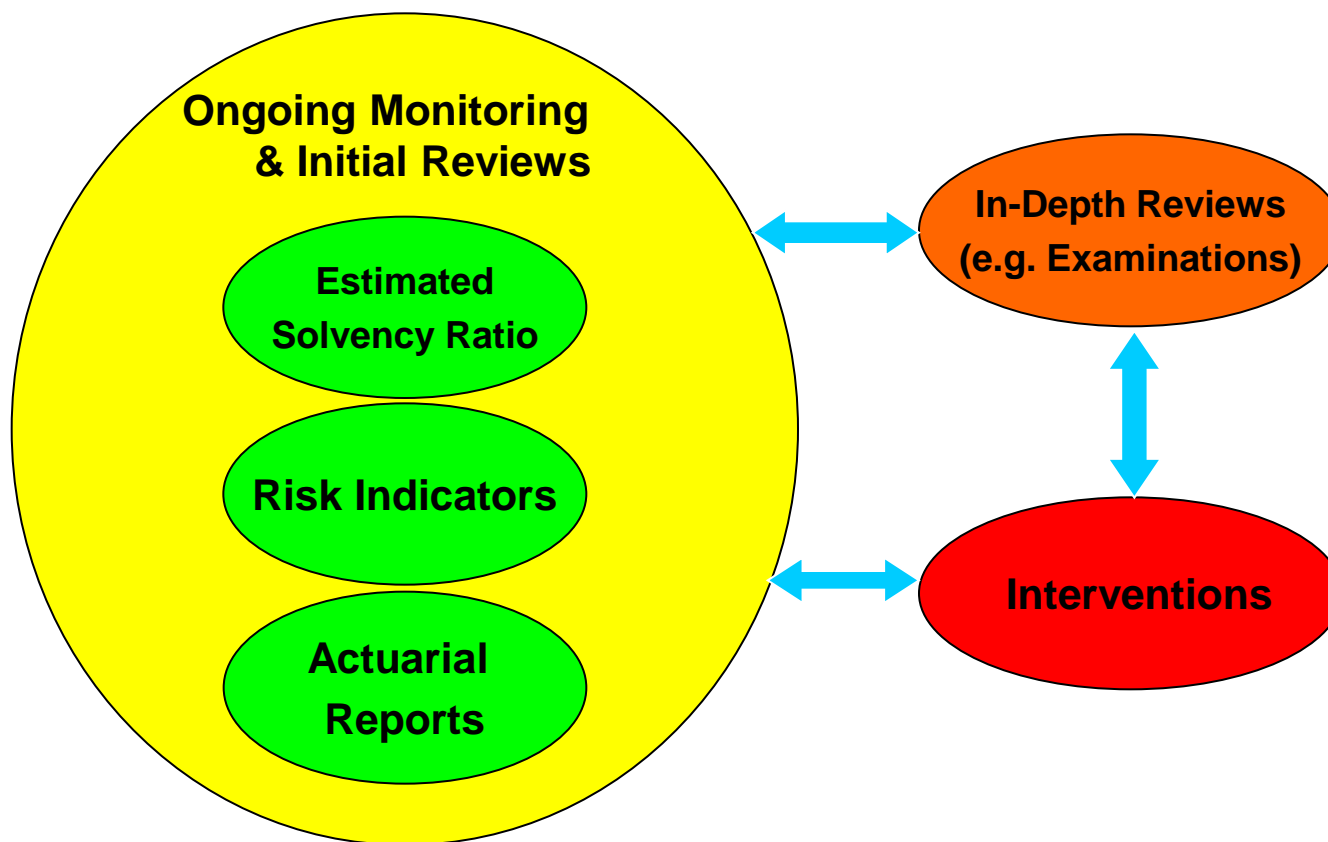


Supervision Examination Process

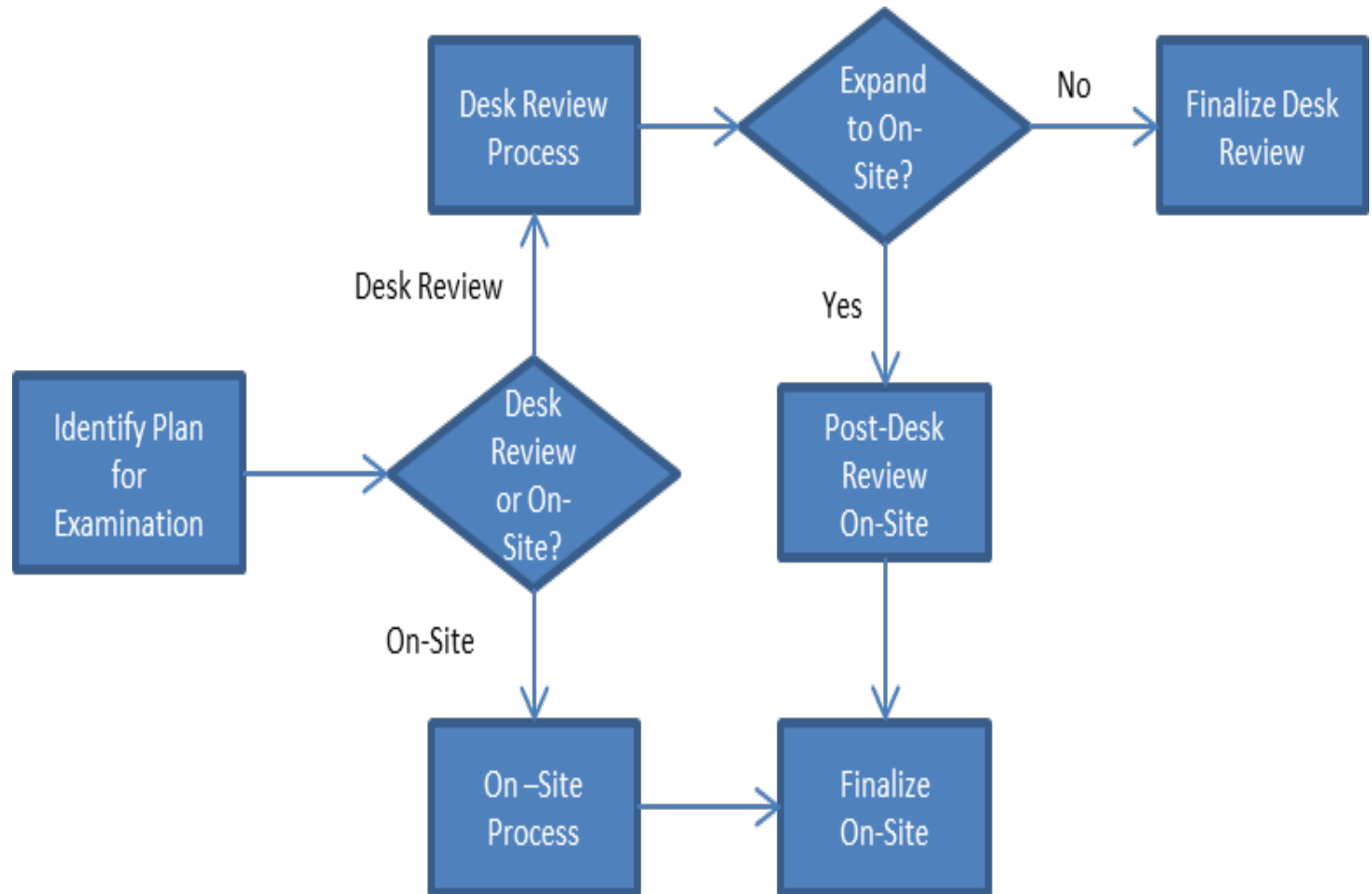
- Overview
 - Examinations within the Risk Assessment Framework
 - Examination Process
 - Frequent Findings during Examinations



Examinations Within the Risk Assessment Framework



Examination Process



Frequent Findings During Examinations

- Governance Document and Self-Assessment
 - CAPSA Guideline No. 4 – Pension Plan Governance and Self-Assessment Questionnaire
- Member Statements
 - Annual member statements checklist for DB and DC plans found in revised Member Guide
- Annual Review of Statement of Investment Policies and Procedures (SIP&P)
 - Requirement under subsection 7.2(1) of the PBSA
- Funding Policy (for Defined Benefit plans only)
 - CAPSA Guideline No. 7 – Pension Plan Funding Policy Guideline



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Regulatory Approvals

Krista McAlister
Manager, Approvals

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Transaction Approvals

- Manage approval of transactions where Superintendent authorization required by PBSA & PRPP legislation:
 - Plan registrations
 - Full terminations
 - Asset transfers to other registered pension plans
 - Refunds of surplus to employer in plan termination or ongoing plan
 - Reductions of accrued benefits
 - Delegations to other jurisdictions
 - Licensing of PRPP administrators



Statistics

Transaction Type	Approvals Under Review As at 2015-04-01	Approvals Received 2015-16	Approvals Closed 2015-16	Approvals Under Review end of February 2016
Registrations	2	27	24	5
Terminations	5	19	19	5
Asset Transfers	12	13	7	18
Benefit Reductions	4	2	5	1
Refund of Surplus	1	3	1	3
Delegations	0	0	0	0
PRPP Licences	1	1	0	2
Totals	25	65	56	34



Timing is Everything!

- Registrations
 - Remit contributions when established not when registered
- Terminations
 - Lump sum payments versus amortization payments over 5 years
 - Process for members who cannot be located
- Asset Transfers
 - Remit where accruing



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Actuarial

Marc Sauvé
Manager, Actuarial & Systems

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Introduction

- Actuarial supports OSFI's mandate by providing expert guidance on actuarial issues with respect to supervision, policy and approval matters
 - Actuarial Guide
 - Review of actuarial reports
 - Discussion with relationship managers and actuaries
 - Participation in internal projects

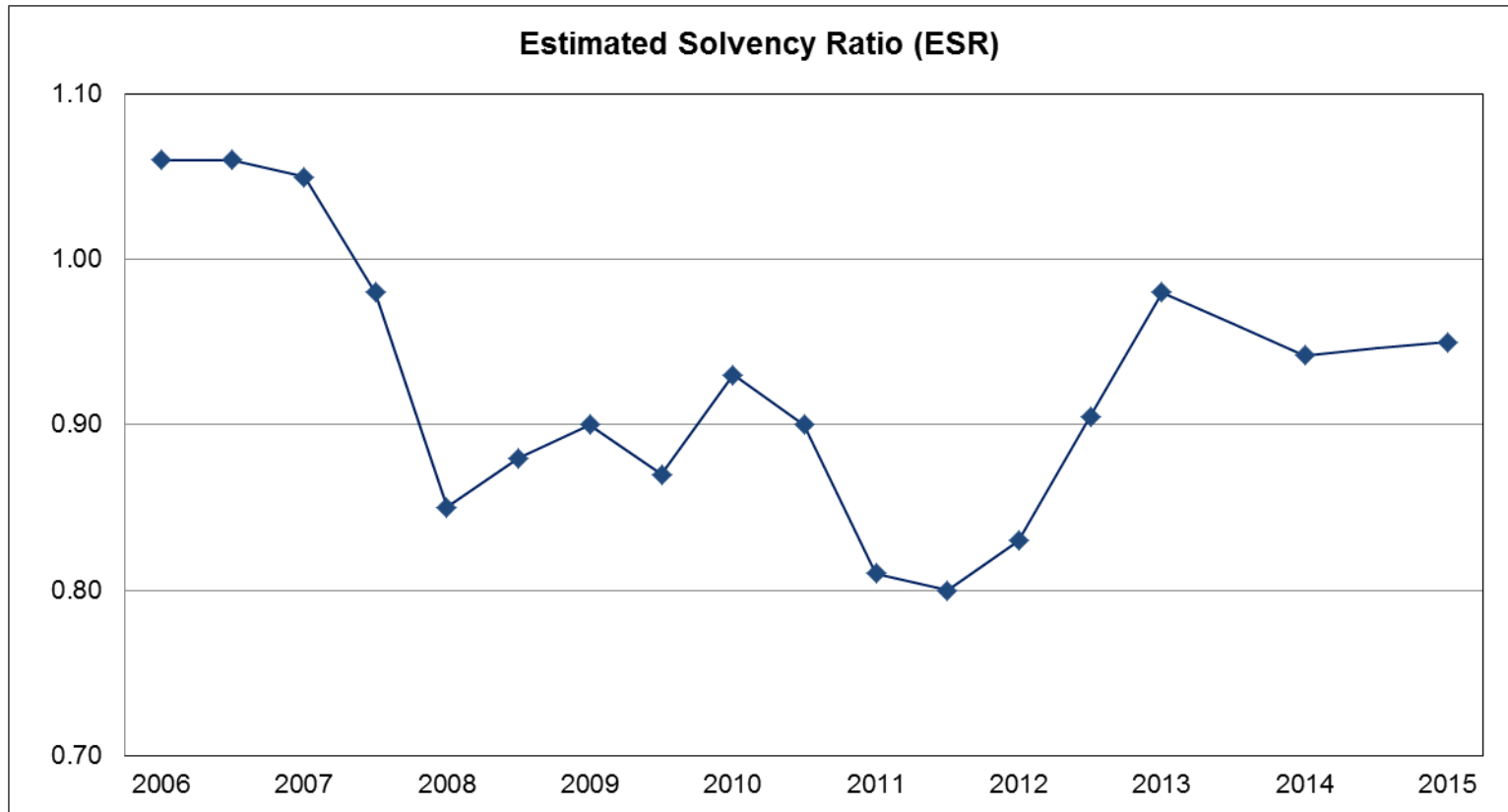


Estimated Solvency Ratio

- Assists OSFI with the early identification of potential solvency issues
- Approximately 400 defined benefit plans
- Uses the most recent information filed with OSFI
 - Actuarial report
 - Certified financial statements
 - Rates of return (Solvency Information Return)
 - Discount rates (CIA commuted value and annuity proxy rates)



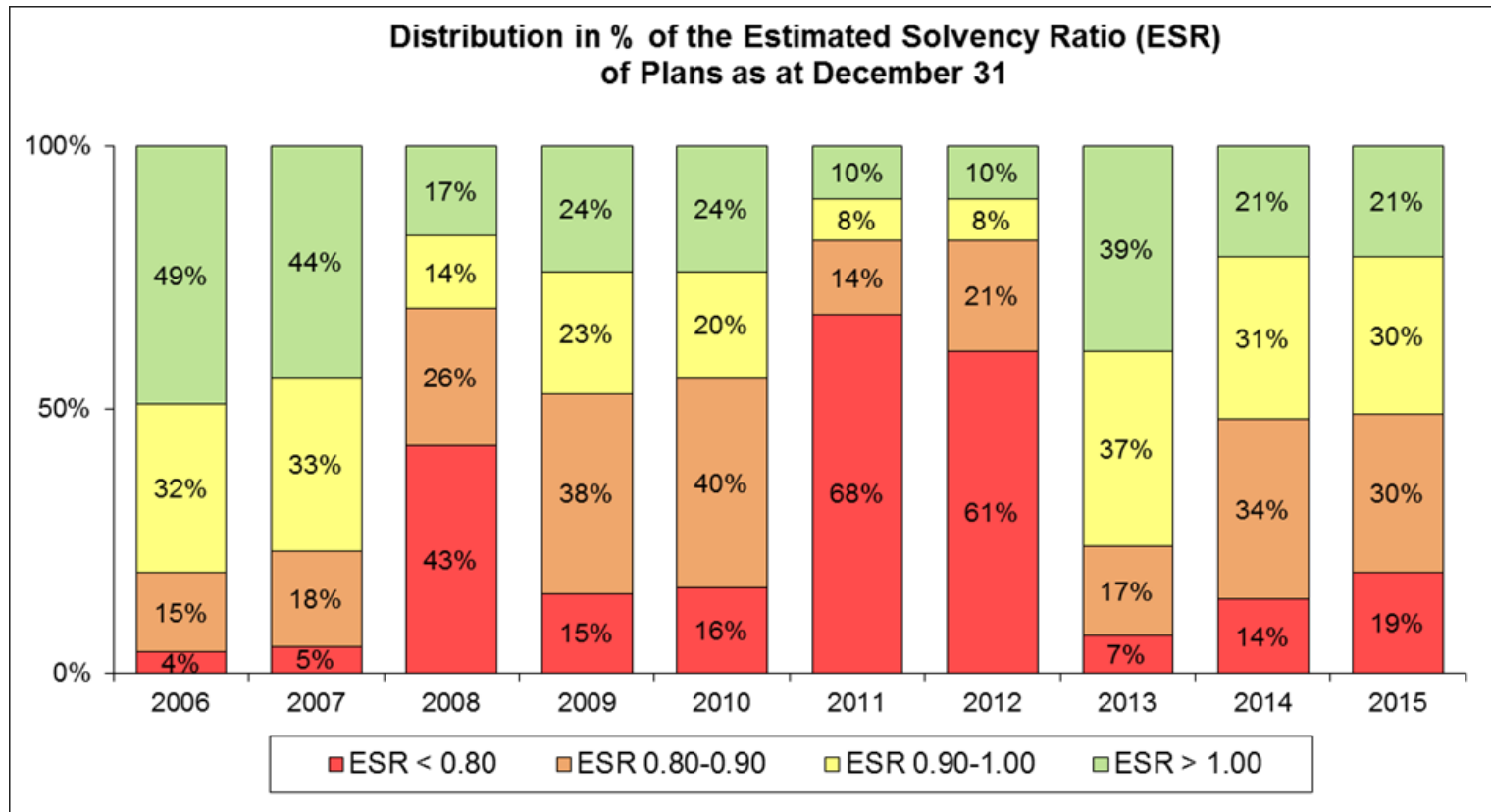
Estimated Solvency Ratio



Funding requirements are based on the 3-Year Average Solvency Ratio



Estimated Solvency Ratio



Changes to the Actuarial Guide

- Revised Guide was posted in December 2015
- Reflects OSFI's current expectations based on reporting requirements from legislation and CIA Standards of Practice
- Removes active management expenses for consideration in the maximum going concern rate threshold

	Before	After
Net discount rate	5.75%	5.75%
Active management expenses	0.25%	N/A
Other expenses	0.50%	0.50%
Discount rate before margins	6.50%	6.25%
OSFI position	Not acceptable	Acceptable



Changes to the Actuarial Guide

- Requires additional disclosure
 - Present value of expenses and provisions for adverse deviations
 - Replicating portfolios
- Provides further clarification on alternative settlement methods
- Includes additional references to legislation and professional guidance



Observations to Better Meet OSFI Expectations

- Disclosure – Additional explanations to understand the rationale behind the setting of key assumptions
 - Inflation assumption based on stochastic modelling
 - Adjustments to the going concern mortality table
 - Should always be justified
 - Sensitivity information only if based on plan experience
- Going concern expense assumption
 - Reflect expected future expenses based on experience
 - Active and passive investment management, and administrative expenses disclosed separately
 - Split between active and passive investment management expenses should be explained



Observations to Better Meet OSFI Expectations

- Portability during 10 years before pensionable age in solvency valuations
 - If the plan text offers the option, generally not an issue
 - If the plan text does not offer the option and it is expected to be offered upon plan termination
 - The assumption should be made by the plan administrator, not the actuary
- Termination expenses in solvency valuations



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2014 Pension Plans Survey

Kim Page
Manager, Supervision

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Background

- Survey administered every 3 years
- Last survey conducted in November/December 2014
- Primary objectives
 - Obtain overall perspective of OSFI's performance as a regulator
 - Provide high level assessment of OSFI's overall performance on core measures
 - Collect suggestions for improvement
- Survey conducted with pension plan administrators and professionals
- Next survey scheduled for fall of 2017



Key Findings

- 2014 results comparable to those from previous study conducted in 2011
- Results generally positive
- Opportunities for improvement
 - Overall satisfaction with OSFI
 - Timeliness of responses
 - Awareness of *InfoPensions*
 - Usefulness of the information in the Pensions area of the website
 - Regulatory Reporting System (RRS) training materials



Action Plan

- Implement more formal service delivery standards
 - Objective to respond within 15 business days
 - Improvements in delay of response already noticed
 - information@osfi-bsif.gc.ca
- Increase our efforts to incorporate DC-related articles in *InfoPensions*
 - DC study currently underway
- Provide additional RRS training / Improve existing training material (see RRS section on OSFI website)
 - Webinar on submitting pension returns in June 2015
 - PPACC Guide to update corporate information
 - [ReturnsAdmin@osfi-bsif.gc.ca](mailto>ReturnsAdmin@osfi-bsif.gc.ca) or (613) 991-0609



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Pension Benefits Standards Act, 1985 and Pooled Registered Pension Plans Act Policy Initiatives

Lynn Hemmings

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