Guidance

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While reviewing requests for approval of pension plans' termination reports filed in accordance with subsection 29(10) of the *Pension Benefits Standards Act* (PBSA), OSFI has become aware that some plans have developed deficits after the plan termination date. It appears that the investment policy for these plans was not reviewed at the time of the decision to terminate the plan.

Once a pension plan has been terminated under section 29 of the PBSA, the administrator must continue to ensure that the benefit entitlements on plan termination, as calculated in the termination report, are safeguarded until paid out. OSFI expects members to be paid the value of the pension benefit, calculated at termination, together with interest up to the date of payment to the member.

Interest on benefits until pay-out

OSFI's Draft Instruction Guide for Filing and Reporting Requirements for Defined Benefit Pension Plan Terminations (March 2008) stipulates on page 7 that OSFI expects that interest will be credited on a member's pension benefit credit until the benefit is paid out, at the rate of interest used in the determination of the pension benefit credit. Specifically, interest cannot be based on the return rate of the fund.

Fiduciary standards and investments

OSFI expects the plan administrator to follow a sound investment policy at all times. In particular, the administrator is expected to invest the plan assets with consideration for the obligations that the fund must secure at plan wind-up. The plan administrator has fiduciary obligations that include maintaining the desired level of benefit security by modifying the investment policy, acting prudently and seeking professional advice in areas where it does not have the required expertise. Once a pension plan has been terminated, the administrator must continue to take the necessary steps to ensure that the benefit entitlements calculated on termination are safeguarded until paid out.

On plan termination, the investment horizon has shortened considerably. Recent market events illustrate the potential volatility of asset values and the added risk of retaining a long-term investment policy after a plan has been terminated. The administrator needs to manage the risk that a deficit may develop because a decrease in the market value of the plan assets is not matched by a corresponding decrease in the liabilities.

In some cases, OSFI has requested that a plan administrator remit additional money to the pension fund so that the plan's members may be paid the full commuted value of the benefits, as calculated in the termination report, together with interest up to the date of payment to the members. Unless the issue of appropriate investment strategy related to the plan termination is addressed in the request for approval of the termination report, defined benefit plan administrators can expect OSFI to ask for specific information on the results of the administrator's review of its investment strategy in light of the plan termination.

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