



# Police Pensioners Association of Ontario

*Improving the Quality of Life for Police Pensioners in Ontario*

## ONTARIO'S SOLVENCY REFORM MEASURES

The Police Pensioners Association of Ontario (PPAO) regularly monitors pension issues on behalf of the membership. In this report the PPAO will set out the steps undertaken to update solvency issues in Ontario and Bill 177.

### Background of Issue:

Historically, registered Defined Benefit plans in Ontario were subject to going concern funding requirements; only solvency funding requirements were introduced in 1988 "primarily to improve funding standards and to provide an early warning of potential funding deficiencies" that could jeopardize the security of members' benefits. Following the 2008 global recession, the Ontario government provided temporary solvency funding relief to plan sponsors in 2009, and again in 2012, to give them additional time to fulfill their economic reality of prolonged low long-term interest rates, and in the face of stakeholders concerns regarding contribution volatility, procyclical contribution requirements, the high cost of benefit security, the complexity and lack of transparency of the current funding regime, and surplus issues the government engaged in a consultation process with stakeholders to determine whether to make permanent changes to the province's framework for Defined Benefit plans.

The provincial government issued Ontario's Consultation Paper consolidating the many potential options for reforming the province's framework for DB plans into two general approaches.

- Maintaining the requirement to fund on both going concern and solvency basis, while modifying existing solvency funding requirements. This option was intended to address stakeholder concerns regarding contribution volatility, procyclical contribution requirements, the high cost of benefit security, the complexity and lack of transparency of current funding regime, and surplus issues.
- Eliminating current solvency funding requirements and strengthening going concern funding requirement for DB plans as the basis for establishing contribution requirements. Under this option it was generally intended to strengthen benefit security, since the elimination of solvency funding requirements would reduce the security of plan members benefits.

### Key dates in Solvency Process

**July 2016:** Consultation Paper – Review of Ontario's Solvency Funding Framework for Defined Benefit Pension Plans. (Process mentioned above).

**May 19, 2017** The government announced a new funding framework for Defined Benefit pension plans adopting a modified version of the second bullet point on page one, which implements enhanced going concern funding in conjunction with a lower solvency funding target. Key changes to Defined Benefit plans funding regime included:

- Plans will be required to fund on a solvency basis only if the plan's funded status fall below 85 per cent;
- Going concern funding rules will be strengthened by shortening the amortization period to 10 years (from 15 years) for funding a shortfall of the plan, and consolidating payment requirements into a single schedule, and
- Plans will be required to fund a reserve with the plan, called a Provision for Adverse Deviation (PfAD). This reserve is intended to help manage future risk and help to ensure benefits are secure.

Additional complementary changes announced by the government include;

- Increasing the monthly guarantee provided by the Pension Guarantee Fund (PBGF) for a plan member's pension by 50 per cent to \$1,500 from \$1,000 (which is intended to help ensure benefit security in the event that a plan is not fully funded and the employer is bankrupt).
- Providing a discharge of liabilities when annuities are purchased for retirees or deferred plan members (which is intended to provide greater income security for individuals).
- Implementing new rules for funding benefit improvements and restricting contribution holidays (which is intended to improve benefit security); and
- Mandating the development of plan funding and governance policies and increasing the disclosure provided to beneficiaries on plan status (which is intended to increase transparency).

**June 29, 2017:** The government introduced a new temporary solvency funding relief option - Option 8.

This temporary solvency funding relief was filed under Regulation 225/17 as Option 8.

- Option 8 permits the deferral of special payments required to fund a new solvency deficiency for up to 24 months.
- Notice must be given to active, former and retired members and applicable unions.

**November 14, 2017:** The government introduced Bill 177, Stronger, Fairer Ontario Act (Budget Measures) 2017 -limited provisions in respect of new solvency funding framework.

**Bill 177 - Proposed Amendments to the Pension Benefit Act (PBA)**

- Plans must have a governance and funding policy. Applies to new plans and plans registered before the effective date of amendment.

- Changes to the Pension Benefit Guarantee Fund (PBGF). Amended to remove the requirements regarding the age and years of employment or membership that members and former members must meet for their benefits to be guaranteed. Also provided for monthly guarantee increased from \$1,000 to \$1,500.

**November 29, 2017:** The government invoked closure on Bill 177 and stated the Standing Committee on Finance and Economic Affairs be authorized to meet on Thursday December 7, 2017, from 9:00am to 10:15am and from 1:30pm to 6:00pm for purpose of public hearings on the Bill.

### **Reaction from Stakeholders**

The Canadian Association of Retired Persons (CARP) released a statement indicating that it “commends the Ontario government for its continued focus on improving financial security for retirees” and its ‘pleased to see that the government has taken a balanced approach to funding reform by providing welcome relief to plan sponsors while also improving plan security for pension recipients’.

Unions have also raised specific concerns regarding the reform measures announced by the government, including the size of the increase to PBGF coverage, the use of PfAD as a mechanism to achieve benefit security, and the lack of consent mechanism associated with the funding changes. The Ontario Federation of Labour (OFL) points out that the increase to the PBGF coverage from \$1,000 to \$1,500 per month is “insufficient even to keep pace with inflation since the introduction of the PBGF in 1980”.

### **Recommendation:**

The Police Pensioners Association of Ontario continue to monitor solvency issues and Bill 177 and report back to the membership on any developments.