

EPPA Update 09-03 Funding Relief Provisions - 2009

Issued February, 2009

In response to the market decline in the fall of 2008, short term funding relief provisions have been added to the *Employment Pension Plans Regulation* (the Regulation). These new provisions, along with existing funding alternatives, are intended to assist plan sponsors with the unexpected financial pressures caused by 2008 plan experience. The new relief provisions can be found in Schedule 0.2, section 3 of the Regulation.

This bulletin is designed to provide an overview of the options available to plan sponsors and identify any special filing requirements related to those options. This bulletin has no legal authority. The Act and Regulation should be used to determine specific legislative requirements.

This Update, when first released, was called Policy Bulletin #41 – Funding Relief Provision – 2009. It was renamed as an Update due to the specific nature of the topic in the document, namely, targeted funding relief measures for a limited period of time in respect of financial events occurring in 2008.

RESPONSE TO THE 2008 MARKET DECLINE

The impact of the 2008 market decline and the current economic situation will be different for various pension plans and business sectors. Some employers, particularly those that had already taken steps to partially immunize their defined benefit plan portfolio, will feel only minimal impact and may not need to consider funding alternatives. For others, there may be a significant need for a short term adjustment to their funding regime.

To respond to the variety of needs, the *Employment Pension Plans Act* and *Regulation* (the Act and Regulation) offer several options which will give plan sponsors the flexibility choose what best fits their current situation.

It should be noted that, with the exception of letters of credit and the use of the new Canadian Institute of Actuaries (CIA) commuted value standards, these options are short-term in nature and are intended to deal with the current market valuation issue.

Letters of Credit

The Act already permits plan sponsors to use a letter of credit to secure some or all of their pension plan's solvency deficiencies. This will continue.

For details on this option please refer to [Policy Bulletin 39 – Letters of Credit](#).

Use of the CIA Standards of Practice for Determining Commuted Values, adopted December 19, 2008 and effective April 1, 2009

In accordance with section 1(1)(c)(ii) of the Regulation, the Alberta Superintendent of Pensions will accept valuations done at review dates on and after September 1, 2008 that use the CIA's revised standards of practice for pension commuted values (CVs) when calculating a plan's solvency position. However, plan administrators must use the existing standard of practice for determining CVs for members who terminate from a pension plan prior to April 1, 2009.

The use of the revised standard may be made in conjunction with the other funding relief measures outlined below.

Solvency Moratoriums

Solvency moratoriums are available to both Specified Multi-Employer Pension Plans (SMEPPs) and non-SMEPPs. Since employers are not required to fund solvency deficiencies during the moratorium, this option has conditions attached to it, by regulation, and by the authority granted to the Superintendent in schedule 0.2 of the Regulation, which includes the requirement that no benefit improvements may be made while under the moratorium period.

More details on this option are explained below.

Amortization Period Extension

The extension option permits a solvency deficiency revealed as a result of an actuarial valuation with a review date between September 1, 2008 and December 31, 2009 (other than one caused by a benefit improvement made between those dates) to be amortized over ten (10) years rather than the normal five (5) years. Similar to the solvency moratorium, this option has conditions attached to it by regulation and by the Superintendent's authority. However, unlike the solvency moratorium, this option may appeal to those plan sponsors who wish to have the continued flexibility to make benefit improvements.

More details on this option are explained below.

FUNDING MORATORIUM FOR SMEPPs

Extension of Moratorium for SMEPPs whose three year term expired in 2008.

For those SMEPPs who initially applied for the Moratorium in 2006 and, therefore, had their three year payment exemption expire on or before December 31, 2008, a provision has been added to the Regulation to automatically extend the exemption to the end of 2011.

While these plans are not required to re-apply, they are required to file an actuarial valuation report and cost certificate as at their 2008 review date. The solvency moratorium continues to be subject to the conditions previously applicable to that SMEPP, and any other conditions set by the Superintendent (see below).

New Solvency Moratorium

SMEPPs who had a previous solvency exemption period that ends after December 31, 2008 **OR** SMEPPs that had not previously applied for an exemption, may apply for exemption under the new solvency moratorium at any time prior to **2012**, for a three year exemption from making solvency deficiency special payments.

Only one application may be made by an administrator of a SMEPP, and the application must be made in writing. The conditions of this moratorium include those imposed in the previous moratorium introduced in 2005 and detailed in [Policy Bulletin #17 – Specified](#)

[Multi-Employer Pension Plans](#). However, it should be noted that SMEPPs making an application must also comply with other conditions that are set by the Superintendent (see below).

Within 270 days after the end of the moratorium the administrator must file an actuarial valuation and cost certificate that reflects the plan's solvency status and must fund any solvency deficiency identified over the ensuing five years.

**FUNDING
MORATORIUM FOR
NON-SMEPPs**

A solvency funding moratorium provision has also been introduced for single employer plans and Multi-unit Pension Plans (MUPPS) (see section 3.1(1) of Schedule 0.2 of the Regulation).

The window for application for this option closes on December 31, 2009. Plans that apply and receive consent will be exempt from making solvency payments for three years from the review date of the actuarial valuation submitted when making the application.

Only one application may be made, in writing, by an administrator of a Non-SMEPP. The application is subject to the following conditions and must include:

- An actuarial valuation report as at the review date (application date), that includes the plan's solvency position,
- Confirmation that no benefit improvements will be made while under the moratorium,
- Previously established unfunded liabilities must be amortized over the lesser of the remaining amortization period and 10 years,
- Any newly established unfunded liabilities must be amortized over 10 years,
- Where a person is entitled to a benefit payment, either a "top up" payment (equal to the transfer deficiency) will be made to the plan before paying out the benefit, OR that the top up payment will be included in the next remittance of contributions. This requirement does not extend to ongoing monthly pension payments,

- Confirmation that annual member statements will include a statement that the Plan has a moratorium on making solvency deficiency special payments, and
- The Plan will comply with any other conditions that are set by the Superintendent of Pensions (see below).

Within 180 days after the end of the moratorium the administrator must file an actuarial valuation and cost certificate that reflects the plan's solvency status and must fund any solvency deficiency identified over the ensuing 5 years.

**EXTENDED
AMORTIZATION
PERIOD FOR 2008
SOLVENCY
DEFICIENCIES
(All Plans)**

Under this option, and upon application to the Superintendent, administrators are permitted to amortize the solvency deficiency recognized (created) between the date of the last filed actuarial valuation and the date of the valuation report which supports the application over a ten year period (rather than the usual five year period). All previously established solvency deficiencies continue to be amortized over the remainder of their five year schedule. This valuation related to an application under this option must coincide with a review date that is between September 1, 2008 and December 31, 2009.

Only one application may be made, in writing, and is subject to the following conditions and must include:

- A valuation report as at the review date (application date).
 - For the purposes of determining solvency assets, the actuary is permitted to include the actuarial present value of 10 years worth of going concern unfunded liability special payments (instead of five), and
 - Using this solvency asset adjustment, the corresponding new solvency deficiency recognized as at the review date may be amortized over a 10 year period.

- Where a person is entitled to a benefit payment, either a “top up” payment (equal to the transfer deficiency) will be made to the plan before paying out the benefit, OR that the top up payment will be included in the next remittance of contributions. This requirement does not extend to ongoing monthly pension payments,
- Confirmation that annual member statements will include a statement that the Plan has received the extension on making solvency deficiency special payments, and
- The Plan will comply with any other conditions that are set by the Superintendent (see below).

Unlike the solvency moratorium, administrators are still able to make changes to the benefit structure of their pension plan under this option. It should be noted, however, that a solvency deficiency caused by a subsequent benefit improvement must be amortized over the normal 5 year period.

**Additional Conditions
Required by the
Superintendent**

The mission of the office of the Superintendent of Pensions is to provide a fair and balanced regulatory environment that supports the development and maintenance of strong and stable pension plan, and protects individuals’ pension rights.

While recognizing the need for temporary funding relief measures for defined benefit pension plans is great, a balance must also be struck to protect individual members’ entitlements in a defined benefit plan. Now more than ever, defined benefit plan members expect that that the security of their accrued benefits is a priority of both the Superintendent, as well as the plan sponsor.

The Actuarial Valuation

Any relaxation in funding provisions necessitates the imposition of other conditions, most notably in respect to the actuarial valuation of a plan, so as to ensure a balance is maintained. To that end, the following conditions must be met when applying under the solvency moratorium or solvency extension provisions, and for SMEPPs who have had their moratorium extended.

1. The economic and demographic assumptions used in the calculation of going concern liabilities are subject to a minimum level of conservatism. To assist actuaries and plan sponsors in meeting this requirement the Superintendent has set some baseline assumptions to consider.

Subject to the note below (page 7), the actual assumption set used by the actuary in performing the going concern valuation can vary from the baseline, provided that the altered assumption set, in aggregate, is comparably conservative to the baseline. The baseline assumptions include:

- Discount rate of 6.5 per cent or less,
 - UP94 mortality table (or another table or adjustments to that table that recognize a longer life expectancy factor),
2. If a smoothing method is used to calculate the going concern utilized asset value, this adjustment may not result in an asset value that is more than 115 per cent of the market value of the assets as of the review date.
 3. Although not effective until March 1, 2009, all assumptions must meet the requirements of the CIA's Final Standards for Independently Reasonable Assumptions, including section 1720 of that standard, Selection of Assumptions.
 4. To monitor the further erosion of the solvency status of the plan, the actuarial valuation report must disclose the magnitude of the expected growth in the solvency liabilities (due to service being earned and expected salary increases but excluding interest growth) over the first year following the valuation date.

An actuarial certification that the current service costs shown in the valuation report are sufficient to fund the expected increase in the solvency liability over the current service cost is **not required**. Nonetheless, the Superintendent will **reserve the right** to require funding of any revealed shortfalls.

The CIA has prepared an educational note on this subject matter. Please click to read the [Draft Educational Note on the Calculation of Incremental Cost on a Hypothetical Wind-Up or Solvency Basis](#).

This requirement #4 does not apply to SMEPPs.

NOTE: Due consideration will be given for plans that use an assumption set that varies from these minimum baselines; however, plans must be prepared and able to demonstrate why the variation is appropriate.

Items which the Superintendent will consider when reviewing an actuarial valuation report include, but are not limited to:

- Liability valuation method;
- Use of an explicit Provision for Adverse Deviation (PfAD);
- Asset / liability matching;
- Plan demographics;
 - Maturity of plan liabilities,
 - Weighting of active members to inactive members,
 - Average age of active members, and
 - Average age of retirement assumption,
- Immunization of pensioner liabilities;
- Variations in discount rate between active and inactive members;
- Plan expense policy (i.e., implicit in the discount rate assumption vs. sponsor pays all expenses);
- For final average earnings / average best earnings plans, the differential between the discount rate and the salary escalation assumption; and
- Comparison of actual plan experience in relation to the economic and demographic assumptions.

Ultimately, in accordance with section 4.1 of the Regulation, the Superintendent reserves the right to accept or refuse any valuation.

For further information please contact:

Superintendent of Pensions
Alberta Finance
Room 402, 9515 - 107 Street
Edmonton, AB T5K 2C3

Telephone: (780) 427-8322
Fax: (780) 422-4283
Internet: <http://www.finance.alberta.ca>

For toll-free dialling within Alberta, call 310-0000 and then dial 780-427-8322.