

PENSION UPDATE

August 2010

Ontario Pension Reform: Phase 2

On August 24, 2010 the Ontario Government announced Phase 2 of further changes to Ontario's pension legislation to address another 40 recommendations from the Expert Commission on Pensions. These proposals are in addition to Phase 1 of Ontario Pension Reform which resulted in Bill 236 that received Royal Assent on May 18, 2010. The Ontario Government is opting to pass legislation for Phase 2 before creating the regulations for Phase 1. The Phase 2 proposals address a wide range of issues, including:

- Funding Rules
- Contribution Holidays
- Surplus Entitlement
- The Pension Benefits Guarantee Fund
- Temporary Funding Relief for the Broader Public Sector including Ontario Universities

The following are highlights of the proposed changes.

Funding Rules

- Impose solvency concern restrictions on plans at the 85% funding level (currently 80% funding level).
- Require benefit improvements to be funded over no more than eight years, rather than the current 15 years.
- Further acceleration of funding where plans are less than 85% funded on an ongoing basis.

Contribution Holidays

- Permit contribution holidays, unless prohibited by plan documents, only if they do not reduce the plan's transfer ratio below 105%.
- Require plans to disclose contribution holidays to members, retirees, and other plan beneficiaries.

Surplus Entitlement

- Require binding arbitration for surplus distribution where entitlement or a sharing agreement cannot be obtained.

The Pension Benefits Guarantee Fund

- Increase the base fee per plan member from \$1 to \$5. There will be a minimum assessment of \$250 per covered pension plan.
- Raise maximum fee for plan member in underfunded pension plans from \$100 to \$300 with no cap (currently \$4 million).

Temporary Funding Relief for the Broader Public Sector including Ontario Universities

- Broad public sector plans, including eligible Ontario Universities, would receive three years of solvency relief to develop a plan for long term pension sustainability followed by the amortization of solvency deficits over a 10 year period.

Other Proposed Changes

- Require pension legislation to be reviewed every five years.
- Allow payments of variable (life income fund-like) benefits from defined contribution plans.
- Permit employers to use irrevocable letters of credit from financial institutions to cover up to 15% of solvency liabilities.

The Ontario Government is encouraging stakeholders to provide their views on these proposed changes over the next few weeks as draft legislation is written.

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