Financial Institutions Commission
Pensions

INFORMATION
BULLETIN

BULLETIN NUMBER:	**PENS 18-001**
TITLE:	**Termination Expense Assumption (Revised)**
LEGISLATION:	**Pension Benefits Standards Regulation**
DATE:	**January 2018**

THIS BULLETIN REPLACES AND SUPERSEDES BULLETIN PENS 17-002

PURPOSE

This bulletin outlines the Superintendent's expectation on the termination expense assumption employed in the actuarial reports for pension plans with benefit formula provisions.

BACKGROUND

It has come to the Superintendent's attention that some termination expense assumptions used for funding purposes significantly differ from the actual cost incurred in terminating a pension plan. Based on a review of actuarial valuation reports filed for December 31, 2016, the Superintendent has decided to revise Bulletin PENS 17-002, to provide more clarity in terms of the expectations on the disclosure of termination expense assumptions.

THE SUPERINTENDENT'S EXPECTATION

The solvency valuation should provide for expenses that may reasonably be expected to be paid by the pension fund, under the postulated termination scenario, between the valuation date and the wind-up of the plan, i.e. the date when all plan benefits are settled and assets are distributed. In order to provide for a realistic manner of settling benefits, the assumed termination date, settlement date, and wind-up date of the plan should not be the same.

The Superintedent expects the actuary to make and disclose the assumption as to when the wind-up of the plan might reasonably occur after the termination date, considering the delays incurred to:

- prepare and file the termination report with FICOM;
- review the report by FICOM and to obtain the Superintendent's approval; and
- effectively pay the benefits.

It should be clear from the actuarial report that the termination expense amount represents the actuary's best estimate assumption had the plan been terminated at the valuation date.

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Termination expenses should be deducted from the market value of assets in calculating the solvency ratio and not be netted from future investment income. The provision would usually include:

- actuarial, administrative, legal, and other consulting expenses incurred in terminating the plan up to its wind-up;
- expenses associated with benefit settlement, and, if applicable, fees associated with a Replacement Administrator or Designated Actuary;
- regulatory fees;
- custodial and auditing related expenses;
- investment expenses, including management and transaction fees relating to liquidation of assets; and
- expenses associated with revising the investment policy.

Unless the actuary is satisfied that the expenses of wind-up are not to be charged to the pension fund, the actuary should make an explicit assumption regarding these expenses. Where it is assumed that the employer would pay for some of the termination expenses in the event of plan termination, the proportion of termination expenses payable by the employer and pension fund should be disclosed.

MORE INFORMATION

If you have any questions, please contact the Office of Superintendent of Pensions at Pensions@ficombc.ca or by phone at 604 660-3555.