FICOM Pension Stakeholder Engagement Forum

Session 3: Target Benefit Plans
Reporting & Disclosure Requirements

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Agenda

- Reporting & Disclosure Requirements – Greg Heise
  - Communications issues: Members and Trustees
  - Actuarial valuation reporting/related
    - Stress testing
    - Commuted values
    - Solvency
- Design & Funding – Tom Ault
- Single Employer Target Benefit Plans – Ed Lee
- Forum Discussion

Communications

- Communications are likely the most important aspect of any plan implementation or conversion
- Communicating the "pension deal"
- Negative perception in other parts of Canada
- Training needed
- Methods
  - Mandatory notices
  - Plan summary
  - Newsletters, membership meetings
  - Annual statements
- Experiences

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Actuarial Valuation - Stress Testing

- PBSR S60:
  - select (and explain) factors that pose a material risk to ability to meet funding requirements
  - reflect (and explain) for selected factors any material changes if a situation contemplated a risk factor changed in a reasonably foreseeable way without any of the other situations changing
- Without having benefit of seeing how each actuary is approaching
  - Consider benefits/funding policy
  - Constructing tests accordingly
  - Incorporate sensitivity testing required under actuarial standards
- Don't waste the opportunity this brings beyond just being a disclosure item

Actuarial Valuation - Stress Testing

- Sample tests showing effect on funded status and/or minimum required contributions
- Not applicable for every plan:
  - Discount rate sensitivity (actuarial standards)
  - Future investment returns differing from expected
  - Salary increases significantly higher than expected
  - Changes in hours worked
  - Changes in negotiated contribution rates
  - Changes in demographic assumptions (e.g. mortality)

Actuarial Valuation - CVs

- PBSR S9(2):
  - … actuarial present value of benefits … under a target benefit provision <u>must be</u> determined in accordance with the actuarial assumptions used in the current actuarial valuation report to determine the going concern liabilities value of the plan.
- Important for preparers/users of report to understand
- Practical difficulties:
  - Conversion (timing)
  - Administrators – access to scales/assumptions
  - Retirement age assumption where one age not used
  - Not in accordance with actuarial practice – additional disclosure
- Best practice: set out all assumptions used in writing to both regulator and administrator

Actuarial Valuation - Solvency

- No effect on funding or disclosure to members
- Still required under legislation and actuarial standards
  - But is it meaningful?
  - Views between plans, actuaries, and regulator currently differ
- Why?
  - How do you determine solvency liabilities for retired members?
  - Is it the value of an annuity or the commuted value?
  - In the TBP world, these amounts vary wildly
    - Annuity could be worth 25% to 45% more depending on plan's going concern valuation assumptions
- For your consideration:
  - PBSA S105 requires that a retiree be offered a commuted value upon wind-up

Actuarial Valuation - Solvency

- PBSR S134: If a retiree wishes to transfer their entitlement from the plan, Superintendent consent is required and the assets of the plan are not sufficient to pay all benefits
- PBSR S135 entitled "**Allocation and distribution of assets if assets insufficient**"
- PBSR S135(12): "Assets of the target benefit component must be allocated" … "so that each person entitled to a benefit" … is allocated the product of:
    - (i) the commuted value of that benefit, and
    - (ii) the target benefit funded ratio, as set out in the termination report
- Required benefits upon wind-up are unclear where assets are sufficient; clarification should be strongly considered

Actuarial Valuation - Solvency

- As a result, possible conclusions for solvency liabilities are:
  1. CIA annuity purchase guidance is moot
     - "Solvency" liability = $\sum$ commuted values
     - Solvency ratio will be "similar" to going concern funded ratio
  2. CIA annuity purchase guidance applies to retirees
     - "Solvency" liability = $\sum$ annuity liabilities for retirees + $\sum$ commuted values for others
     - Solvency ratio will be lower than going concern funded ratio
  3. A hybrid of 1 and 2 given that the Regulation clearly uses commuted values for underfunded plans
- Most importantly, what *should* the answer be? For your consideration:
  - If Plan has a target benefit funded ratio of 110% at wind-up, does it make sense that the retirees get the entire 10%?

Key Takeaways

- Rebirth of the Pension Advisory Group
- Our industry should focus greater attention on communicating and reinforcing the "pension deal"
- Consider benefits/funding policy when designing stress tests and don't let them be "just another disclosure requirement"
- Commuted values: not in accordance with CIA standards and "poetic license" needs to be invoked when determining them in accordance with legislation
- Solvency valuation: meaningful if imminent wind-up, otherwise not
  - What are the benefits upon wind-up?
  - Clarification of legislation needed; plan documents should be reviewed
  - Good news? Not an issue of immediate importance unless plan is winding up in near future

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