



Technical Briefing on Solvency Funding Relief Rules For Broader Public Sector Pension Plans Including Ontario Universities

March 3, 2011

Today's Presentation

1. Timeline of Events
2. Temporary Solvency Funding Relief Provisions
3. Metrics/Criteria For Stage 2 Solvency Relief
4. Definition of Savings Target
5. Calculation to Assess Progress Against Savings Target
6. Application For Stage 1 Solvency Funding Relief
7. Application For Stage 2 Solvency Funding Relief
8. Additional Conditions
9. Impact Versus 2009 Solvency Funding Relief Available
10. Jointly Sponsored Pension Plans

Timeline of Events

March 2010	<ul style="list-style-type: none"> ▪ Ontario Budget signals solvency funding relief for broader public sector, including universities, under certain conditions
August 2010	<ul style="list-style-type: none"> ▪ Government releases technical paper on two-stage solvency funding relief program for broader public sector as part of pension reform legislation
September 2010	<ul style="list-style-type: none"> ▪ Regulation issued to extend valuation filing dates for Lakehead and Laurier pension plans from September 30, 2010 to March 31, 2011
February 2011	<ul style="list-style-type: none"> ▪ Release of proposed regulation to extend filing date for valuations with effective dates from December 31, 2009 up to and including August 1, 2010, to May 31, 2011 ▪ Posting of solvency funding relief regulation paper
March 2011	<ul style="list-style-type: none"> ▪ March 23rd deadline for filing of application for Stage 1 solvency funding relief for universities who have to file valuation by May 31, 2011, or any other university who is able to make an early application
April/May 2011	<ul style="list-style-type: none"> ▪ Government to review and approve/not approve above applications
May 2011	<ul style="list-style-type: none"> ▪ Regulations will name university pension plans approved for Stage 1 solvency funding relief ▪ Actuarial valuations filed by May 31, 2011

Temporary Solvency Funding Relief Provisions

- Temporary solvency funding relief driven off effective date of first actuarial valuation on or after December 31, 2009 that is filed with pension regulator after solvency funding relief regulation is made
- Two stages to temporary solvency funding relief:
 - First stage involves providing a “sustainability plan” to make pension plan more sustainable in the long term
 - Second stage involves actually making pension plan changes to accomplish that sustainability
- To be eligible to participate, going concern funded ratio or solvency funded ratio (both calculated without any smoothing) has to be less than 0.9 as of valuation date

Temporary Solvency Funding Relief Provisions (continued)

- Stage 1:
 - Start date is the effective date of the actuarial valuation (Stage 1 valuation report); end date is up to three years from start date
 - Four-year moratorium on funding solvency deficit (three-year Stage 1 period plus one year deferral), subject to minimum special payments
 - If going concern special payments do not cover interest on solvency deficit, then top-up required to bring special payments up to this minimum; higher minimum may apply to pension plans with solvency ratio less than 80%
 - Requires university to submit an application to Ministry of Finance that includes a “sustainability plan” on how to make pension plan more sustainable in the long term:
 - Sustainability plan needs to be shared with active and retired members and bargaining agents; consent not required
 - No requirement to file an actuarial valuation in three-year Stage 1 period
 - Increase in going concern special payments over prior valuation can be deferred for up to one year following valuation date, or to June 1, 2011 if later, subject to interest adjustment (shifts 15-year amortization period); minimum payment cannot be deferred
 - Limits on contribution holidays and accelerated funding of any plan improvements

Temporary Solvency Funding Relief Provisions (continued)

- Stage 2:
 - Solvency deficit determined by actuarial valuation at the end of the three-year Stage 1 period (Stage 2 valuation report) can be amortized over ten years
 - Requires university to demonstrate that “substantial progress” has been made to meet metrics for sustainability
 - Increase in going concern special payments over those from Stage 1 valuation report can be deferred for up to one year following valuation date, subject to interest adjustment
 - Start of solvency special payments can be deferred for up to one year following Stage 2 valuation date, subject to interest adjustment (shifts ten-year amortization period by up to one year)
 - Amortization period for any new solvency deficit in subsequent valuations is graded back to five years
 - Extension of limits on contribution holidays and accelerated funding of any plan improvements imposed under Stage 1

Metrics/Criteria For Stage 2 Solvency Relief

- For DB Plans:
 - More equal sharing of current service cost between members and employer; or
 - Combination of increase in member contributions or reduction in prospective benefits reduces present value of future university costs by an amount equal to or greater than the Savings Target (more details to follow)

- For Hybrid Plans:
 - Actions have been taken to reduce pension plan's risk resulting from a review of conversion process, excess investment return indexing provision and non-reduction guarantee provision; and
 - Combination of changes in contribution rates, reduction in prospective benefits, and actions to reduce pension plan's risk reduce the present value of future university costs by an amount equal to or greater than the Savings Target
 - For pension plans that convert to DB only for future service, combination of metrics for DB Plans and Hybrid Plans

Metrics/criteria are not anticipated to be part of regulation

Definition of Savings Target

- Based on going concern and solvency funded ratios averaged over Stage 1 actuarial valuation plus three prior filed actuarial valuations
- Going concern and solvency funded ratios both calculated without any smoothing and capped at 1.0 in any given year
- Savings Target calculated as 1.0 minus the lesser of the average going concern funded ratio and average solvency funded ratio:
 - e.g., if average funded ratio is 0.90, Savings Target is 0.10, or 10%
- For Hybrid Plans, funded ratios and Savings Target based on combined assets and liabilities for money purchase and defined benefit components

Calculation to Assess Progress Against Savings Target

DB Plans

Reduction in Present Value of Future University Normal Costs From Change in Member Contributions and/or Change in Benefit Provisions For Future Service



Reduction in Accrued Liability From Change in Benefit Provisions That Impact Past Service Benefits (e.g., early retirement provisions)

Present Value of Benefits For Future Service Before Any Plan Changes

- Calculations made on aggregate cost method using going concern actuarial assumptions
- Calculations made at Stage 1 progress valuation date based on same actuarial assumptions used for Stage 1 valuation
- Plan changes made toward plan sustainability within 5 years of Stage 1 valuation date can be included in assessing progress against Savings Target

Calculation to Assess Progress Against Savings Target (continued)

Hybrid Plans

Reduction in Present Value of Future University Normal Costs From Change in Contribution Rates and/or Change in Benefit Provisions



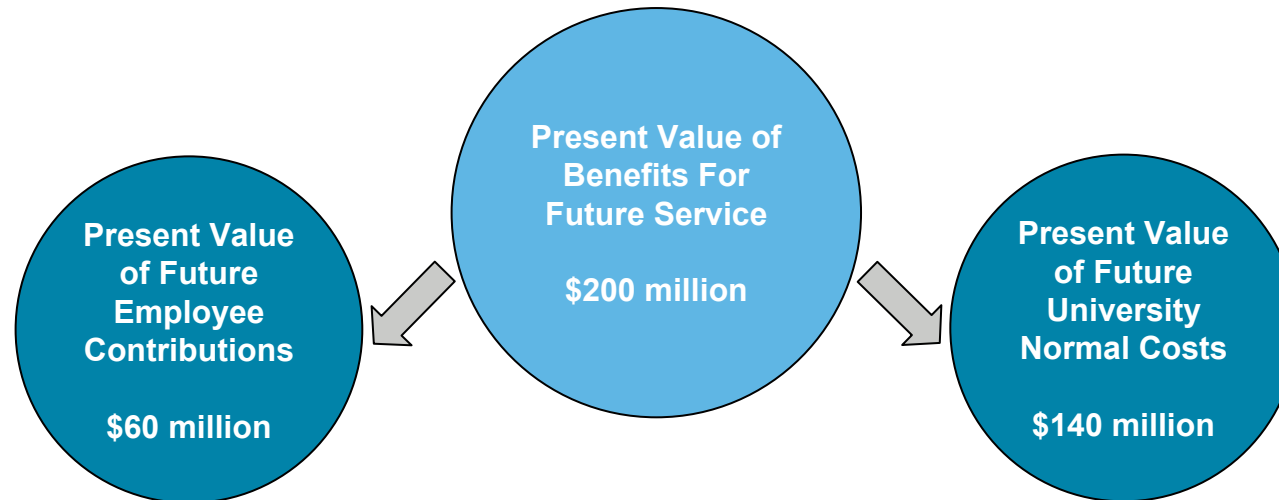
Reduction in Accrued Liability From Change in Contribution Rates and/or Change in Benefit Provisions

Present Value of Benefits For Past Service (active members only) and Future Service Before Any Plan Changes

- Calculations made on aggregate cost method using going concern actuarial assumptions
- Calculations made at Stage 1 progress valuation date based on same actuarial assumptions used for Stage 1 valuation
- Plan changes made toward plan sustainability within 5 years of Stage 1 valuation date can be included in assessing progress against Savings Target

Example of Savings Target Metric (DB Plan)

- Savings Target: 10%



- Reduction in Present Value of Future University Normal Costs needs to be $10\% \times \$200 \text{ million} = \20 million
- Increase in net Present Value of Future Employee Contributions of \$20 million would be one way to meet the Savings Target
- Unfunded Liability represents Present Value of Future University Special Payments

Elements of Application For Stage 1 Solvency Funding Relief

- Detailed “sustainability plan” as to how to make the pension plan more sustainable in long term
- Confirmation that the “sustainability plan” has been shared with active members and bargaining agents and will be shared with retired members
- Identification of collective bargaining agreements representing members of pension plan, number of members represented, number of non-represented members and expiration dates of agreements
- Calculation of Savings Target and examples of prospective changes that could meet the Savings Target
- Identification of amendments made to pension plan in the five years prior to the Stage 1 valuation date
- Copies of plan documents and amendments, and valuation reports filed since December 31, 1999

Application For Stage 1 Solvency Funding Relief

- First round of Stage 1 applications:
 - March 23rd deadline for filing of application for universities who have to file actuarial valuation by May 31, 2011
 - Universities with December 31, 2010/January 1, 2011 valuation dates could make an early application if required information available
- Second round of Stage 1 applications:
 - For pension plans with valuation dates from December 31, 2010 through August 31, 2011 inclusive
- Third round of Stage 1 applications:
 - For pension plans with valuation dates after August 31, 2011 up to January 1, 2012 inclusive

Application For Stage 2 Solvency Funding Relief

- Application for Stage 2 solvency funding relief due within 6 months of effective date of Stage 2 valuation report
- Application would provide details of changes made to pension plan and progress toward metrics, including Savings Target
- Filing deadline for actuarial valuation will be extended from 9 months to 12 months to allow time for Government to review application and for actuarial report to be prepared once decision on Stage 2 solvency funding relief application is made

**If not approved for Stage 2 solvency funding relief,
pension plan would exit Stage 1 solvency funding relief and be subject to
5-year amortization of the then existing solvency deficiency**

Additional Conditions

- Regulations in connection with Bill 120 will limit contribution holidays and require accelerated funding of plan improvements; more stringent conditions will apply in connection with solvency funding relief:

Expected Provisions Under Bill 120 Regulations	Provisions in Connection With Solvency Funding Relief
<ul style="list-style-type: none"> Contribution holidays cannot reduce transfer ratio (which includes value of indexation) below 105% Going concern impact of any benefit improvements funded over 8 years instead of 15 years Lump-sum contribution required in connection with any benefit improvement reduces transfer ratio below 85% 	<ul style="list-style-type: none"> Contribution holidays cannot reduce transfer ratio below 110% Going concern impact of any benefit improvements funded over 5 years instead of 15 years Lump-sum contribution required in connection with any benefit improvement reduces transfer ratio below 90%

- Stage 1 relief:
 - conditions apply during Stage 1 period; if exiting relief at end of Stage 1, continue to apply for 10 years following Stage 1 exit date, or if earlier until two successive filed valuations have a transfer ratio greater than or equal to 1.0
- Stage 2 relief:
 - apply for 15 years following effective date of Stage 2 valuation, or if earlier until two successive filed valuations have a transfer ratio greater than or equal to 1.0

Impact Versus 2009 Solvency Funding Relief Available

- Lower special payments for first four years (three years plus one year deferral):
 - Allows time to ramp up to potentially higher special payments at end of four years
- Essentially extends solvency amortization period to 14 years (three years, plus one year deferral plus ten years)
- Allows smoothing of going concern assets to have an impact on special payments in first four years since lower going concern special payments do not automatically result in higher solvency special payments
- No consent required for Stage 1; no direct consent required for Stage 2, however, pension plan changes are required to qualify for Stage 2
- No requirement to file an actuarial valuation for three years which means statutory special payment requirements will not change; will assist in budget planning
- Provides time for long-term interest rates to rise which is a primary driver of level of solvency deficit
- To the extent going concern special payments in three-year period are higher than interest on solvency deficit, will reduce solvency deficiency that is to be ultimately amortized over ten years

Jointly Sponsored Pension Plans (JSPPs)

- Exemption from requirement to fund on a solvency basis applies only to existing JSPPs
- Plans that convert to JSPPs in the future could be considered for exemption from requirement to fund on a solvency basis, but only for future solvency deficiencies:
 - Existing solvency deficiencies would still need to be addressed
- Need for agreement on a number of issues such as:
 - Governance structure
 - Sharing of gains and losses
 - Funding policies
 - Contribution rate stabilization reserves
 - Treatment of accrued benefits on wind-up