

PBSA Update

Winter • 1998

PBSA Update is issued by the Private Pension Plans Division, Office of the Superintendent of Financial Institutions (OSFI). OSFI administers the *Pension Benefits Standards Act, 1985 (PBSA)*



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PBSA Update

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1. Note to our Stakeholders

This issue of *Update* is accompanied by the new Annual Information Return (AIR) and the Financial Statement (Forms OSFI 49 and 60), along with the respective Guides for assistance in completing them. We hope that you find the Guides informative.

There are more than 2,200 names on our mailing list and we believe that it may not be necessary to mail every guideline, memorandum or other items of interest to everyone. Besides the regular post, we have the facility to reach interested parties electronically via our web site which is described in the next section.

OSFI has adopted a policy of discontinuing mass mailings when the information is available on our web site. However, we realize that not everyone in the pension industry has access to the Internet so we will continue to mail important information as necessary.

One of the items that we have always sent to plan sponsors, for example, is the *PBSA Annual Report*. Section 40 of the *PBSA* requires that the Superintendent submit a report to the Minister of Finance after the end of each fiscal year and our practice has always been to share the information with plan sponsors. However, we are not sure that all recipients are interested in receiving the document, and therefore we decided not to mail it to plan sponsors this year. The 1997 *PBSA Annual Report*, however, has been made available on the OSFI web site. If plan sponsors or any other stakeholders would like to have a paper-based copy, we will be pleased to send them one. Please contact the **OSFI Distribution Centre**: Phone: (613) 990-7321, Fax: (613) 952-8219 or E-mail: pub@osfi-bsif.gc.ca.

On the last page of this issue of *Update*, you will find a short survey which requests information about the way we communicate with the pension industry. We would appreciate hearing from you so that we can focus our efforts on ensuring the efficient and effective delivery of information.

We are also considering, in a future issue of *Update*, a satisfaction survey which, we hope, will provide us with valuable information regarding the quality and effectiveness of our service and the relevance and usefulness of our activities in promoting sound governance and financial practices.

And finally, you will note in the Table of Contents that we have identified in brackets the issue(s) of *Update* in which a particular item has been discussed in the past. We hope that this practice will facilitate cross-referencing the subjects covered in past issues of *Update*.

2. OSFI Home Page

www.osfi-bsif.gc.ca

As explained in *Update* 14, OSFI has a site on the world wide web. Visitors can browse for fun or obtain copies of documents relevant to their work such as the *PBSA* required filing forms, guidelines and memoranda. On page 4 of this issue, there is a complete listing of pension-related items available

To assist you through the maze, we offer the following guide:

- When you have found the OSFI web page, scroll down until you are asked to select language of choice. After making a selection, you will find an Index of Topics.

- By clicking on your topic selection, you will find the documents related to that topic. For example, if you click on "Acts, Legislation & Regulations" you will find a link to the *PBSA*.
- To download a document onto your own computer, click on the document with your mouse while holding down the "shift" key on your keyboard. This will take you to a standard save screen.
- You will note that some documents are marked **Adobe Acrobat Reader**, and have an extension ".pdf". To view these documents you must have the Acrobat Reader installed on your machine.
- For a free copy of the Acrobat Reader, proceed as follows: at the top of the web page with the ".pdf" document, there is a

link to the web site where you can download a copy of Acrobat Reader 3.0; click on "Download Adobe Acrobat Reader" and follow the on-screen directions.

If you have any comments, questions, or concerns about the OSFI web site please contact us at:

(613) 990-8085

or

penben@osfi-bsif.gc.ca

3. Annual Information Return, Financial Statements and Lists of Assets

The new Annual Information Return and the Financial Statement Form, along with their respective Guides are included with this issue of *Update*. A number of changes in the presentation of these required filings are described below.

Annual Information Return (AIR) - Form OSFI 49

To be completed for all plan years ending on or after October 1, 1997.

Over the years, plan sponsors have been introduced to changes in the AIR, the biggest of which was in 1987 when the *PBSA, 1985* came into effect. You will note that the most recent changes to the AIR (Form OSFI 49) are quite extensive. There are two reasons for this.

The first is to simplify information gathering and to avoid duplication. This will be done by way of future harmonization of our AIR with the Annual Return required by Revenue Canada. Several provinces share a common AIR with Revenue Canada, saving the plan administrator from duplicating information for various government departments.

OSFI has not yet harmonized its reporting requirements with those of Revenue Canada. **Therefore, for the 1997/98 reporting year, administrators will continue to file an AIR with OSFI and with Revenue Canada on their respective forms.** We hope to have made all of the necessary arrangements to permit the filing of a common AIR by next year. Because we have anticipated the changes required for a joint return in the current form, few, if any, changes will be necessary in future.

As a point of interest, discussions are also under way with the provinces regarding a common universal AIR. However, total harmonization with all provinces will take more time because of the number of parties involved.

The second reason for the changes to the form is to facilitate electronic filing in the future. Again, we are not ready for a new means of transmittal at present, but we have designed the form in anticipation of electronic filing. We can assure administrators who will be unable to file electronically that paper-based copies of our filing requirements will continue to be acceptable.

New Financial Statement - Form OSFI 60

Optional for plan years ending on or before September 30, 1998, mandatory for plan years ending on or after October 1, 1998.

In the spring of 1997, the new draft financial statements, along with instructions, were sent to some large pension plan sponsors, consultants, associations, and other interested parties. After receiving comments and discussing various issues with the industry, we made some amendments to the form and rewrote the instructions.

The new financial statements (Form OSFI 60) must be completed whether or not an auditor's opinion is required. We recognize that the new form may cause some difficulty the first year it is used, but we believe the change is necessary because many of the financial statements submitted in the past did not contain sufficient information for assessing, on a consistent basis, risks relating to assets. The information gathered on the new form will facilitate our assessment of risk.

While we still require that an auditor's report (on certain pages of Form OSFI 60) be attached to the financial statements of large plans, we have exempted a large number of smaller plans from the need to file an auditor's report on their financial statements. (Refer to the Guide to Financial Statements.)

List of Assets

With the filing of the financial statements on OSFI Form 60, all relevant information will be collected. As a result, we will no longer require the filing of a list of assets. However, a list of assets must be filed until OSFI Form 60 (which is voluntary for all plans with a year-end before September 30, 1998) is submitted. Note that the administrator must have an annually updated list of assets available for on-site examination.

4. Rescinding Previous Memoranda

The Guide to the Financial Statements contains information that replaces certain memoranda which have been issued by OSFI. The following memoranda are hereby rescinded:

- Memorandum dated February 1990 to All Pension Plan Sponsors regarding the exemptions from filing audited financial statements, signed by Mark Fowler, Director General, Pension Benefits Division.
- Memorandum dated November 1991 to Administrators of Pension Plans regarding the Signatory of Certified Financial Statements, signed by Jean-Noël Martineau, Director, Pension Benefits Division.
- Memorandum dated March 1994 to All Pension Plan Administrators, updating exemptions from filing audited financial statements, signed by Mark Fowler, Director General, Pension Benefits Division.

5. Amendments to the *PBSA* and Regulations

Bill S-3, which replaces Bill C-85 was introduced in the Senate on September 30, 1997. As explained in *Update* 15, Bill C-85 did not receive second reading due to the federal election. Bill S-3 includes the same legislative changes with some minor revisions. The measures in the Bill flow from the basic

principles outlined in the July 1996 White Paper "Enhancing the Supervision of Pension Plans Under the *Pension Benefits Standards Act, 1985*".

Bill S-3 has passed the Senate and received first reading in the House of Commons on November 26, 1997. We are currently waiting for second reading. Some of the implications of the Bill are:

- administrators will be responsible for ensuring compliance of pension plan provisions with the *PBSA* and *Regulations*;
- administrators will not be able to amend the plan to increase benefits if the plan is poorly funded on a solvency basis;
- administrators will be required to permit former members and pensioners access to plan documents, and active members, former members and pensioners will have a right to view the Statement of Investment Policies and Procedures.

The drafting of the *Regulations* to support the changes to the *PBSA* include:

- the definition of the solvency ratio level for void amendments;
- requirements for simplified pension plans;
- requirements for surplus withdrawals;
- disclosure of solvency ratio to members;
- the specification of additional information to be made available to members;
- clarification of sub section 28.5 of the *Regulations* regarding supplemental pension plans.

7. Simplified Termination Reports for One Member Plans

Several pension plans, set up to provide a pension benefit for only one member, are registered under the *PBSA*. Typically they are for a senior officer of a company and often the person is named. When the officer ceases employment or retires, the plan is terminated. We have always required that regular termination procedures be followed, something that is both expensive and time consuming for the administrator of the plan and our staff.

In future, when a plan has been set up for one member and that member retires or terminates employment, opts for portability, and will be the recipient of all surplus assets, we will require only the following:

- A covering letter from the plan administrator, informing us of the date of the plan's termination and the disposition of the assets. The letter must also contain confirmation that all surplus assets are to go to the member.
- A letter from the actuary informing us of the plan's assets and liabilities (and the methods and assumptions used to determine them) on the date of termination.

Note that this simpler process does not cover plans which were set up for a group of members and to which only one member belongs at plan termination.

Also note that if the surplus is being requested by the employer, we will continue to abide by our regular administrative procedures which include approval of the Superintendent.

8. Life Income Funds

This is just a reminder that we sent a memorandum to financial institutions in November 1996 which the

interest rate assumption to be used in determining the maximum annual withdrawal rate from a LIF was incorrect in the 1995 amendment to the *Regulations*. The *Regulations* have since been amended to read that the maximum annual

6. Project 2000

As January 1, 2000 approaches, there is some concern about pension plan administrators' readiness to deal with Year 2000 technology issues. Experts believe that even the best prepared organizations may encounter problems with the Year 2000 date change because of its impact on computer systems. Technological advancements and competition for resources make assessment and implementation of new procedures both complex and costly. We are aware that some pension plan administrators have developed comprehensive plans for the Year 2000, while others have just begun to think about potential problems.

Over the past year, our examiners have focused on Year 2000 projects as part of the examination process. Our staff

will continue to assess Year 2000 readiness of pension plans, including a review of:

- how the administrator has assessed and developed a Year 2000 strategy;
- the accountability framework, including involvement of internal audit and compliance;
- the coping ability of internal operating systems and those provided by third parties;
- the reasonableness of the implementation schedule and the achievement of milestones;
- confirmation that the trustees/plan administrators are aware of their responsibilities.

OSFI has developed a guideline entitled "The Year 2000 Project - Best Practices for Federally Regulated Financial Institutions," which is on the OSFI web site.

withdrawal from a LIF will be based on an interest rate assumption which will be in effect from January 1 of the year in which the LIF is valued. This change is consistent with the formula in effect in most other jurisdictions.

If plan sponsors or their members have questions regarding the calculation of a maximum annual withdrawal from a LIF, they should contact their financial institution.

9. Introduction to New Actuary

On September 15, 1997, Martial Fortin was appointed to the position of Manager, Actuarial and Investments Unit. He has extensive experience in the private pension industry, having worked for the past eighteen years as a consultant. Mr. Fortin holds a B.Sc. in Actuarial Sciences from Laval University and is a Fellow of the Society of Actuaries and the Canadian Institute of Actuaries. Many of you will have a chance to meet Mr. Fortin at various conferences and industry meetings in the near future.

10 External Communication

Over the years we have used different means to communicate with our stakeholders. We have occasion to speak to many of you on the telephone; we send memoranda when important information has to be dispensed quickly; we belong to various pension organizations and attend their conferences; we participate on several industry committees; and, we have participated in meetings sponsored by large plan administrators. *Update* has proven to be a popular method of communicating and we have introduced you to our web site. In addition, our examiners offer assistance to plan sponsors during the course of on-site examinations.

We are currently in the planning stages of a meeting with large plan sponsors which we hope to hold in Toronto at the end of March

1998. We will be recommending topics for the agenda and will solicit other ideas for discussion. Most of the agenda items will be relevant to large defined benefit plans.

We recognize that administrators of small defined benefit plans and money purchase plans have not had an opportunity to discuss problems unique to their plans. We are contemplating holding meetings in Atlantic Canada, Quebec, Ontario, the Prairies and British Columbia. Plan sponsors attending such sessions would be charged a nominal participation fee to cover the costs of the meeting.

We ask that you complete the survey that follows because we would like to know the types of communication that are best suited to you.

11. List of Pension Related Items on the OSFI web site

Pension Benefits Standards Act, 1985

Pension Benefits Standards Regulations

Directives of the Superintendent pursuant to the *Pension Benefits Standards Act, 1985*

Bill S-3: An Act to amend the *Pension Benefits Standards Act, 1985*

PBSA Annual Report, 1996

PBSA Annual Report, 1997

Annual Information Return Form

Guide to Annual Information Return

Financial Statement Form

Guide to Financial Statement Return

Current Fee Schedule

Guideline on Securities Lending - Pensions Plans, February 1992

Guideline for Converting Plans from Defined Benefit to Defined Contribution, April 1992

Guideline for Plan Terminations: Defined Benefit Plans, July 1993

Guideline for Plan Terminations: Defined Contribution Plans, July 1993

Guideline for Federally Regulated Pension Plans - Derivatives Best Practices, May 1997

Guideline - Disclosure Best Practices (draft for comments)

Memorandum to Employers Seeking Consent for a Refund Surplus, March 1993

Instructions for the Preparation of Actuarial Reports, October 1997

Supervisory Guide To Federally Regulated Pension Plans, December 1997

PBSA Update 14 - January 1997

PBSA Update 15 - August 1997

PBSA Update 16 - Winter 1998

Coming soon....

Guideline for Governance of Federally Regulated Pension Plans

Guideline on Investments (draft for comments) ...Spring 1998