



Revised PBGF Allocation Process October 28, 2004

FSCO is making changes to the process of allocating funds from the Pension Benefits Guarantee Fund (PBGF) to the pension plans of insolvent companies. The objective of the revised process is to address issues related to reductions to pension benefits, liability matching and settlement of benefits. The revised process will expedite the transfer of funds from the PBGF to the pension plan while maintaining current accountability and safeguards.

Rationale

Changes to the PBGF allocation process are being made to address a number of key issues.

Reductions to pension benefits

Typically, when a company becomes insolvent, the appointed plan Administrator reduces the pension benefits paid to the retirees of the company's pension plan. The benefits are reduced to the level funded by the pension plan. Once funds are transferred from the PBGF to the pension plan, the pension benefits to retirees return (increase) to the level guaranteed by the PBGF. This interim reduction to the funded level of the pension plan results in financial hardship for retirees on a fixed income.

The revised process will require that pension benefits to retirees be immediately reduced to the PBGF guaranteed level, and not to the funded level of the pension plan. This change will help to alleviate financial instability for retirees.

Liability matching

Funds held in the PBGF are not matched to the liabilities of the pension plan that is being wound up. The revised process will require that funds be transferred from the PBGF to the pension plan, thus allowing the Administrator to better immunize the pension fund and minimize its risk of loss in regards to pension obligations. In this way, the extent of the PBGF claim can be more effectively controlled.

Settlement of benefits

The settlement of benefits to members is often unnecessarily delayed due to hold ups in making payment from the PBGF to the pension funds. Changes to the allocation process will enable the Administrator to maintain the assets in the pension fund and make benefits payments to members in a more timely manner.

Revised Allocation Process

1. *Application by the Administrator*

An application for an allocation to the pension plan may be made by the Administrator as soon as the plan has been declared or ordered to be wound up and the Superintendent has issued a declaration that the PBGF applies to the plan. To expedite the process, the Administrator may apply for a wind up order and PBGF declaration simultaneously.

In the past, a completed wind up report was required to support a declaration that the PBGF applies or an allocation under the PBGF. In recognition of the delays that result from the data verification required to complete an insolvency wind up report, an actuarial statement signed by the actuary will be accepted in lieu of a wind up report for the purposes of the declaration and allocation only. The actuarial statement filed with the application for a declaration or allocation must include the following information:

- a) Effective date of wind up (Wind-Up Date).
- b) Estimate of the financial position of the plan as of the Wind-Up Date showing:
 - Ontario assets
 - Ontario wind up liabilities
 - net funding position
 - wind up funded ratio

based on the information available as at the date of the application.

- c) Estimate of the financial position of the plan as of a Current Date showing:
 - Ontario assets
 - Ontario wind up liabilities
 - guaranteed benefit liability
 - estimated PBGF claim amount.

In determining the estimated PBGF claim amount, the most recent estimate of the remaining expenses to be incurred during the wind up process should be utilized. The Current Date should not precede the submission date of the application by more than three months.

- d) Summary of membership information as at the Wind-Up Date and the Current Date.
- e) Summary of key actuarial assumptions used to develop the financial position of the plan as of the Wind-Up Date and the Current Date.
- f) Actuary's statements of opinion.

2. *Review by FSCO*

FSCO will review the allocation request and, upon acceptance of the estimates provided, the allocation will be authorized. A payment to the plan in the amount of the allocation will then be made from the PBGF.

3. *Reconciliation*

A final wind up report must still be filed and accepted by FSCO prior to the distribution of benefits to the members. The final wind up report should contain a reconciliation between the estimated and actual PBGF claim. If necessary, there may be an additional allocation request. A reconciliation of the financial position of the plan between the wind up date and the current date will no longer be required for an allocation.

Once all benefits have been disbursed and expenses have been paid, any excess funds obtained from the PBGF must be returned to the PBGF.