Impact of Ontario's new funding framework on university pension plans

The new pension funding framework announced by the Ministry of Finance on May 19, 2017, focuses on single-employer defined benefit (DB) plans. Funding requirements for jointly sponsored pension plans (JSPPs) have not been addressed.

Based on the May 19 announcement, we now know that single-employer DB plans will face more stringent going-concern funding requirements. We also know they will face less onerous solvency funding requirements. However, the total impact of the new framework will not be fully known until key details are released—such as how solvency funding will be measured or the size of the new going-concern funding reserve each plan will have to fund. From what we know so far, it seems likely that many university sector DB plans will continue to face solvency funding challenges.

Legislation on the new funding framework will be introduced this fall and consultations on the related regulations will be conducted at that time. In the meantime, Finance will introduce measures to help DB plans that are due to file valuation reports dated between December 31, 2016 and December 31, 2017 and would otherwise face new solvency funding requirements because of those filings. Details will be made available "in the coming weeks."

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OVERVIEW OF NEW FRAMEWORK

The following changes are expected to have a direct impact on plan costs:

1. **Going concern funding** will be strengthened by requiring funding towards a reserve in the plan, referred to as a Provision for Adverse Deviation (PfAD). The period to pay down any special going-concern funding shortfall will be shortened to 10 years (from 15 years). Payments for previous shortfalls will be consolidated into a single 10-year payment schedule with each valuation.
2. **Solvency funding** will be eased by requiring shortfall payments only when the plan's solvency funding level dips below 85%. The payment period remains unknown.
3. **Ontario's Pension Benefit Guarantee Fund**, which now protects the first $1,000 of monthly DB pension payments in the event of employer bankruptcy, will increase its protection by 50% to $1,500. We expect the cost paid by the employers for this protection will increase, but the specifics are, as yet, unknown.

Going-concern valuation
Measures plan's health assuming it continues to operate long past the valuation date

Solvency valuation
Tests plan's health assuming the university shuts down on the valuation date

UPP3 will continue to keep a close eye on the province's efforts to reform its pension funding framework and, in particular, any consequences this might have for a new multi-employer JSPP.