PBI ACTUARIAL CONSULTANTS LTD. PENSIONS BENEFITS INVESTMENTS

CLIENT MEMO

PENSIONS

Quebec - Temporary relief measures for the funding of solvency deficiencies

February 2, 2012

Background

In 2009, the Regie des rentes du Quebec adopted measures to alleviate the effects of the 2008 financial crisis. The **"2009 Temporary Relief Measures"** were aimed at organizations that offer their employees a defined benefit pension plan. They allowed plan sponsors to temporarily reduce the amortization payments they were required to make into the pension fund. Those measures **expired on December 31st, 2011.** Unfortunately, today, many pension plans are still underfunded and facing long-term financial difficulties. These issues are due in large part to **historically low interests rates and lower-than-expected investment returns.**

Extension of solvency funding relief

On December 28th, 2011, the **Quebec Government published draft regulations announcing its intentions to extend the relief measures to defined benefit pension plans** registered in Quebec until the earliest of the following events: the first actuarial valuation showing that the plan is solvent, the amendment of the plan (must be at the end of the plan year), or the end of the first plan year beginning after December 31st, 2012.

Under these regulations, the body empowered to amend the plan would be able to instruct the pension committee that administers the plan to use one or more of the relief measures for the purposes of the first actuarial valuation of the plan dated after December 30th 2011. These measures can be implemented without the consent of the plan members or the pension committee and are available whether or not 2009 Temporary Relief Measures were previously used.

Temporary relief measures offered

1. <u>Use of a "smoothing" asset valuation method</u>

It is possible to use an **averaging method that stabilizes short term fluctuations in market value of plan assets for the purposes of determining the value** of those assets on a solvency basis. The period used to level short-term fluctuations in market value is subject to a maximum of 5 years. The method must be the same as the one used under the 2009 Temporary Relief Measures, if applicable.

2. <u>Elimination of amortization payments</u>

Special payments with respect to solvency deficiencies (technical and improvement unfunded liabilities) determined prior to the first valuation **can be eliminated***,* with the exception of those related to a plan amendment made on or after December 30, 2008.

3. <u>Extension of the period of amortization</u>

The **amortization period for a technical solvency deficiency** determined at the date of the actuarial valuation has been extended to **10 years after the date of the valuation that determines the deficiency**.

The draft regulation doesn't include any specifications regarding disclosure to plan members. The complex minimum contribution rules that were included in the 2009 Temporary Relief Measures were also removed. The actuarial valuation report that will be produced following the use of the temporary funding relief measures, should disclose the accumulated amount of additional amortization payments that would have been paid in the absence of these temporary funding relief measures.

It remains to be determined whether or not PBI will submit comments on this draft regulations to the Regie des rentes du Québec before February 11th.

If you have questions regarding these draft regulations, or would like to submit your suggestions and comments, please do not hesitate to contact Sonia Massicotte at 514-317-2342 or by email at sonia.massicotte@pbiactuarial.ca .

ABOUT PBI

PBI Actuarial Consultants Ltd. is a dynamic and growing company focused on providing actuarial, administrative and investment consulting services for pension and benefit plans, as well as other trust funds across Canada.

Visit our website at http://www.pbiactuarial.ca to learn about our services or connect with our experts for more information:

Pensions: Susan Chortyk 604-647-3230 susan.chortyk@pbiactuarial.ca
Benefits: Avinash Maniram 604-647-3215 avinash.maniram@pbiactuarial.ca
Investments: Tony Williams 604-647-3232 tony.williams@pbiactuarial.ca