

COMMUNIQUÉ

QUÉBEC ISSUES A NEW DRAFT REGULATION CONCERNING FUNDING RELIEF MEASURES

Québec has issued a draft regulation that will provide funding relief to defined benefit pension plans of the private sector registered in Québec.

A separate draft regulation provides different measures for universities and municipalities.

This Communiqué will primarily be of interest to sponsors of Québec registered pension plans.

Background

In November 2009, Québec had adopted the *Regulation respecting measures to reduce the effects of the financial crisis on pension plans covered by the Supplemental Pension Plans Act*. The regulation provided funding relief to defined benefit pension plans registered in Québec for a period generally ending on December 31, 2011. These funding relief measures were summarized in our [November 20, 2009 Communiqué](#).

A second regulation, the *Regulation providing temporary relief measures for the funding of solvency deficiencies* published on May 30, 2012 provided similar funding relief for a two-year period. These measures were described in our [January 10, 2012 Communiqué](#).

The measures provided by the second regulation were due to expire on December 31, 2013 for most private sector pension plans. Likewise, the separate relief measures applicable to pension plans for municipalities and universities were scheduled to end on December 31, 2013.

Following the publication of the report of the Expert Committee on the Future of the Québec Retirement System in April 2013, the government indicated that it would extend the application of funding relief measures for defined benefit pension plans beyond December 31, 2013.

The measures provided by the new draft *Regulation providing new relief measures for the funding of solvency deficiencies of pension plans in the private sector* are similar to those provided by the prior regulations, and are interesting as they allow a fresh start, thus permitting the elimination of existing amortization payments related to prior solvency deficiencies.

On the other hand, the measures provided by the new draft *Regulation to amend the Regulation respecting the funding of pension plans of the municipal and university sectors* call for a lower level of relief than prior relief regulations, when expressed in percentage terms.

Relief Measures – Private Sector

According to the draft regulation, the relief measures will apply starting with the first complete actuarial valuation having an effective date after December 30, 2013 and generally ending at the end of a plan's first fiscal year beginning after December 31, 2014 (i.e. ending December 31, 2015 for plans with fiscal years corresponding to the calendar year).

The draft regulation includes three funding relief measures applicable to the solvency valuation:

- plan asset smoothing over a maximum period of five years;
- at the time of the first valuation covered under the new relief measures, elimination of amortization payments related to any prior solvency deficiency (including technical actuarial deficiencies and those related to an improvement); and
- extension of the amortization period from five to ten years for the solvency deficiency determined on the date of the first actuarial valuation made under the relief measures (excluding the effect of an amendment taken into account for the first time).

If asset smoothing is used, and had been used under the 2012 funding relief measures, the same asset valuation method must be used.

The funding relief measures affect only the solvency valuation. For each year, the amortization payments will correspond to the higher of the payments determined under the solvency valuation with relief measures and the payments determined under the going-concern valuation.

Under the solvency valuation, any loss revealed in a valuation made while the new funding relief measures are in effect will create a *new technical solvency deficiency* and will also be amortized over ten years if the extension measure has been elected. As is the case under the permanent rules, the gains revealed in future valuations cannot be used to reduce solvency deficiencies.

Impact on the Going-Concern Valuation

Where a plan uses any of the funding relief measures provided by the draft regulation, the value of the plan assets, for purposes of the going-concern valuation, may not be greater than the value that would be determined using the asset valuation method used in the last complete actuarial valuation prior to December 31, 2013.

Election of Funding Relief Measures by the Employer

The employer may implement one or several of the relief measures by providing written instructions to the pension committee. For multi-employer pension plans, the instructions must be given by the person or body empowered to amend the plan.

In the instructions given to the pension committee, if the employer has elected to use asset smoothing, the employer will need to specify the period to be used for such purposes. The asset valuation method elected for solvency purposes must continue to be applied for the purposes of subsequent actuarial valuations while the relief measures are in effect.

End of Funding Relief Measures

The provisions of the draft regulation will cease to apply to a pension plan on the earliest of the following dates:

- the date of the first actuarial valuation showing that the plan is solvent;
- the date indicated in written instructions provided by the employer (or the person/body empowered to modify the plan, in the case of a multi-employer plan) to the pension committee, such date to coincide with the end of a plan year; and
- the date of the end of the first plan year beginning after December 31, 2014.

At that time, the existing solvency amortization payments will be maintained until they can be eliminated under the permanent rules.

Content of Actuarial Reports

Actuarial reports must indicate the measures taken in accordance with instructions, or specify that no instructions were given. Reports must also contain a description of the asset valuation method used.

Relief Measures – Municipalities and Universities

The draft regulation allows relief measures in respect of the funding of actuarial technical deficiencies for a period of two years, from January 1, 2014 to December 31, 2015, for pension plans of the municipal and university sectors.

Thus, for pension plans of the municipal and university sectors, amortization payments that become payable after December 31, 2013 and prior to January 1, 2016 in respect of a technical actuarial deficiency determined during a complete actuarial valuation of the plan dated after December 30, 2008 and prior to December 31, 2015 may be set at 50% of the payments otherwise established.

To apply this measure, the employer must provide written instructions to the pension committee, who must then notify the Régie des rentes du Québec as soon as possible by transmitting the prescribed information.

A new actuarial valuation is not required.

Submissions

Submissions may be made to the Régie des rentes du Québec on the draft regulations by August 24.

Comments

The measures are welcome, given the delay prior to the application of any changes to permanent funding rules following the publication of the expert committee report.

For the private sector, the measures partially correct a disliked element of the existing funding rules, according to which experience gains or contributions in excess of the minimum required do not result in an immediate reduction of future amortization payments. By allowing the elimination of existing amortization payments in respect of prior solvency deficiencies at the time of application of the new relief measures, and the amortization of the solvency deficiency over a fresh period, the amortization payments will be adjusted and will reflect the favorable experience and any additional contributions made prior to the application of the relief measures.

For municipalities and universities, the measures will enable budgeting for the next two years and thus facilitate transition to permanent changes.

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