Pension Plan Administrator's Guide: Limited Liability Plans

An explanation of the regulatory and funding regime for limited liability plans.

Financial and Consumer Affairs Authority

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Part 1: Introduction & Background

1.0 Introduction

This guide applies to Limited Liability Plans ("LLPs"). *The Pension Benefits Regulations, 1993* (the Regulations), define LLPs as defined benefit pension plans where the employer's liability with respect to funding of the plan is limited to the amount provided for in the plan pursuant to a collective bargaining agreement, or where the plan is a prescribed plan[1]. The Regulations exempt Specified Plans[2] from the definition of an LLP.

Effective August 25, 2017, the Regulations were amended to establish a new funding and regulatory regime for LLPs ("LLP Regime"). The LLP Regime applies to a LLP once an actuarial valuation report with a review date of December 31, 2016 or later is filed.

This guide describes the following key components of the LLP Regime:

Part 2: Funding
Part 3: Benefit Improvements and Reductions
Part 4: Commuted Value Calculation
Part 5: Communications, Administration & Governance

In general, the LLP Regime is as follows:

- Permanent exemption from funding solvency deficiencies;
- Requirements respecting provision for adverse deviations[3] ("PfAD");
- Restrictions on certain benefit improvements;
- Allow LLPs to amend the plan documents to calculate commuted values ("CV") using the best estimate going concern ("GC") discount rate and other assumptions in the most recently filed actuarial valuation report ("AVR"), referred to as "GC CV" throughout this guide; and
- Enhanced member communications.

This guide will explain the provisions of *The Pension Benefits Act, 1992* (the Act) and the Regulations as they pertain to the regulatory and funding regime for LLPs. This guide has no legal authority and should not be construed as legal advice. The Act and Regulations should be used to determine specific requirements.

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[1] There are no prescribed plans to which the rules for LLPs apply.
[2] A Specified Plan means a plan listed in Table 1 of Part II of the appendix to the Regulations. These are also commonly referred to as "public sector plans".
[3] For the purposes of establishing minimum funding requirements and restricting certain benefits for plans registered under the Act, the Regulations define the phrase "provision for adverse deviations" and the acronym "PfAD". However, for the purposes of providing actuarial guidance related to the preparation and communication of actuarial information, plans should look to the Canadian Institute of Actuaries' definition of "provisions for adverse deviations".

Part 2: Funding

2.0 Introduction

The purpose of this Part is to outline the funding requirements applicable to LLPs. Additional information related to funding defined benefit plans, including LLPs, is available in our publication “Guide - Funding Defined Benefit Plans”.

2.1 Funding Regime

The rules outlined herein apply once an LLP files an actuarial valuation report with a review date of December 31, 2016 or later. Section 36.98 of the Regulations sets out the funding rules for LLPs as follows:

1. Contribution requirements:

    (i) Current Service Costs, referred to as “CSC” throughout this guide:
    - Monthly contributions, an amount that is equal to 1/12 of the annual CSC.

    (ii) PfAD on CSC:
    - There is no PfAD requirement on the CSC until the second and subsequent AVRs are filed under the LLP Regime.
    - With the filing of the second and subsequent AVRs, monthly contributions, an amount that is equal to 1/12 of the product of the PfAD multiplied by the annual CSC (hereinafter referred to as “CSC PfAD”).
    - Note: While funding CSC PfAD is not required until the filing of the second and subsequent AVRs, the minimum required CSC PfAD, had funding been required, is expected to be communicated in the first report filed that has a review date of December 31, 2016 or later.

    CSC PfAD is discussed further in section 2.4.

    (iii) Going Concern Costs, referred to earlier as “GC”:
    - Unfunded Liability (“UL”) special payments, if any
    - NOTE: Except as described in point (iv) just below, there is no minimum required PfAD to be explicitly included on the GC balance sheet, hereinafter referred to as “GC PfAD”.

    GC valuations and funding are discussed further in section 2.3.

(iv) GC PfAD is explicitly required in the case of a benefit improvement for pensioners as is described briefly in point 3. below and in greater detail in Part 3.

GC PfAD is discussed further in section 2.4.

2. Solvency Valuations and Funding:

Under the LLP Regime, an LLP is not required to fund on a solvency basis. Certain rules regarding solvency valuations and funding continue to apply.

Solvency valuations and funding are discussed further in section 2.2.

3. Benefit Improvements

PfADs play a critical role in the rules relating to benefit improvements. In general the benefit improvement rules are as follows:

- For the purposes of this guide, a benefit improvement to pensions-in-pay ("BIP") means "an amendment to the LLP which improves the monthly pension of a former member who has commenced his or her pension (a "pensioner")".

  Under the LLP Regime, a BIP is permissible so long as the LLP's actuary can certify that the negotiated contributions will be enough to cover the LLP's funding requirements (i.e. CSC, CSC PfAD, and UL special payments, if any). The two points to take note of are:

  - The GC balance sheet which would reflect the BIP would have to include an explicit minimum required GC PfAD; and
  - Any portion of the UL which is attributable to the BIP would have to be amortized over a period of not greater than 5 years[4].

  GC valuations and funding is discussed further in section 2.3.

  GC PfAD is discussed further in section 2.4 and the chart with the minimum required GC PfAD in the event of a BIP can be found in Part 3.

[4] The remainder of an established UL, and all previously established ULs, would continue to be subject to the 15 year amortization period as is currently required under the Act.

- For the purposes of this guide, any other benefit improvement ("OBI") means "an amendment to the LLP which improves benefits which would not be considered a BIP".

  Under the LLP Regime, an OBI would be permissible as long as the LLP's actuary can certify that the negotiated contributions will be enough to cover the LLP's funding requirements (i.e. CSC, CSC PfAD, and UL special payments, if any). In the case of an OBI, there would be neither a minimum required GC PfAD nor special amortization requirements related to the portion of a UL attributable to an OBI.

Benefit improvements are discussed further in Part 3.

2.2 Solvency Valuations and Funding

An LLP is not required to fund any solvency deficiency – including a solvency deficiency established in an AVR filed on or after December 31, 2016.

The solvency position of an LLP must, however, continue to be measured and reported in each AVR. The solvency position would be calculated and illustrated as a fresh start. As no solvency deficiency payments are required, solvency assets would not be increased in consideration of any future special payments towards a solvency deficiency. However, solvency assets would include the present value of up to five years of UL special payments, where applicable.

The solvency position of the LLP is to be used for management purposes, and for establishing the solvency ratio. In addition, the solvency ratio would continue to have to be communicated to members. Further, if the LLP continues to calculate commuted values based on the recommendations for the computation of transfer values of pensions issued by the Canadian Institute of Actuaries (hereinafter referred to as "CIA CVs"), the solvency ratio is used to apply the transfer deficiency rules of the Regulations. Note that the transfer deficiency rules of the Regulations do not apply to GC CVs.

2.3 Going Concern Valuations and Funding

An LLP is required to fund a UL over a period not greater than 15 years. ULs must each be funded separately. The LLP Regime does not provide a fresh start at each review date for the going concern valuation. In addition, as it relates to benefit improvements, a UL that is the result of a BIP would be required to be amortized over a period not greater than 5 years.

It is expected that the Administrator will manage the GC valuation in accordance with the plan's written funding policies and procedure and in doing so a buffer will arise and present itself on the GC balance sheet that will increase or decrease based on plan experience and/or contributions. This buffer could be anywhere between 0% and the amount documented in the plan's written funding policies and procedures.

In the event of a BIP, that buffer must be at least equal to the required GC PfAD.

GC PfAD is discussed further in section 2.4 and the chart with the minimum required GC PfAD in the event of a BIP can be found in Part 3. Benefit improvements are discussed in Part 3.

2.4 Provisions for Adverse Deviations

The LLP Regime includes PfAD requirements. In general, a PfAD is an additional liability, over and above the actuarial liability. It would be expressed as a dollar amount and a percentage of the actuarial liability.

2.4.1 Funding the PfAD

Section 2.1 discusses the funding regime. The following is meant to summarize the funding requirements related to the PfAD:

(i) The minimum required CSC PfAD must be funded
(ii) ULs must be amortized
  - Except in the case of a BIP, the GC balance sheet may include a buffer of anywhere between zero and the amount determined by the Administrator and documented in the LLP's funding / benefit policy. Any portion of an UL that is not attributable to a BIP must be amortized over 15 years or less.
  - In the case of a BIP, the GC balance sheet must include a buffer that is at least equal to the minimum required GC PfAD. Any portion of an established UL that is attributable to a BIP[5] must be amortized over a period of not more than 5 years. Please see Part 3 for more information on benefit improvements.

2.4.2 Calculating the Minimum Required CSC PfAD

LLPs should adopt a written funding / benefit policy which considers the nature of the plan, the fiduciary obligations of the Administrator, and industry best practices.

The minimum CSC PfAD requirement ranges between 0% to 10%, depending on the LLP's asset allocation. For example, an LLP with 0% equity allocation would require a CSC PfAD of 0%, and the CSC PfAD would gradually increase to 10% for an LLP with 100% equity allocation. Within

[5] All of the UL which is attributable to the GC PfAD, including any part of the GC PfAD which is attributable to the BIP, would continue to have to be amortized over a period not greater than 15 years.

an LLP's funding / benefit policy, target PfADs could be established that are higher than those set out as a minimum standard under the LLP Regime. The minimum required CSC PfAD is based on this table:

Equity Allocation (%)	Minimum Required CSC PfAD (%)	Equity Allocation (%)	Minimum Required CSC PfAD (%)
0	0		
10	5	60	7.5
20	5	70	10
30	5	80	10
40	7.5	90	10
50	7.5	100	10

Funding the CSC PfAD is discussed further earlier in this section.

2.4.3 Calculating the Minimum Required GC PfAD

It is expected that the Administrator will manage the GC valuation in accordance with the plan's written funding policies and procedure and in doing so a buffer will arise and present itself on the GC balance sheet that will increase or decrease based on plan experience and/or contributions. This buffer could be anywhere between 0% and the amount documented in the plan's written funding policies and procedures.

BIPs are discussed further in Part 3. In the event of a BIP, at the time of that benefit improvement, the minimum required GC PfAD is as follows:

Equity Allocation (%)	Minimum Required GC PfAD (%), in the event of a BIP	Equity Allocation (%)	Minimum Required GC PfAD (%), in the event of a BIP
0	0		
10	5	60	7.5
20	5	70	10
30	5	80	10
40	7.5	90	10
50	7.5	100	10

At the time of any actuarial valuation, it is acceptable to have different PfADs on CSCs and on the GC balance sheet, provided the minimum standard is met.

Funding the GC PfAD is discussed further earlier in this section.

2.4.4 Benefit Improvement Restrictions

As mentioned earlier, PfADs play a critical role in the rules relating to benefit improvements. The topic of "benefit improvements" is discussed in greater detail in Part 3.

2.5 Actuarial Gains

If the current AVR establishes that the total amount of all ULs is less than the total amount of all ULs projected in the previous AVR, the amount of that actuarial gain may be used to:

- Reduce or eliminate the outstanding balance of any UL, with the oldest established unfunded liabilities being eliminated or reduced before later ones; and
- Further special payments may be reduced on a prorated basis over the remainder of the applicable amortization period or current service contributions may be reduced.

In the event that surplus is built up on the GC balance sheet, that surplus could continue to be applied to the funding requirements of the LLP.

2.6 Funding / Benefit Policy

It is expected that all LLPs establish and maintain a funding / benefit policy. The Deputy Superintendent expects that pension plans will be administered in accordance with the Act and Regulations, and that the Administrator and plan decision makers will carefully consider industry best practices in administering the plan.

The Deputy Superintendent has endorsed the CAPSA documents published with respect to pension plan funding policies and pension plan prudent investment. Specific to this subject, are "*Guideline No. 6 – Pension Plan Prudent Investment Practices Guideline*" and "*Guideline No. 7 – Pension Plan Funding Policy Guideline*".

Part 3: Benefit Improvements and Reductions

3.0 Introduction

The purpose of this Part is to outline the proposed benefit improvement restrictions and benefit reduction requirements that are applicable to LLPs.

3.1.1. Benefit Improvements – Pensioners

Under the LLP Regime, BIPs would be permissible if:

- at the time of the BIP, the GC balance sheet includes an explicit buffer that is equal to or greater than the minimum required GC PfAD (see the below chart which outlines the minimum required GC PfAD);
- any UL attributable to the BIP is amortized over a period not greater than 5 years (Note: any UL resulting from a GC PfAD may be amortized over a period of no more than 15 years); and
- the LLP's negotiated contributions are enough to cover the funding requirements (i.e. CSC, CSC PfAD and ULs, if any) of the LLP. Recall that a UL would've been derived from a GC balance sheet that would've included the minimum required GC PfAD.

At any valuation date, BIPs would not be permissible unless the actual GC PfAD found in the GC balance sheet was equal to or greater than minimum required GC PfAD. In the case of a BIP, the minimum required GC PfAD is:

Equity Allocation (%)	Minimum Required GC PfAD (%), in the event of a BIP	Equity Allocation (%)	Minimum Required GC PfAD (%), in the event of a BIP
0	0		
10	5	60	7.5
20	5	70	10
30	5	80	10
40	7.5	90	10
50	7.5	100	10

As mentioned earlier, a GC PfAD presented in a GC balance sheet forms part of the GC liabilities. As with any UL illustrated on a GC balance sheet, where the GC liability, which includes the GC PfAD, exceeds GC assets, the excess **must** be amortized over a period not greater than 15 years. Under the LLP Regime, any part of the UL which is attributable to a BIP must be amortized over a period not greater than 5 years. Note: Any part of the GC PfAD which is attributable to the BIP could be amortized over a period not greater than 15 years.

It is expected that a buffer on the GC balance sheet be built up through positive actuarial experience and/or any excess contributions and drawn upon during periods of adverse plan experience.

3.1.2. Benefit Improvements – All Other Benefits

Under the LLP Regime, OBIs are permissible if the LLP's negotiated contributions are enough to cover the funding requirements of the LLP (i.e. CSC, CSC PfAD and ULs, if any).

Under the LLP Regime, the CSC PfAD is to be funded and a buffer could be built up through positive actuarial experience and/or any excess contributions and could be drawn upon during periods of adverse plan experience. The minimum required CSC PfAD is outlined in the chart found in section 2.4 of Part 2.

3.2 Benefit Reductions

3.2.1 Ongoing LLP – Funding Requirements

Under the LLP Regime, an LLP's negotiated contributions must cover the following costs:

- Current service costs,
- The CSC PfAD,
- UL special payments (amortized over 15 years), if any, and
- UL special payments related to the cost of a BIP (amortized over 5 years), if any.

A PfAD presented in a GC valuation forms part of the GC liabilities. As with any UL established in a GC valuation, where the GC liabilities, which includes any actual PfAD, exceeds GC Assets, the excess **must** be amortized over the appropriate amount of time.

If an LLP's negotiated contributions are not enough to cover the funding requirements, the LLP would be required to reduce benefits (i.e. future, accrued or both) and/or increase contributions. Any benefit reductions requires the approval of the Deputy Superintendent and should be completed in accordance with a funding / benefit policy.

At any valuation date, if the CSC PfAD is less than the minimum required CSC PfAD, then either higher contributions would need to be negotiated and/or some form of benefit reductions would need to be considered.

These changes (i.e. benefit reductions and/or contribution rate increases) would continue to have to be made via amendment to the plan documents, which must be filed with the Deputy Superintendent for registration.

3.3 Funding / Benefit policy

It is expected that all LLPs establish and maintain a funding / benefit policy. The Deputy Superintendent expects that pension plans will be administered in accordance with the Act and Regulations, and that the Administrator and plan decision makers will carefully consider industry best practices in administering the plan.

The Deputy Superintendent has endorsed the CAPSA documents published with respect to pension plan funding policies and pension plan prudent investment. Specific to this subject, are "*Guideline No. 6 – Pension Plan Prudent Investment Practices Guideline*" and "*Guideline No. 7 – Pension Plan Funding Policy Guideline*".

Part 4: Commuted Value Calculation

4.0 Introduction

The purpose of this Part is to set out the acceptable methods for calculating commuted values of benefits under an LLP.

4.1 Commuted Value Calculation Methods

A member of an LLP can usually[6] transfer the commuted value of a benefit out of the plan on termination of membership.

For an LLP there are two ways to calculate a defined benefit commuted value under the Regulations. The methodology utilized by an LLP is a matter of plan design and must be captured in the plan documents and the commuted value basis.

One method is where the commuted value is determined in accordance with the standards of practice issued by the Canadian Institute of Actuaries. This commuted value was referred to earlier as a "CIA CV". If the plan is underfunded at the time of termination of membership, the person would receive only the funded portion (based on the solvency ratio) of the CIA CV and would receive the remaining portion of the CIA CV within five years. It is important to note that, if the LLP's negotiated contribution rates are not sufficient to cover the funding requirements of the plan, an LLP is required to reduce benefits, which could include any held back portions of transfers.

An alternative method is where the commuted value is determined using the best estimate going concern assumptions used in the most recently filed AVR. This commuted value was referred to earlier as a "GC CV". It is possible for the LLP to be amended, or a new LLP established, to provide for the calculation of commuted values using the GC CV methodology. Calculating commuted values using the GC CV methodology is a plan design option for an LLP. Commuted values calculated using the GC CV methodology would be calculated using the best estimate GC discount rate and other assumptions utilized in the most recently filed AVR. The

[6] Provided the person is terminating membership in the plan and is younger than the early retirement age of the plan, the person may transfer the value of his or her benefit out of the plan. Clause 2(1)(ii) of the Act defines termination of membership to mean:

> (i) in relation to a member of a specified multi-employer plan:
>
> > (A) the expiry of any period of two consecutive fiscal years of the plan in which the member has not completed at least 350 hours of employment with one or more of the employers that are required to contribute to the plan; or
> >
> > (B) the cessation of membership in a class of employees that is covered by the plan;
>
> (ii) in relation to a member of a supplemental plan, including a supplemental specified multi-employer plan, the termination of the member's membership in the plan to which it is supplemental; and
>
> (iii) in relation to a member of any other plan, the cessation by the member of employment for which benefits accrue pursuant to the plan on the member's behalf.

payment of the GC CV is restricted to the lesser of 100% or the best estimate funded number ("BEFN") of the LLP. Calculating the GC CV is discussed further under section 4.2.

Note: While this guide often refers to paying out a commuted value only due to a termination of membership, there are many other circumstances where the calculation and payment of a commuted value are triggered under the Act and Regulations. The methodologies discussed throughout this guide, including in this section, are used in those other life event situations as well (i.e. division of benefits on spousal relationship breakdown, death, etc.).

4.2 Calculating and Paying out the Commuted Value

CIA CV

Under the LLP Regime, LLPs could continue to provide benefits that are calculated using the CIA CV methodologies. The transfer deficiency rules as set out in section 28 of the Regulations would continue apply to a CIA CV.

The CIA CV must be determined in accordance with the standards of practice issued by the Canadian Institute of Actuaries.

The calculation and payment of the CIA CV is as follows:

- On termination of membership, the member's commuted value is calculated using the Canadian Institute of Actuaries rates. The transfer is then paid out at the lesser of:

    - the CIA CV; and
    - the CIA CV multiplied by the solvency ratio of the plan.

  If the amount transferred is less than the CIA CV, the amount that is not paid out initially is paid within five years' time. For example, if the CIA CV is calculated to equal $80,000 and the solvency ratio of the plan is 75%, the amount transferred now would be $60,000 and the remaining $20,000 would be paid out within five years' time.

If the LLP is fully funded (on a solvency basis) in the most recently filed AVR, on termination of membership, the member is entitled to receive 100% of the commuted value.

If the LLP is not fully funded (on a solvency basis) in the most recently filed AVR, on termination of membership, the member is entitled to receive the funded portion of the commuted value. Any held-back portion would be transferred, with interest, to the member within five years. As mentioned earlier, if, during that five year window, the LLP's negotiated contribution rates are not sufficient to meet the funding requirements of the plan, an LLP may be required to reduce accrued benefits, which could include any held back portion of a transfer.

GC CV

Under the LLP Regime, an LLP can be amended, or established, to provide for the calculation of commuted values based on the GC CV methodology. An amendment to the LLP could cause the GC CV methodology to apply on a go forward basis only or on past and future service. The transfer deficiency rules do not apply to a GC CV. The calculation and payment of the GC CV would be as follows:

- On termination of membership, the member's benefit value is calculated using the best estimate GC discount rate, without regard for any margin for adverse deviations, used in the most recently filed AVR. The transfer out of the GC CV is equal to the lesser of:

  - the benefit value; and
  - the benefit value multiplied by the best estimate funded number, referred to earlier as "BEFN", of the plan. The BEFN calculation is below.

  The member's GC CV does not include the unfunded portion of the benefit value. For example, if the benefit value was $55,000 and the BEFN of the plan was 80%, the amount transferred – the GC CV - would be $44,000. There would be no additional amount payable at a future date.

The LLP Regime allows an LLP to calculate commuted values based on the CIA CV and/or GC CV methodologies. As discussed earlier, the plan could provide that the GC CV methodology be utilized on either a go forward or retrospective basis. In either case, go forward or retrospective, the use of the GC CV would require an amendment to the LLP.

The BEFN is calculated as follows:

Formula: A divided by B

Where "A" is the going concern assets of the LLP as at most recently filed AVR and where "B" is the best estimate going concern liabilities, without regard for any buffers, including any GC PfADs.

The calculation and payment of the GC CV is only applicable when the GC CV is transferred out of the LLP. If the entitlement remains in the LLP, it is not acceptable to reduce the entitlement on individual termination of membership. However, as mentioned earlier, an LLP continues to be able to reduce accrued and future benefits in order to meet the funding requirements of the LLP.

The GC CV or CIA CV applies to any transfer out made from the LLP (i.e. termination of membership, death, and division). In the event that the LLP does not provide a retiring member or former member with the option to remain in the LLP as a pensioner but rather requires the retiring member or former member to commence a pension outside of the LLP (i.e. the pension is not paid directly from the LLP but instead is paid from a life insurance company in the form of an immediate annuity), then the GC CV methodology would not apply; in this situation, the retiring member or former member would be entitled to receive an immediate annuity which provides a monthly annuity payment equal to the pension that otherwise would've been payable from the LLP. Under the LLP Regime, it is expected that the LLP's funding / benefit policy (for an LLP which is designed to not pay the pensions directly from the LLP) would ensure that the GC liabilities take these annuity purchase liabilities into consideration.

Appendix A provides an example of the GC CV methodology.

4.3 Applying the GC CV methodology to accrued benefits

Under the LLP Regime, amending the plan such that accrued benefits (those which would've been subject to the CIA CV methodology) may be calculated and paid using the GC CV methodology is permissible, subject to the following conditions:

- The LLP must be subject to section 36.98 of the Regulations;
- Notice must be provided to all members and former members impacted by the amendment within 90 days after the amendment has been registered by the Deputy Superintendent.
- The amendment cannot be acted upon until 180 days after the amendment has been registered by the Deputy Superintendent.
- The actuarial valuation report or cost certificate applicable to the amendment must be filed with the amendment.
- The commuted value basis must be filed with the amendment.

The Deputy Superintendent may require additional information prior to the registration of the amendment. In addition, the Deputy Superintendent may impose any conditions on the registration of the amendment.

Under the LLP Regime, a plan sponsor could:

- Establish a new plan that provides for benefits using only the GC CV methodology and freeze[7] or close[8] the LLP that holds the accrued benefits calculated using the CIA CV methodology;
- Amend the current plan to provide for the calculation of benefits using the GC CV methodology on a go forward and retrospective basis, thereby eliminating the need to calculate accrued benefits using the CIA CV methodology.

Regardless of which commuted value methodology the plan provides, the method must be uniform for all members or former members, unless the Deputy Superintendent approves a variation in the method.

4.4 Benefits Payable on Plan Termination

Subject to the terms of the plan documents, benefits can be reduced on plan termination if the LLP's assets are not enough to cover its liabilities. The distribution of assets on plan termination would continue to be subject to section 39 of the Regulations.

4.5 Funding / Benefit policy

It is expected that all LLPs establish and maintain a funding / benefit policy. The Deputy Superintendent expects that pension plans will be administered in accordance with the Act and Regulations, and that the Administrator and plan decision makers will carefully consider industry best practices in administering the plan.

The Deputy Superintendent has endorsed the CAPSA documents published with respect to pension plan funding policies and pension plan prudent investment. Specific to this subject, are "*Guideline No. 6 – Pension Plan Prudent Investment Practices Guideline*" and "*Guideline No. 7 – Pension Plan Funding Policy Guideline*".

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[7] "Freeze" means that there are no new benefit accruals in the plan and all current members and new hires will join a new plan. The old plan will hold the benefits to which the CIA CV methodology applies and the new plan will hold the benefits to which the GC CV methodology applies.

[8] "Close" means that the old plan is closed to new members and all current members will remain in the old plan and all new hires will join a new plan. The old plan will hold the benefits to which the CIA CV methodology applies and the new plan will hold the benefits to which the GC CV methodology applies.

Part 5: Communications, Administration & Governance

5.0 Introduction

The purpose of this Part is to set out the requirements and expectations for communications, administration and governance of an LLP.

5.1 Communications with Members

LLPs are required to provide various communication and disclosure items to plan participants. The Regulations have been amended to require additional disclosure requirements:

- Disclosure statements (i.e. annual statements, statements on termination, retirement, death, etc.) must inform members and former members of the events which could cause benefits to be reduced.
- Where the LLP provides for GC CVs, disclosure statements for members and former members must disclose the BEFN and explain how the BEFN affects the commuted value if benefits are transferred out of the plan.

5.2 Administration & Governance

All pension plans, including LLPs, should establish and maintain a governance policy. The Deputy Superintendent expects all pension plans to be administered in accordance with the Act and Regulations, and expects Administrators and decision makers to carefully consider industry best practices.

The Deputy Superintendent has endorsed the Canadian Association of Pension Supervisory Authority's (CAPSA) published documents respecting pension plan governance and administration. Specific to this subject, is "*Guideline 4: Pension Plan Governance Guidelines and Self-Assessment Questionnaire*".

Part 6: Contact Us

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Appendix A – GC CV Example

Scenario

An LLP with only one member (for the purposes of this example, it helps to visualize the commuted value when presented with a one member scenario) uses a 5% net discount rate. For simplicity, that 5% net discount rate is derived from a 6% best estimate (BE) rate and a 1% margin. The single member has terminated and has decided to transfer his or her commuted value out of the LLP. The terminating member is entitled to receive $175,000.

The following example illustrates the above scenario:

Going Concern Valuation	
Assets	$175,000
Liabilities (determined using the 5% BE discount rate, with margin) … this could be broken down further to read: Liabilities (determined using the 6% BE discount rate, without margin) $217,473 Liabilities (just the margin applicable to the above amount) 28,139	245,612
Liabilities – explicit buffer and/or GC PfAD*	25,000
Total liabilities on the GC balance sheet [$217,473 + $28,139 + $25,000]	270,612
Going Concern Unfunded Liability – Best Estimate [$175,000 - $217,473]	42,473
Going Concern Unfunded Liability – For funding purposes [$175,000 - $270,612]	67,473
Best Estimate Funded Number [$175,000 / $217,473]	80.47%
Funded ratio ($175,000 / $270,612]	64.67%

** We note that it is highly unlikely that both a discount rate and GC balance sheet would include PfAD and margin; however, for this illustration it helps to clarify how a GC CV is to be calculated and paid out. We further remind the reader that in order to provide a BIP, that an explicit buffer equal to at least the minimum GC PfAD must be on the GC balance sheet.*

Calculating the GC CV	
Determined Benefit Value (based on 6%, without margin)	217,473
Apply the BEFN	80.47%
GC CV	175,000