

Newsletter Express

Supplemental Pension Plans

30 May 2012

Temporary relief measures for private sector pension plans

This *Newsletter Express* provides administrators of pension plans in the private sector with information on the provisions introduced in the *Regulation providing temporary relief measures for the funding of solvency deficiencies*.

The *Regulation* comes into force on 14 June 2012 and its provisions have effect retroactively as of 31 December 2011. Its purpose is to provide temporary relief measures for pension plans in the private sector for a period of two years, until 31 December 2013,¹ as those offered subsequent to the 2008 financial crisis ended at the end of 2011.

The *Regulation* provides the following temporary relief measures:

- assets smoothing on the basis of solvency;
- consolidation of certain deficits;
- the extension of the amortization period for any technical actuarial deficiency determined while the measures apply.

Although these three measures are similar to those offered following the 2008 financial crisis, there are some significant differences in their application. The *Regulation* simplifies in particular certain rules that apply where the measures are used, including the method for establishing amortization payments on a solvency basis.

1. For the purposes of this *Newsletter express*, the fiscal year end date of a pension plan is presumed to be 31 December.

Descriptions of the temporary relief measures

Assets smoothing on the basis of solvency

It is possible to evaluate the plan's assets on a solvency basis over a maximum period of five years. The asset valuation method must be provided for in the instructions set out in writing and sent to the pension committee for the application of the relief measures.²

Where the relief measure pertaining to assets smoothing on the basis of solvency was used in accordance with instructions given following the 2008 financial crisis, and this relief measure is to be used again, it must be applied according to the method provided for in the first set of instructions.

However, the assets used to establish the plan's degree of solvency must be valued in accordance with their liquidation value,³ since the *Regulation* does not change the rule which applies for determining a plan's degree of solvency.

Consolidation of certain deficits

For actuarial valuations as at 31 December 2011, the *Regulation* allows for the possibility of consolidating improvement unfunded liabilities related to an amendment made before 31 December 2008 and technical deficiencies determined at the date of a previous actuarial valuation.

If relief measures have been used following the 2008 financial crisis, the applicable regulation⁴ already provided for the consolidation of those liabilities when the relief measures ceased to apply (with the exception of deficiencies related to an amendment made before 31 December 2008 and considered for the first time in the actuarial valuation as at 31 December 2011).

Extension of the amortization period

The maximum amortization period for a technical deficiency determined while relief measures are in effect is 10 years.

2. For details, refer to the Instructions to the pension committee section.

3. Liquidation value corresponds to the market value of assets less the estimated amount for costs related to the plan's liquidation.

4. *Regulation respecting measures to reduce the effects of the financial crisis on pensions plans covered by the Supplemental Pension Plans Act.*

Instructions to the pension committee

Instructions pertaining to the application of one or more temporary relief measures must be sent **in writing** to the pension committee.

Where only one employer is a member of a plan, the employer decides whether to use one or more of the relief measures. In the case of a multi-employer plan,⁵ however, the person or body authorized to amend the pension plan makes the decision.

The choice to use the temporary relief measures – or not to use them – must be made at the time of the actuarial valuation as at 31 December 2011. If at that time the choice is made not to use relief measures, it will not be possible to use any thereafter. It should also be noted that any measures used must continue to be used during the entire application period, as explained in the following section.

Period of application

The duration of the temporary relief measures set out in the *Regulation* begins at 31 December 2011 and ends on the first of the following dates:

- the date of the first actuarial valuation showing that the plan is solvent;
- 31 December 2013;
- the fiscal year end date indicated in the writing sent to the pension committee by the person or body having the authority to decide to use the relief measures.

Writer: Joëlle Brière-Desputeau

Translator: Hali Hackenschmidt

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(Version originale française disponible sur notre site Web.)

5. The term “multi-employer plan” also includes any plan that is not considered as such within the meaning of section 11 of the *Supplemental Pension Plans Act*.

For more information, contact our:

Information Officer	Telephone: Québec region	418 643-8282
Direction des régimes de retraite	Toll-free	1 877 660-8282
Régie des rentes du Québec	Fax:	418 643-7421
Case postale 5200	Online:	www.rrq.gouv.qc.ca
Québec (Québec) G1K 7S9		

Régie des rentes
Québec 