
SECTION: Pension Benefits Guarantee Fund (PBGF)

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- PBA, 1987 s. 85*

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Protecting Pensions: The Pension Benefits Guarantee Fund

The PBGF was established in 1980 to guarantee a minimum level of coverage for certain benefits provided by a defined benefit pension plan in the event of a plan wind up. Benefits are paid from the Fund when there are unfunded liabilities and the plan sponsor is insolvent. The PBGF is the only fund of this type in Canada. By securing the pension benefits for members of defined benefit pension plans in Ontario, the PBGF assures a fundamental principle of protection. However, it faces difficult funding problems.

Coverage

The PBGF covers the following key pension benefits, as set out in section 85 of the Pension Benefits Act, 1987:

- any pension in pay in respect of employment in Ontario;
- pre-1987 deferred vested pension benefits;
- a percentage of post-1986 deferred vested pension benefits;
- additional voluntary contributions plus interest;
- all employee contributions plus interest;
- bridging benefits for members with at least 10 years of service;
- former spouse's entitlement under a court order or agreement to a deferred pension; and
- pre-retirement death benefits.

Funding

The PBGF is financed by assessments on sponsors of defined benefit plans. There are two forms of levy:

1) on all defined benefit plans in the amount of $1 per Ontario plan member; and
2) on those plans with deficiencies in the amount of 0.2% of a plan's solvency deficiency.

Individual coverage is limited to a monthly maximum of $1,000 plus a proportion of benefits included in the calculation of the wind-up liability. However, certain pension benefits are excluded from coverage.

History, Status and Future Prospects:

Since its inception in 1980, the total payout (as of January 31, 1991) on claims arising against the Fund was almost $41 million. Between 1980 and 1987, there were sufficient assets in the PBGF to meet all claims and by the beginning of fiscal 1988, assets in the Fund totalled almost $7 million. However, the demise of Massey Combines in that year resulted in a claim against the Fund of approximately $31 million. (In the event there are insufficient monies in the Fund to pay out claims, the Fund may arrange for a loan from the Consolidated Revenue Fund of the Government of Ontario.)

While Massey Combines was in receivership, the Superintendent appointed a third party Administrator to manage the affairs of the pension plan. The assets in the plan together with $22 million (loaned from the Consolidated Revenue Fund to the PBGF) were used to provide for the pension benefits of plan members.

The failure of Massey Combines and the inadequacy of its pension assets to meet the pension promise to plan members placed a great strain on the PBGF, leaving it in a deficit position and greatly increasing the Fund's potential exposure in the present recessionary period.

It is apparent that the status of the PBGF is insufficient to cover the claims of existing and prospective claims against it. The Government and staff of the PCO are concerned and are seeking solutions to deal with the immediate and long-term funding requirements.

The PBGF has been and continues to be scrutinized carefully. However, there appears to be no doubt as to the principle of pension benefit protection and therefore the Fund's continuing existence.

*PBA, R.S.O. 1990 s. 84

This article was accurate at the time of writing and is included here for historical interest. Please refer to section 37 of Regulation 909 for more current information about the PBGF assessment calculation.