

Approach



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Proposed Guidance: Supervisory Approach Guidance to Implementation of the Target Benefit MEPP Framework

Purpose

The purpose of this Guidance is to set out FSRA’s approach to processes and practices for certain assessments, engagements and approvals under the Ontario Government’s permanent target benefit framework as set out in the *Pension Benefits Act* (“PBA”) and its regulations (the “TB Framework”). This includes FSRA’s supervisory approach to:

- Consent to target benefit conversions;
- Assessment of the provision for adverse deviation (“PfAD”) for multi-employer pension plans providing target benefits (“TB MEPPs”); and
- Supervisory engagements with TB MEPPs.

This Guidance applies to the following entities regulated by FSRA and related stakeholders:

- TB MEPPs, whether benefits were converted or were originally established as target benefits; and
- Administrators of TB MEPPs and other persons involved in the administration of TB MEPPs.

Rationale and background

Multi-employer pension plans (“MEPPs”) are an important component of Ontario’s retirement income system. MEPP stakeholders include employers and employees in a range of industries, trade unions, non-profit groups and associations. MEPPs are subject to specific requirements under the PBA and its regulations, which for many includes an exemption from the “void amendment” provisions under section 14 of the PBA, allowing them to amend the plan, even retroactively, to reduce accrued benefits.^[1]

Many defined benefit MEPPs (“DB MEPPs”) qualified for, and elected to be, specified Ontario multi-employer pension plans (“SOMEPPs”) under Regulation 909 made under the PBA. Among other things, SOMEPPs are temporarily exempted from solvency funding rules and associated requirements to make special payments for solvency deficiencies.

Legislative and Regulatory Framework

On January 1, 2025, amendments to the PBA and its regulations implemented the Ontario Government’s TB Framework. The TB Framework will replace the existing temporary SOMEPP regulations.

MEPPs that meet the eligibility requirements under the PBA and regulations (see Appendix A) may apply to the CEO of FSRA to convert all of the defined benefits provided under the MEPP into target benefits. Newly created MEPPs providing target benefits from inception can also be

¹ The exemption applies to MEPPs established pursuant to a collective agreement or a trust agreement, under subsection 14(2) of the PBA.

established under the TB Framework, provided they meet the eligibility requirements under the PBA.

The temporary funding regulations for SOMEPPs will no longer apply to a plan after its first report with a valuation date after January 1, 2025, is filed. If the plan's benefits are converted to target benefits on or before that valuation date, the funding requirements for that report are determined under the target benefit rules under the PBA and its regulations. If the plan's benefits are not converted on or before that valuation date, then the funding requirements for that report are determined under the defined benefit rules (including solvency funding requirements).

The TB Framework incorporates many important leading risk management and governance practices that were identified in FSRA's supervisory work with MEPPs to date, set out in FSRA's [DB MEPP Leading Practices Information Guidance](#).^[2] This target benefit Supervisory Approach Guidance is intended to complement and support the permanent TB Framework.

Specific TB Framework requirements

For TB MEPPs, plan governance, risk management and communications are intertwined and fundamental for:

- Prudent management in alignment with plan funding and benefit objectives;
- Member awareness and understanding of the benefit being provided; and
- Member understanding of the risk that the benefit provided by the plan may vary over time.

² DB MEPP Leading Practices Information Guidance No PE0224INF. Available at: <https://www.fsrao.ca/industry/pensions/regulatory-framework/guidance/defined-benefit-multi-employer-pension-plans-leading-practices>.

Under the PBA and its regulations, every TB MEPP must have, and file with FSRA, a funding and benefits policy, a governance policy and a communications policy.^[3] To that end, the regulations require that:

- A TB MEPP's funding and benefits policy must set out:
 - the plan's funding and benefits objectives, as they relate to:
 - the stability of benefits and the contributions required to provide those benefits; and
 - how members, former members and retired members will be treated equitably respecting their benefits, in the context of both the current and the future membership of the plan;
 - the material risks that could result in benefit reductions; and
 - other specified information related to the funding and benefits of the plan.^[4]
- The plan's governance policy must, among other things, describe the roles, responsibilities and reporting relationships of the persons involved in the administration of the TB MEPP, the skills, knowledge, experience and other attributes required of those individuals, the processes used to verify that those individuals receive the training they need to meet their obligations, and certain other information related to the governance and administration of the plan.^[5]
- The plan's communications policy must, among other things, describe the objectives, strategies and other details respecting the administrator's approach to communicating with its members and other plan beneficiaries.^[6]

³ See subsection 10(5) of the PBA.

⁴ See section 4 of Ontario Regulation 387/24.

⁵ See section 5 of Ontario Regulation 387/24.

⁶ See section 6 of Ontario Regulation 387/24.

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- The filing and subsequent amendments to these policies qualify as pension plan amendments.^[7] Administrators should take care to ensure that they file a Form 1.1 with the policies or amendments to the policies.

Under the PBA, a TB MEPP's funding and benefits policy, governance policy and communications policy are documents that create and support the pension plan.^[8] The development of these policies, as required by the PBA, are part of effective governance and represent essential components of good plan administration.

The PBA and regulations additionally contain requirements related to eligibility to become a TB MEPP, conversions, filing timelines, funding and other matters which FSRA will administer and enforce. Plan administrators should familiarize themselves with all relevant requirements before considering conversion of the plan's defined benefits to target benefits.

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This section details the process and practices for certain assessments, engagements and approvals under the TB Framework. This Guidance represents aspects of FSRA's supervisory approach but it is not exhaustive. For further questions on FSRA's supervisory approach, the administrator should contact FSRA.

⁷ See section 7 of Ontario Regulation 387/24.

⁸ See subsection 10(5) of the PBA.

Consenting to target benefit conversions

Eligible MEPPs registered with FSRA, whether or not they are SOMEPPs, may apply to the CEO of FSRA between January 1, 2025, and December 31, 2029, for consent to convert all of the MEPP's defined benefits to target benefits^[9] for purposes of the PBA.^[10]

As noted earlier, in the case of SOMEPPs, the temporary SOMEPP funding regulations will no longer apply to a plan after its first report with a valuation date after January 1, 2025, is filed. If the plan's benefits are not converted to target benefits on or before that valuation date, then the funding requirements for this first report are determined under the defined benefit rules (including solvency funding requirements).

Once the 5-year conversion application window expires, benefits of MEPPs registered with FSRA will no longer be able to be converted to target benefits. In addition, if a TB MEPP no longer meets the TB MEPP eligibility criteria under the PBA and its regulations, the plan's benefits are then defined benefits for PBA purposes and cannot be converted back to target benefits.

The conversion window that ends on December 31, 2029, does not apply to MEPPs whose registrations are transferred to FSRA from another jurisdiction. Such transferred plans may apply to the FSRA CEO for a target benefit conversion before the fifth anniversary of the day on which the plan's jurisdiction of registration was transferred to FSRA (see below).

⁹ For a MEPP that has members or other plan beneficiaries outside Ontario whose benefits are subject to the pension legislation of a designated Canadian jurisdiction outside Ontario, the MEPP's application to FSRA to convert the plan's defined benefits to target benefits for purposes of the PBA must include the benefits of those non-Ontario members and plan beneficiaries. However, if the application is approved, the benefits of those non-Ontario members and plan beneficiaries will continue to be subject to the requirements of the pension legislation of the applicable designated Canadian jurisdiction(s), consistent with the 2020 Agreement Respecting Multi-jurisdictional Pension Plans.

¹⁰ This applies whether the MEPP was registered with FSRA prior to or after January 1, 2025. However, pension plans established on or after January 1, 2025, whose benefits are target benefits at the time of registration, will not have to convert benefits to target benefits.

Process for making an application to convert

Applications for consent to convert benefits from defined benefits to target benefits are required to be submitted via FSRA's Pension Services Portal (PSP) by answering the required questions, providing the requested documentation and certifying that all prescribed conversion requirements have been met.

The Application requires:

- The certification of the plan administrator that all the criteria set out in section 81.0.2 of the PBA have been satisfied;
- The certification of the plan administrator that all benefits provided by the plan that are not defined contribution benefits, including in respect of employment in Ontario and in any designated jurisdictions, are proposed to be converted;
- A copy of the proposed amendment(s) to the pension plan relating to the proposed conversion; and
- A certification of good faith consultation with applicable trade unions and / or associations (as applicable).

FSRA's process for consenting to target benefit conversion applications

FSRA will require the plan administrator's certification that the application has fulfilled all the requirements under section 81.0.2 of the PBA. Certification must be made by an authorized person who has signing authority on behalf of the plan administrator. Consent will not be provided until the plan administrator has appropriately certified the application and provided a copy of the proposed amendment(s) to the plan relating to the proposed conversion via the PSP. Applicants will be notified of such consent via the PSP. FSRA may review the proposed amendments and provide feedback to applicants. The absence of feedback should not be construed as an indication that the final amendment, when filed, would be registered. The effective date of the amendment for the conversion to target benefits must be no later than 12 months after the date of the CEO's consent, and the final amendment(s) for the conversion

must be filed no later than 60 days after the effective date of the conversion to target benefits. The final amendment, when filed, will be reviewed for compliance prior to registration.

Target benefit multi-jurisdictional pension plan transfers from other jurisdictions

For a MEPP whose registration is transferred from a designated Canadian jurisdiction outside Ontario to FSRA, in order for the MEPP to be treated as a TB MEPP while registered with FSRA, the plan administrator must apply to FSRA for the CEO's consent to convert all of the MEPP's defined benefits to target benefits,^[11] as described above. This applies even if the transferred plan's benefits were referred to as target benefits in the prior designated Canadian jurisdiction.

Once a MEPP that is registered with FSRA has successfully converted the plan's benefits into target benefits, those benefits will continue to qualify as target benefits for purposes of the PBA as long as the benefits continue to satisfy the requirements of section 39.2 of the PBA, even if the plan's registration changes to a major authority outside Ontario.^[12] If such a plan subsequently changes registration back to Ontario, it would not be required to go through the conversion process under section 81.0.2 of the PBA again, as long as the plan's benefits have continuously satisfied the requirements of section 39.2 since they were originally converted to target benefits for purposes of the PBA. The same would also apply to a new pension plan whose benefits were originally established as target benefits when the plan was registered with FSRA.

The conversion application for these transferred plans must be submitted before the fifth anniversary of the day on which the plan's jurisdiction of registration was changed to FSRA.

¹¹ All defined benefits provided by a pension plan must be converted to target benefits, even where benefits are subject to the pension legislation of a designated jurisdiction outside of Ontario. See footnote 9 for details.

¹² See section 39.2 of the PBA.

Assessment of PfAD for TB MEPPs

The PBA and its regulations require that TB MEPPs set out in their funding and benefits policy the funding and benefits objectives of the plan as well as certain content related to the determination of the PfAD, including the method for determining the PfAD, and how a PfAD determined using that method supports those objectives.

Many inputs are used in performing an actuarial valuation of a pension plan. The plan's liabilities, normal cost and funding requirements are affected and determined by the actuarial methods and assumptions ("actuarial basis"), and the PfAD used by the actuary. Consequently, FSRA will consider whether the actuarial basis, considered together with the PfAD, is reasonable and appropriate for the circumstances and the PfAD is in alignment with the funding and benefits policy. For example, where the actuarial basis reflects larger margins for adverse deviations, a lower PfAD may be justified as compared to a situation where there is little or no margin for adverse deviation in the actuarial basis. Using different margins applicable on the normal cost and liabilities is acceptable if the administrator demonstrates that such approach supports the funding and benefits policy objectives.

When determining the PfAD, the administrator should consider the risks that could affect the plan's ability to achieve its funding and benefits objectives. These could include:

- Changes to the actuarial assumptions in the base economic model from when benefit rates were set to the current time. For example, changes to:
 - Expected returns;
 - Standard deviation of specific asset classes;
 - Correlations between asset classes; and
 - Inflation.
- Adverse plan experience from economic and demographic factors compared to that expected in the actuarial valuation assumptions. For example, expected rates of return below expectations, or membership longevity above expectations;

- Material changes to the composition of plan membership. For example, increasing inactive membership or increasing age of active membership;
- Any asset or liability mismatch inherent in the plan's investment policy;
- Any industry-specific risk such as a significant decline in new members or hours worked; and
- Sponsor or participating employers' risk, such as the failure or withdrawal of a sponsor, or one or more participating employers.

The risks listed above should not limit the administrators from discussing other risks that are relevant to their plans. The PfAD may be fixed or variable depending on certain factors.

For transparency in the decision-making process, the administrator should document the rationale for arriving at the method for determining the PfAD that is required to be included in the funding and benefits policy.

- The PfAD should reasonably follow from the plan's stated objectives, risks, and other plan-specific considerations as documented in the funding and benefits policy. Further, there should be a sound explanation of how these factors lead to the intended method for determining the PfAD.
- Administrators should be able to explain the process that determines the PfAD. Examples of potential methods or approaches to the PfAD include, but are not limited to, the following:
 - A fixed PfAD;
 - A quantitative method or approach where the PfAD may vary;
 - A qualitative approach that explains the decision-making process for determining the PfAD.

Supervisory engagements

Plan level

FSRA's approach to engagements with MEPPs to date has aimed to be risk-based, proactive and collaborative. FSRA scales its engagement in a proportionate manner, directing its resources to the issues and MEPPs that pose the highest risk to plan beneficiaries. FSRA's engagement strategy:

- Is built on an open, ongoing and collaborative dialogue with MEPP administrators;
- Involves working with the plan administrators and other persons involved in the administration of MEPPs to better understand the risks to the pension plan and related strategies to mitigate these risks;
- Includes but is not limited to more detailed plan examinations; and
- Takes into consideration publicly available information and information which has already been provided to FSRA in routine filings or by plan fiduciaries or their representatives, to minimize any potential burden.

TB MEPPs should expect no change in FSRA's overall approach upon conversion of plan benefits to target benefits, with the exception that FSRA will also supervise against the new requirements of the PBA and its regulations that relate specifically to target benefits and communicate its findings to the Boards of the TB MEPPs. The same as for DB MEPPs, FSRA's risk assessment of TB MEPPs will be a regular, ongoing process that can evolve in consideration of information provided.

Sector level

FSRA may engage as well in risk-based thematic reviews designed to assess sector and plan-related issues. These thematic reviews will be relevant to emerging issues and underpin FSRA's risk-based approach. FSRA's assessment of plan risks may be informed by such reviews as well as by other relevant information such as trends in the economy and capital markets.

FSRA will publish aggregated metrics relating to the TB MEPP sector, so that all plans can benefit from anonymized information gathered under section 97 of the PBA through FSRA's sector level thematic review process. This is in addition to the information FSRA currently gathers and provides with respect to DB MEPPs in the Report on the Funding of Defined Benefit Pension Plans in Ontario. Metrics may include benchmarking data, demographic information and relevant funding metrics such as the range of PfADs, discount rates and margins for adverse deviations included in actuarial assumptions used by different TB MEPPs.

This information sharing, feedback loop and education is intended to support TB MEPPs' work in addressing deficiencies and enhancing plan capabilities. Doing so enables FSRA to provide a feedback mechanism with the objective of informing and enhancing standards as well as monitoring and evaluating trends and developments in the pension sector. FSRA will take steps to effectively anonymize learnings to ensure the protection of commercially sensitive and other confidential information.

Request for documents

FSRA's emphasis will be on reviewing existing plan documents. In appropriate cases, FSRA may also require an administrator to provide information under section 98 of the PBA for the purposes of ascertaining compliance with the PBA and its regulations, including assessing whether materials risks are being managed in accordance with a plan's funding and benefits policy.

For the PfAD, as may be required by FSRA under section 98.2 of the PBA, any supporting documents and analysis used to support the development of the PfAD must be made available to FSRA when requested through more targeted engagements. These could include, but are not limited to, the following:

- Short- and long-term funding projections;
- Projections of financial results under alternative funding methods;
- Asset / Liability studies;
- Stress testing and/or sustainability testing involving the use of deterministic or stochastic modelling; and

- Financial Modeling.

Effective date and future review

This Guidance became effective on **(TBD)** and will be reviewed no later than **(TBD)**.

About this Guidance

This document is consistent with [FSRA's Guidance Framework](#).

As an Approach, this Guidance describes FSRA's internal principles, processes and practices for supervisory action and application of FSRA's discretion.

Appendix A

Highlighted PBA provisions

PBA and regulation provisions related to TB conversion eligibility criteria:

The following criteria apply for conversion of benefits to target benefits at the time of conversion:

- The benefits proposed to be converted are not determined on an individual account basis;
- The pension plan is a multi-employer pension plan established pursuant to a collective agreement or a trust agreement;
- The benefits proposed to be converted are determined in part with reference to the value of the assets of the pension fund, except as provided by the regulations. The regulations provide that the benefits proposed to be converted do not need to be determined in part with reference to the value of the assets of the pension fund if the reduction of the benefits prohibited by the applicable legislation of a designated jurisdiction, and the exemption described below regarding reductions of benefits prohibited by the applicable legislation of a designated jurisdiction applies in respect of the benefits. The benefits must satisfy this criterion both before and after the payments of the pension begin;
- Either of the following circumstances exists:
 - The obligation of an employer to contribute to the pension fund in respect of the benefits proposed to be converted is limited to a fixed amount set out in one or more collective agreements and the pension plan satisfies such conditions as may be prescribed; or
 - The obligation of an employer to contribute to the pension fund in respect of the benefits proposed to be converted is limited to a fixed amount set out in one or more documents, other than a collective agreement, that create and support the plan and the pension plan satisfies such conditions as may be prescribed;

- The administrator is authorized under the pension plan to reduce the benefits proposed to be converted after they have accrued, both while the plan is ongoing and upon wind up;
- The reduction referred to above is not prohibited by the terms of any applicable collective agreement;
- The reduction referred to above is not prohibited by any applicable pension legislation of a designated jurisdiction, except as provided by regulation. The regulations provide that the reduction of the benefits provided by a pension plan may be prohibited by the applicable legislation of a designated jurisdiction, but only if, at the end of the plan's last fiscal year, no more than 10% of the members entitled to benefits proposed to be converted have a benefit whose reduction is prohibited by a designated jurisdiction;
- The benefits proposed to be converted satisfy such other criteria as may be prescribed;
- The pension plan satisfies such other criteria as may be prescribed. The regulations prescribe the following other criteria:
 - If the pension plan provides both defined benefits and defined contribution benefits, the total market value of the plan assets in respect of defined contribution benefits held in any part of the pension fund that also holds assets in respect of benefits proposed to be converted must not exceed five per cent of the total market value of the plan assets in respect of benefits proposed to be converted;
 - At the end of the previous year, no more than 95% of the members of the plan were employed by one employer;
 - During the previous year, either of the following circumstances existed:
 - At least 15 employers made contributions to the plan; or
 - At least 10% of the members of the plan were employed by two or more employers;
 - The pension plan is not a jointly sponsored pension plan;

- Employee contributions to the pension fund in respect of the benefit do not exceed employer contributions to the pension fund in respect of the benefit;
- All the defined benefits provided by the pension plan must be proposed to be converted to target benefits;
- The administrator of the plan must consult in good faith about the proposed conversion, in accordance with such requirements as may be prescribed, with:
 - Any trade union that represents members of the plan; and
 - Any other association that, to the knowledge of the administrator, represents members, former members or retired members of the pension plan in negotiating in respect of plan terms.