

Office of the Superintendent - Pension Commission

Policy Bulletin #7

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Determination and Transfer of Commuted Values

Reference: *The Pension Benefits Act Section 21.1(2) and the Pension Benefits Regulation Sections 4.11, 4.30, 5.6-5.8, 10.70(1), 11.5(2) and Division 5-7, Part 10*

This Bulletin has been prepared to outline the legislative requirements and related guidelines for the determination of commuted values of benefits under The Pension Benefits Act (Act) and the Pension Benefits Regulation (regulation).

Legislative requirements

Section 5.6 of the regulation states that the commuted value of benefits must be determined in accordance with the standards of practice issued by the Canadian Institute of Actuaries, as amended from time to time and any additional directions from the superintendent.

Applicable CIA standards of practice

The applicable standard on and after December 1, 2020 is the Canadian Institute of Actuaries Practice-Specific Standards for Pension Plans – Pension Commuted Values (replaces the Revised Standards of Practice for Pension Commuted Values of the Canadian Institute of Actuaries effective April 1, 2009). Amendments to Section 3500 of these standards are effective December 1, 2020, with early adoption for Target Pension Arrangements.

Application of standards of practice to actuarial valuations

The manner of preparing reports and certificates is set out in section 4.11 of the regulation as follows:

Actuarial valuation report and cost certificate

4.11 The actuarial valuation report and cost certificate must be adequate and appropriate and prepared in accordance with accepted actuarial practice, except to the extent that accepted actuarial practice conflicts with the Act or this regulation.

In preparing a solvency valuation, the solvency liabilities are determined on a “plan termination basis” as defined in the regulation which is the method for determining the liabilities based on the assumption that the plan is terminated at the valuation date. For purposes of calculating the liabilities, the actuary would use the transfer value assumptions in accordance with the applicable Canadian Institute of Actuaries Practice-Specific Standards for Pension Plans – Pension Commuted Values as described above to value the benefits for these members.

Application of standards of practice and determination of commuted values to benefit transfers

The commuted value of benefits must be determined in accordance with the applicable Canadian Institute of Actuaries Practice-Specific Standards for Pension Plans – Pension Commuted Values as stated above and legislative requirements. It represents the minimum amount that may be provided when a person entitled to benefits from a defined benefit provision

of a pension plan is to receive a transfer of, or credit for, the capitalized value of the pension he or she has accrued under the plan. The events in which this applies are

1. termination of active membership before reaching early retirement age under the plan, or after reaching early retirement age under the plan if permitted under the plan;
2. commencement of the members' pension if the plan permits transfers;
3. partial or full termination of the plan, affecting the person entitled to benefits;
4. death of the member or former member before retirement;
5. division of pension benefit credits upon the existence of a court order requiring that family assets are to be divided or a written agreement dividing family assets;
6. garnishment of pension benefit credits to satisfy a maintenance obligation;
7. conversion of a defined benefit provision to a defined contribution provision or vice versa.

Commutated value must be determined

- under subsection 5.7(1) of the regulation, as of the date of the event if paid or transferred upon or as result of the termination of active membership, commencement of the member's pension, death, separation or garnishment;
- under subsection 5.8(1) of the regulation, as of the termination date of the plan if transferred because the full plan is being wound up;
- under subsection 10.70(1) of the regulation, using actuarial assumptions that do not take into account the member's shortened life expectancy.

Calculation guidelines

The commuted value must meet the following criteria

1. The computation date is the date the entitlement to elect a transfer or payment became effective, (i.e. the date of the event as described above) except for recalculations as outlined in subsection 5.7(3) of the regulation.
2. It must reflect the full benefit entitlement that the member has accrued according to the provisions of the plan and the Act as of the computation date. This must include the full value of:
 - the normal form of pension;
 - any death or survivor benefits payable on death prior to commencement of pension; and
 - any subsidized early retirement or other ancillary benefit to which the member is fully entitled at the time in question.

To clarify further, subsection 21.1(2) of the Act reads as follows:

Entitlement to ancillary benefit

21.1(2) An ancillary benefit becomes part of a member's pension, and is to be included in calculating the member's pension benefit credit or the commuted value of the pension, when and only when the member has met all the eligibility requirements under the pension plan necessary to exercise the right to receive the benefit.

Plans are required to reflect the value of any ancillary benefits (listed in section 5.14 of the regulation) in the member's commuted value once he or she has met all the eligibility requirements under the pension plan necessary to exercise the right to receive the benefit. This means that any ancillary benefit set out in the plan must vest in a member once the member has met all eligibility requirements under the plan necessary to exercise the right to receive that benefit, i.e. age and/or service, and that benefit must then be reflected in the member's commuted value.

Plan sponsors should be reviewing their pension plans to ensure the eligibility requirements necessary to exercise the right to receive an ancillary benefit are appropriately reflected in the plan text.

Subsection 21.1(2) is intended to ensure that once a member has a right to a vested ancillary benefit, that benefit cannot be removed or taken away which would constitute a retroactive reduction in benefits under subsection 26(5) of the Act.

Interest payable on commuted values and recalculations

Except as otherwise provided in the regulation, subsections 5.7(2) and (3) of the regulation require interest to be credited and paid on the commuted value of a benefit:

- for the period from the date of the event to a date not earlier than the end of the month immediately preceding the date of payment or transfer, and
- at a rate at least equal to the rate of interest that was used in determining the commuted value of the benefit.

Where the period between the event date and the date of payment exceeds 120 days, instead of adjusting the commuted value for interest, the plan administrator may elect to re-determine the commuted value as of the date of payment or transfer. The election to re-compute benefits should be exercised on a consistent basis for all cases under the plan. Selective redetermination is not permitted.

Subsection 5.8(2) of the regulation requires that if the commuted value is to be paid or transferred because the full plan is being terminated or wound up, interest must be credited and paid on the commuted value of a benefit:

- for the period from the termination date of the plan to a date not earlier than the end of the month immediately preceding the date of payment or transfer, and
- at a rate equal to the rate of return that can reasonably be attributed to the operation of the pension fund for that period.

Subsection 11.5(2) of the regulation requires that if the commuted value is to be transferred because of a relationship breakdown interest must be credited and paid on the commuted value of a benefit:

- for the period from the date of separation to a date not earlier than the end of the month immediately preceding the date of transfer, and
- at a rate equal to the rate of return that can reasonably be attributed to the operation of the pension fund for that period.

Under Part 10, Division 5, Lump Sum Withdrawal by Non-Resident, Division 6, Commuted Value of Small Pension, Division 7, Commutation or Withdrawal on Shortened Life Expectancy, interest must be credited and paid on the commuted value of a benefit:

- for the period from the beginning of the year in which the refund or transfer is made to a date not earlier than the end of the month immediately preceding the date of refund or transfer, and
- at the rate of return that can reasonably be attributed to the operation of the pension fund for that period or the average of CANSIM Series V80691336 as provided for in the plan documents.

Additional restriction re transfer deficiencies

Where the solvency ratio of a plan is less than one, the plan administrator may only transfer the solvent portion of the benefit. Any transfer deficiency related to the benefit must continue to be held under the plan, in accordance with section 4.30 of the regulation. The transfer deficiency would then be transferred later, but within 5 years of the initial transfer. This additional transfer must include interest at the rate used to determine the commuted value and include interest to the end of the month immediately preceding the date of payout.

Example of transfer value determination

- a) solvency ratio = 0.8
- b) commuted value of pension = \$50,000
- c) transfer deficiency = $(b - (b \times a)) = \$50,000 - (\$50,000 \times 0.8) = \$10,000$
- d) initial transfer = $(b - c) = \$50,000 - \$10,000 = \$40,000$
- e) subsequent transfer = $(b - d) = \$10,000$ plus interest

Exceptions to this rule

The exceptions to this rule are as set out in subsection 4.30(5) of the regulation where the administrator must not make a transfer unless:

- (a) the superintendent, in writing, either approves the transfer or directs the administrator to make the transfer;
- (b) the employer remits an amount to the plan sufficient to eliminate the transfer deficiency;
- (c) the transfer deficiency for any person is less than 5% of the YMPE for the year in which the transfer is made, and the total of the transfer deficiencies occurring after the last review date is not more than 5% of the market value of the plan's assets at the time of the transfer; or
- (d) the amount to be transferred is the commuted value less the transfer deficiency.

Adjustment to transfer deficiency where transfer would impair solvency of plan

In general, the administrator must administer the plan in accordance with the last actuarial valuation report or cost certificate filed with the Office of the Superintendent – Pension Commission. For purposes of section 4.30 of the regulation, a transfer must be considered to impair the solvency of a plan if:

- (a) the plan has a solvency ratio of less than 1, or
- (b) the plan has a solvency ratio of at least 1 and the administrator satisfies the superintendent that the transfer would impair the solvency of the plan.

Any transfer, as defined in this section, must be adjusted to reflect the solvency ratio of the plan at the time of the transfer. The transfer deficiency is determined based on the solvency ratio in the last filed actuarial valuation or cost certificate.

Deterioration of solvency position

In the event a plan administrator becomes aware that the pension plan's solvency position has declined since the last filed actuarial valuation report, in doing its due diligence the administrator should take the necessary steps to assess whether further transfers based on the solvency ratio as of the last filed valuation or cost certificate would impair, or further impair, the solvency of the plan.

If the plan has a solvency ratio of at least 1 as of the last filed valuation or cost certificate, and the administrator determines that a transfer would impair the solvency of the plan, in order to adjust or reset the transfer deficiency at any time prior to filing a new actuarial report, the administrator must satisfy the superintendent under clause 4.30(3)(b) of the regulation that the transfer would impair the solvency of the plan. For purposes of clause 4.30(5)(a), the administrator must file a written request with the superintendent accompanied by an interim cost certificate.

If the plan has a solvency ratio of less than 1 as of the last filed valuation or cost certificate, and the administrator determines that a transfer would further impair the solvency of the plan, to adjust or reset the transfer deficiency at any time prior to filing a new actuarial report, the administrator must have an interim cost certificate prepared and file the certificate with the Office of the Superintendent – Pension Commission.

Filing and funding requirements

The interim cost certificate must be prepared in accordance with section 4.11 of the regulation and as of the date the plan's solvency ratio is adjusted or reset. Further, the certificate must be filed within 30 days after being signed by the actuary.

If special payments are being made to amortize an unfunded liability and/or solvency deficiency, special payments must continue to be paid into the plan in accordance with the last actuarial valuation report filed under section 4.15 of the regulation.

If you have any questions regarding this bulletin you may contact us at:

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This bulletin has no legal authority. The Pension Benefits Act of Manitoba and the Pension Benefits Regulation should be used to determine specific requirements.