Funding Issues for Private Pensions in Canada

By Jana Steele

Introduction

In Canada, as is the case with many jurisdictions around the world, pension funding issues have been of increasing concern to plan sponsors, participants and regulators. With the economic downturn over the past few years and interest rates remaining at historically low levels, many defined benefit pension plans have had to address funding issues. There have been various legislative responses to funding issues by governments in Canada. Some of these responses are aimed at protecting pension beneficiaries by tightening certain funding rules (for example, dictating when contribution holidays may be taken) and others are aimed at assisting cash strapped plan sponsors with funding issues (such as allowing letters of credit or distressed pension plan workout schemes). In addition, vehicles such as funding policies have been used (or considered) with increasing frequency. This paper will discuss legislative responses to funding issues and funding policies.

It is important to note that the regulation of pensions in Canada is not harmonized across the country. Each province has its own pension standards legislation that regulates the pensions of employees in that province.[1] In addition, the federal *Pension Benefits Standards Act, 1985*[2] (the **"PBSA"**) regulates pension plans for employees in the three territories and those in any business within the legislative authority of the federal government.

Background

Registered pension plans in Canada are required to be funded in accordance with the legislation and regulations of the province (or federal) in which the plan is registered. Registered pension plans are generally required to be valued and funded on both a going concern and a solvency basis. In Ontario, actuarial valuations for funding purposes are required to be

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[1] This paper discusses Ontario and federal pension law.

[2] R.S.C., 1985, c. 32.

performed every three years, or every year, where there are solvency concerns[3].[4] Where a pension plan has deficiency on a solvency or going concern basis, special payments are required to be made over a five year period (for solvency deficiencies) or a fifteen year period (for going concern unfunded liabilities).

Legislative Responses to Funding Issues

In the face of economic difficulties, certain legislative measures have been adopted in response to pension funding issues. Changes have been made to the pension legislation in Ontario to ease the burden of pension funding, including permitting the use of letters of credit where solvency special payments are required and introducing solvency funding exemptions for certain types of pension plans. In addition, changes that will potentially protect members have been introduced, such as the authority of the regulator to appoint an administrator of a pension plan or to act as the administrator. At the federal level, letters of credit have been introduced in addition to a several other innovative changes.

(i) Letters of Credit

In 2010, Bill C-9 introduced certain changes to federal pension legislation, including to provisions related to the use of letters of credit.[5] Under the federal legislation, letters of credit may be used to satisfy solvency special payments up to 15% of the assets of the plan. The letters of credit are required to be held by a trustee. The regulations to the federal legislation set out various requirements for the letters of credit, including the requirement for the letter of credit to be called in various circumstances such as the bankruptcy of the plan sponsor or where there is a declaration of wind up of the pension plan. The costs that are associated with obtaining, holding or cancelling a letter of credit are not permitted to be paid out of the pension fund.

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[3] "solvency concerns" under the new rules will be where the ratio of the solvency assets to the solvency liabilities is less than 0.85 (or where the employer has made a certain election under the regulations).

[4] For federally registered pension plans, valuations are filed every year and solvency funding is determined using a 3 year average.

[5] PBSA, sections 9.11-9.15 and regulations

Letters of credit for solvency funding have also been introduced in Ontario. Bill 120 amendments introduce a new provision into the *Pension Benefits Act*[6] (the **"PBA"**). Section 55.2 will permit employers to make payments with respect to solvency deficiencies with a letter of credit under prescribed circumstances.[7] These changes are not yet in force. Under these changes, where an employer is obliged to make special contributions with respect to a solvency deficiency, the new provision will allow the employer to pay by letter of credit in lieu of cash (the letter of credit amount cannot exceed 15% of the solvency liabilities of the pension plan). However, the regulations may specify that solvency liabilities are determined in a different manner for purposes of this determination.[8]

The new provision states that the letter of credit must be provided to a "prescribed person or entity", which holds such letter of credit in trust for the pension plan. Accordingly, the regulations will set out who will hold such letters of credit. Interestingly, it is the administrator that is required to notify the regulator that a letter of credit has been provided. Bill 120 also provides that the fees and expenses associated with enforcing a letter of credit can be paid out of the pension fund, while fees associated with obtaining and holding the letter of credit cannot.

The forthcoming Ontario regulations will set out significant additional detail regarding the use of letters of credit, including the circumstances under which the prescribed person must demand payment of the letter of credit into the pension fund, the manner in which notification must be provided to the regulator that a letter of credit has been provided and the persons or entities who will hold the letter of credit in trust.

It should be noted that multi-employer pension plans[9] (**"MEPPs"**) are excluded from these amendments, and will not be able to cover a portion of the required solvency deficiency payments with a letter of credit.[10]

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[6] R.S.O. 1990, c. P.8.

[7] Bill 120 at Section 18 (not yet proclaimed in force; regulations to come).

[8] Bill 120 at Section 18.

[9] "multi-employer pension plan" is defined as follows: "For the purposes of this Act, a pension plan is a multi-employer pension plan if it is established and maintained for employees of two or more employers who contribute,

(ii) Work out Schemes

The federal changes included new provisions regarding work out schemes for distressed pension plans.[11] The purpose of these provisions is to give employers with significant funding issues the ability to negotiate a different funding schedule for the pension plan.

Under the rules, the employer may elect to enter into a workout scheme by passing a resolution and filing a declaration with the regulator. The declaration has to provide (i) that the employer does not anticipate being able to make its required funding payments or that it is subject to certain insolvency proceedings; (ii) that the employer intends to negotiate with representatives of the members and beneficiaries for the purposes of entering into an agreement, and (iii) for employers that are not subject to insolvency proceedings, the portion of the funding payments it intends to defer. Once the declaration is filed, a negotiation period commences, which may be extended at the regulator's discretion.[12] The employer negotiates with a court appointed representative or representatives.[13] During the negotiation period, the regulator cannot revoke the plan's registration or declare the termination of the plan. The parties may negotiate an agreement that proposes a funding schedule regarding special payments, which is subject to approval by the Minister of Finance. The request for approval may only be submitted if less than one third of the members and less than one third of the beneficiaries object to the proposed work out agreement.

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or on whose behalf contributions are made, to a pension fund by reason of agreement, statute or municipal by-law to provide a pension benefit that is determined by service with one or more of the employers".

[10] Also excluded are public sector pension plans, unless otherwise prescribed.

[11] PBSA sections 29.01- 29.3. These provisions do not apply to MEPPs or to employers who are agents of the federal government. Also, an employer may not enter into a distressed pension work out scheme if the employer is in the process of being liquidated, has made an assignment or has become bankrupt or the whole of the pension plan has been terminated.

[12] In the event of the liquidation or assignment or bankruptcy of the employer, the negotiation period terminates. The Minister may also terminate the negotiation period.

[13] The employer is required to apply to the Federal Court under section 29.08(1).

The pension work out scheme is an innovative response that will hopefully prevent new legislation having to be passed on a case by case basis to accommodate individual employers' funding issues (as has occurred in the past with certain federally regulated pension plans).

(iii) Solvency Funding Exemption

In general, pension plans must be funded on both a going-concern and a solvency basis. Actuaries are required to perform valuations and assess on both of these bases to determine the required funding level. For certain types of plans where there is considered to be a reduced risk that the plan will be terminated, new rules in Ontario provide that funding on a solvency basis is not required (though valuations on a solvency basis must still be performed).[14]

Under the new rules, jointly sponsored pension plans[15] (**"JSPPs"**) in existence prior to August 24, 2010 are exempt from solvency funding requirements, meaning that they will no longer be required to make payments with respect to solvency deficiencies if they elect to specify a solvency deficiency in a report that is less than the plan's actual deficiency.[16] Newly filed *Pension Benefits Act* Regulations[17] clarify that this amendment will apply to seven named JSPPs. Any other plans that wish to qualify as JSPPs to obtain similar exemptions will have to consider seeking specific exemptions.

While the listed JSPPs are not required to make solvency deficiency payments, the trade-off is the requirement of enhanced reporting obligations. JSPP administrators will be required to file certain statements, as well as provide plan members with additional information in their annual statements. The annual member statement must include the following:

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[14] It should be noted that, federally, the regulator now has the ability to require actuaries to report an interim valuation.

[15] "jointly sponsored pension plans" are defined as follows: "For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics: 1. It provides defined benefits. 2. The defined benefits are contributory benefits. 3. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan. 4. The plan satisfies such additional criteria as may be prescribed."

[16] O. Reg 177/11 at Section 2.

[17] O. Reg 177/11 and O. Reg 336/11.

(i) members must be informed that the benefits under the plan are not covered by the pension benefits guarantee fund in Ontario;

(ii) members must be notified that on plan wind up the benefits could be reduced if assets are not sufficient;

(iii) a statement that contribution rates for members or an employer could change;

(iv) a statement setting out the contribution rates for an employer and for members for the year before, the year following and the date of the statement; and

(v) if the most recent actuarial valuation specified a solvency deficiency that is lower than what would otherwise be determined, a statement that contributions are not being made by an employer or members to eliminate the solvency funding deficiency.[18]

Although JSPPs meeting these criteria will not be required to make payments with respect to solvency deficiencies, administrators will still be required to determine whether deficiencies exist. In addition, if an amendment to a JSPP is made that will change the amount of the solvency deficiency that would be calculated, the JSPP administrator will have to file a report.[19]

JSPP administrators must also file a statement certifying that the plan satisfies the criteria to be considered a JSPP, setting out how these criteria have been met in each case. Newly created JSPPs must file this statement no later than the filing date of the first plan valuation. In the case of existing JSPPs, this certification must have been filed on the date of the plan valuation following June 1, 2011.

(iv) Full Funding on Plan Termination

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[18] See O. Reg 177/11 at Subsection 8(2).

[19] O. Reg 177/11 at Section 3.

The changes to the federal rules included a requirement to fully fund a pension plan where it is terminated and there is a deficiency.[20] This change brings the federal legislation in line with Ontario and most other Canadian jurisdictions.

(v) Void Amendments where Solvency an Issue

The changes to the federal rules included a new provision which sets out a funding threshold for amendments. An amendment to a federally registered pension plan will be void if the solvency ratio of the plan would be below 85 percent as a result of the amendment. An amendment will also be void if the solvency ratio of the plan is below 85 percent and the amendment would increase pension benefits or pension benefit credits.[21]

(vi) Contribution Holidays

The federal pension legislation has been amended to preclude plan sponsors from taking contribution holidays unless the pension plan has a specified funded ratio. The federal changes provide that contribution holidays cannot be taken unless the plan is at least 105% funded on a solvency basis.[22]

Ontario's Bill 120 amends Ontario's PBA by outlining conditions where employers and plan members can reduce or suspend their contributions under a pension plan.[23] The new provisions will expressly permit contribution holidays to be taken where the plan is in surplus and other conditions to be prescribed by regulation have been met. By all indications, these prescribed conditions will include a security margin of 5%.[24] Where documents that create and support the pension plan or pension fund prohibit such contribution holidays, these payment reductions and suspensions are not permitted. This section of Bill 120 is not yet in force.

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[20] This does not apply to MEPPs.

[21] PBSA section 10.1(2)(c) and (d)

[22] Section 9, Pension Benefits Standards Regulations

[23] Bill 120 at section 17.

[24] In the technical background to the Ontario Government's August 24, 2010 announcement, "Further Strengthening Pensions", the Government indicated that it was proposing to "expressly permit contribution holidays, unless prohibited by the plan documents, only if they do not reduce the plan's transfer ratio below 105 per cent".

(vii) Power to Remove an Administrator

The federal changes included a new provision which permits the regulator to remove an administrator and appoint a replacement administrator.[25] This can be done if the administrator of a pension plan is insolvent or unable to act or if the regulator is of the opinion that it is in the best interests of the members or former members, or any other persons entitled to benefits under the plan, that the administrator be removed.

Changes to Ontario's laws authorize the regulator to appoint an administrator for a pension plan or to act as the administrator in certain circumstances to be prescribed.[26] These changes are not yet in force.

Funding Policies

A funding policy, in essence, is a road map that tells plan sponsors how to make decisions with respect to defined benefit plan funding. The concept behind funding policies is to provide a framework through which to promote benefit security by ensuring that there are sufficient assets to deliver the promised benefits. Funding policies are becoming more common in Canada, particularly among larger pension plans. However, funding policies are not required by law in Canada.

A funding policy is generally adopted and developed by the plan sponsor (where the plan sponsor deems it to be appropriate in the circumstances), whether this is the employer or another party. If a funding policy is adopted by the plan sponsor, there will be certain responsibilities of the administrator set out in the policy.[27] For example, the administrator must ensure that the investment policy is consistent with the funding policy, and must ensure that the required contributions are made. It should be noted that an employer acting as both a plan sponsor and a plan administrator will be subject to a fiduciary obligation when acting as the plan administrator,

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[25] PBSA, section 7.6

[26] Bill 120 at section 2

[27] CAPSA Guideline 7 (defined below) at 4.

while generally it can act in its own best interests as the employer (though there may be an implied duty of good faith).[28]

The benefits of adopting a funding policy relate primarily to governance. The increased awareness of pension issues and transparency associated with a funding policy can create a more disciplined and predictable pension funding regime for those involved. In addition, guidance can be provided to the plan actuary with respect to the selection of actuarial methods and assumptions.

The Canadian Association of Pension Supervisory Authorities (**"CAPSA"**)[29] is a proponent of the implementation of funding policies in appropriate circumstances. In CAPSA's Guideline No. 7, *Pension Plan Funding Policy Guideline*,[30] (**"CAPSA Guideline 7"**) CAPSA outlines the elements that should be considered in establishing a funding policy. These are:

- a plan overview;
- funding objectives;
- key risks faced by the plan;
- funding volatility factors and management of risk;
- funding target ranges;
- cost sharing mechanisms;
- utilization of funding excess;
- actuarial methods, assumptions and reporting;

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[28] CAPSA Guideline 7 at 4.

[29] CAPSA describes itself as follows: "CAPSA is a national interjurisdictional association of pension regulators whose mission is to facilitate an efficient and effective pension regulatory system in Canada. It discusses pension regulatory issues of common interest and develops solutions to further the simplification and harmonization of pension regulation across Canada."

[30] A copy of CAPSA Guideline 7 is attached as Appendix "A".

- frequency of valuations;
- monitoring; and
- a communication policy.[31]

As mentioned above, funding policies are becoming more prevalent in Canada. In the past few years, some larger pension plans have adopted them. There are many reasons why plan sponsors may wish to consider adopting a funding policy. For example, CAPSA notes in their guideline that funding decisions can have a significant impact and should not be made on an ad hoc basis. In relation to the adoption of a funding policy, the Report to Members for Ontario Teachers' Pension Plan says, "The funding zone will provide greater stability for contribution rates for active members. Our investors will have the freedom to continue to use investment risk prudently to lower the overall cost of the plan with the assurance that some of the gains from future market booms would be set aside to cushion the impact of inevitable market downturns."[32]

Conclusion

The economic downturn over the past few years has had a drastic impact on the funded position of many pension plans in Canada. As discussed in this paper, there have been legislative responses to the resulting funding issues faced by pension plans in Canada. These include permitting letters of credit to be used for solvency funding purposes, federal distressed pension work out schemes and solvency funding exemptions for certain types of pension plans. Also, there are measures that have been introduced for the purpose of protecting plan beneficiaries, such as establishing a funding threshold below which contribution holidays may not be taken. In addition, funding policies, which can improve the stability and transparency of pension plans, are becoming more prevalent and are receiving more attention. As discussed, CAPSA has recently published a policy on funding policies and more Canadian pension stakeholders are discussing the merits of such funding policies.

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[31] CAPSA Guideline 7 at 3.

[32] Available at http://docs.otpp.com/ReportToMembers2002.pdf.

Appendix "A"

(CAPSA Guideline No. 7)

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GUIDELINE NO. 7

PENSION PLAN FUNDING POLICY GUIDELINE

November 15, 2011

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CONTEXT FOR THE GUIDELINE

This guideline is intended to provide guidance on the development and adoption of funding policies for pension plans that provide defined benefits.

As the development of a funding policy involves a wide range of issues, CAPSA recognizes that some of the considerations described in this Guideline may not apply to all pension plans.

Pension Plan Funding Principles and Objectives

Funding requirements promote benefit security. The goal of funding defined benefit pension plans is to ensure that sufficient assets will be accumulated to deliver the promised benefits on an ongoing basis; and to protect pension benefits in situations that involve employer insolvency or bankruptcy.

Due to the emphasis on solvency funding under minimum funding requirements and the fact that the performance of plan assets may not be matched with the change in plan liabilities, funding rules can result in large annual fluctuations in funding requirements.

Funding decisions have a significant impact on pension plan sponsors and beneficiaries. These decisions impact the pace of funding, the security of members' benefits, and the ongoing viability of the plan itself. Therefore, they should not be made on an ad hoc basis. Practical financing considerations, including capital market movements, and other laws and rules that affect pension plans and plan sponsors, may also affect or impose constraints on funding decisions.

Plan sponsors generally seek year-to-year funding requirements that are as predictable as possible, given the variability resulting from investment experience, interest rate changes and other factors.

Purpose of a Funding Policy

The purpose of a funding policy is to establish a framework for funding a defined benefit pension plan taking into account factors that are relevant to the plan and the sponsor.

These factors could include:

- benefit security
- stability and/or affordability of contributions
- the financial position of the sponsor and competing organizational demands for cash
- the demographic characteristics of the plan's beneficiaries (any person with an entitlement under the plan)
- the minimum funding requirements under applicable pension legislation
- the financial position of the pension plan
- the terms of the plan documents and any related agreement, such as a collective bargaining agreement, between the plan sponsor and plan beneficiaries
- *Income Tax Act* maximum limits applicable to pension plans
- legislative and plan provisions with respect to utilization of funding excess

A funding policy should support the decision making process and be consistent with the purpose and goals of the pension plan.

Role of the Plan Sponsor

While not a requirement under any current pension legislation, it is a good practice and good governance to develop and adopt a funding policy. In the course of activities related to the establishment of a funding policy, the plan sponsor is not held to a fiduciary standard of care.

Role of the Plan Administrator

The plan administrator has certain responsibilities once the funding policy is adopted by the plan sponsor, such as ensuring that the investment policy is consistent with the funding policy and the required contributions are made. The responsibilities for the implementation of the funding policy should be understood by both plan sponsor and plan administrator.

The role of the plan administrator should be documented in the funding policy.

Dual Role of the Employer as Plan Sponsor and Plan Administrator

For many pension plans the plan administrator is the employer who is sponsoring the plan. In these situations the employer is held to a fiduciary standard of care when acting as the plan administrator. The employer also retains certain rights and powers in respect to the pension plan, since it is both the sponsor and plan administrator.

The roles and responsibilities of the plan sponsor are very different from those of the plan administrator. In the plan sponsor role the employer is entitled to act in its own best interests but it may be subject to an implied duty of good faith.

In the plan administrator role, the employer must also ensure the pension plan and pension fund are administered prudently in accordance with applicable legislation and pension plan documents. As plan administrator the employer is a fiduciary whose actions and decisions must be made in the best interests of the plan's beneficiaries in an even-handed manner.

Developing a Funding Policy

There are a number of advantages in developing a funding policy:

- The exercise of developing a funding policy improves the identification, understanding and management of the risk factors that affect the variability of funding requirements and the security of benefits. Undertaking this exercise should lead to more robust governance.
- The adoption of a funding policy could increase the plan sponsor's discipline around funding decisions. This could contribute to more predictability in funding.
- Having a written summary of the funding policy that is accessible to plan beneficiaries should help to improve the transparency of funding decisions and increase the beneficiaries' understanding of pension funding issues.

- Having a funding policy may also provide guidance to the plan's actuary when selecting actuarial methods and assumptions in accordance with actuarial standards of practice and within the plan's risk tolerance limits.

The investment policy details the plan administrator's objectives and expectations relating to the investment and management of the plan's assets. The funding policy documents the plan sponsor's funding objectives and methods for achieving them.

It is important to ensure that the two documents are consistent with each other, and changes may be required to either the investment policy or the funding policy to achieve this consistency. Where there are conflicts or inconsistencies, the plan administrator and the plan sponsor are responsible for disclosing and resolving them.

Plan administrators may find the *CAPSA Guideline No. 6 Pension Plan Prudent Investment Practices Guideline* helpful in developing the investment policy.

The party responsible for the adoption and maintenance of the funding policy may vary according to the circumstances of the plan. For most single employer pension plans, the employer is responsible for making funding decisions and should therefore be responsible for the development of the funding policy.

The plan actuary may provide valuable input in the development of a funding policy.

Elements of a Funding Policy

When plan sponsors document their funding objectives, they should outline their understanding of the risk factors that influence future financing obligations, their risk tolerance, and specific policies related to matters that affect the funding of the pension plan.

The following elements constitute what CAPSA believes is best practice for issues that should be considered in establishing a funding policy. Ideally, a written funding policy would address the following issues as they relate to the plan.

Other issues may also be relevant, depending on the specifics of the plan. To the extent that some of these elements may be addressed in the investment policy, it would be reasonable to avoid duplication and refer to the investment policy as needed.

It is also understood that these issues do not apply equally to all pension plans and that the funding policy should fit the particular circumstances of the plan.

1. Plan Overview

The funding policy should include an overview of the features of the plan, related financial information and characteristics of the plan sponsor that are relevant to the establishment of the funding policy.

2. Funding Objectives

The funding policy should indicate how the funding objectives integrate with the plan's investment policy, as well as the plan sponsor or plan objectives. These objectives can be stated as they relate, for instance, to benefit security, stability of contributions, and to contribution or benefit levels. The policy could also document circumstances in which funding in excess of the legislated minimum would be considered.

3. Key Risks Faced by the Plan

The funding policy should describe the key risks that are faced by the plan from the

perspectives of various stakeholders. These risks can include the extent to which the plan's assets are mismatched against its liabilities and the demographic characteristics of the plan beneficiaries. Due consideration should be given to how these risks may affect the security of beneficiaries' benefits.

4. Funding Volatility Factors and Management of Risk

The funding policy should document the structure of the plan's liabilities as it affects funding risk. It should describe the plan's tolerance for volatility in funding requirements. The policy should also take into account the characteristics of the plan's liabilities and the link of the plan's liabilities to the performance of the plan assets. The policy could include any scenario testing practices that are used as a tool to evaluate the effect of different hypothetical situations on the plan's funding position and requirements. Details on scenario testing practices could include the frequency, the timeline for projections and the specific risks that are being evaluated.

5. Funding Target Ranges

The funding policy should describe any funding targets, contribution target levels and established cost sharing arrangements (if they are relevant to the plan's structure). Funding targets can be expressed in relation to liabilities for a going concern, solvency, wind-up, or some other measure, depending on the plan's funding objectives. The funding policy can also describe any mechanisms that would allow flexibility in funding and accommodate potential short term operational requirements.

6. Cost Sharing Mechanisms

If relevant, the funding policy could include considerations for cost sharing mechanisms between plan beneficiaries and the employer. This could include establishing total target contribution levels and determining the extent to which costs will be shared between both parties.

7. Utilization of Funding Excess

While utilization of funding excess is subject to the terms of applicable plan documents and legislative requirements, the funding policy should describe the plan sponsor's policy on using funding excess for an ongoing entity, and if appropriate, could cover its use in the event of plan termination.

If funding excess can be used for contribution holidays or benefit improvements, the policy should establish the factors that may be considered in deciding how and when to use the funding excess. This includes any desired margins that the plan sponsor wishes to keep before using the funding excess.

8. Actuarial Methods, Assumptions and Reporting

The plan sponsor can provide useful guidance to the plan actuary in selecting actuarial methods and assumptions that are appropriate for the plan sponsor's risk management approach. This guidance can include the going concern actuarial cost method, desired margins or provision for adverse deviations and acceptable asset valuation methods and ranges. The plan administrator would provide information on data, investments, historical experience, etc. to assist the actuary in developing these assumptions. This combined input would

normally be reflected in the actuary's selection of methods and assumptions – in particular, the margins for adverse deviations – provided they do not lead to assumptions that deviate from accepted actuarial practice.

The actuary's report would normally outline the range of contributions that are permitted. This includes the minimum contributions that are required under applicable pension standards legislation and the maximum contributions that are permitted under tax statutes. As a result, the plan sponsor would need to make additional decisions on funding that could be guided by the plan's funding policy.

9. Frequency of Valuations

The plan sponsor may establish standards for the frequency of valuations, subject to any legislative requirements. These are useful for internal monitoring purposes and for the production of reports that are filed with regulators.

10. Monitoring

Management and implementation issues around the establishment and ongoing maintenance of the funding policy should be documented, including the circumstances or events that should trigger a review or amendment of the policy. This includes documenting the roles, responsibilities and oversight of the funding policy, as well as the frequency of review.

11. Communication Policy

Sharing funding information is strongly encouraged. The plan sponsor or plan administrator should consider what, to whom and when information would be available. A summary of the plan's funding policy that is accessible to plan beneficiaries can help them understand a number of factors affecting their pension plans. These can include factors that affect the security of beneficiaries' benefits and the variability of funding costs, as well as the risks that are faced by both their pension plan and others. In addition, it can help plan beneficiaries appreciate the funding decisions that are made by their plan sponsor or plan administrator. In communicating information on the funding policy to plan beneficiaries, it is understood that the plan sponsor will not communicate information that is counter to its commercial interests.

Special Considerations for Multi Employer Pension Plans (MEPPs)

Different funding considerations may apply to single employer pension plans, than to other types of pension plans such as multi employer pension plans (MEPPs). Some of these considerations may also apply to some extent to other types of pension plans that exhibit similar characteristics.

For MEPPs, benefit levels rather than contribution levels, will typically need to be adjusted to reflect the funding level of the plan. Although contribution levels are fixed, volatility in the plan's financial position can translate into fluctuating benefit levels.

In the case of a MEPP, the plan administrator would typically be responsible for the adoption of the funding policy. However, there may be situations where responsibilities are shared between different plan stakeholders, and the funding policy might be covered by more than

one document. In either case, the funding policy should clearly define the roles the plan sponsor and plan administrator have in its establishment and implementation.

In the discussion of other elements of the funding policy for a MEPP any role that is assumed by the plan sponsor would be assumed by the plan administrator. However, the development of the funding policy for a MEPP would recognize that the administrator does not control the level of contributions made to the plan.

Although each of the elements listed in the previous section applies to all defined benefit pension plans, special considerations apply to MEPPs. The funding policy for a MEPP should describe the approach followed to set benefit levels and issues relating to the use of fixed contributions. These issues could include how the plan's financial position affects benefit levels and in what manner benefit levels may be adjusted. These plans should also document the respective decision making roles of trustees, employers and collective bargaining agents (as applicable). The issues of how to apply an even-handed treatment of beneficiaries, both the current and future generations, in different circumstances and the policy on benefit reductions or restructuring (when applicable), should also be discussed.

It is recognized that decisions on benefit levels would take into account the circumstances of the plan at the time the decision is made; however, the funding policy can establish the long-term policies of the administrator on these matters.