Manitoba

Office of the Superintendent - Pension Commission

Update #36
Determination and Transfer of Commuted Values

Issued February 2009

Reference: *The Pension Benefits Regulation Sections 2.4(1) – 2.4(3) and 14(1) – 14(1.2)*

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

It replaces information contained in Update 19, Administrative Issues, revised March 2005 and Update 25, Administrative Issues, revised March 2005.

Legislative Requirements
Section 14(1) states that the commuted value of a deferred life annuity shall be calculated in a manner acceptable to the Commission.

Applicable CIA Standards of Practice
Prior to April 1, 2009 – Standards of Practice for Determining Pension Commuted Values of the Canadian Institute of Actuaries effective February 1, 2005 (except as noted below).

On and after April 1, 2009 - Canadian Institute of Actuaries Revised Standards of Practice for Pension Commuted Values (Section 3800) adopted December 8, 2008 but coming into effect on April 1, 2009 (replaces the Standards of Practice for Determining Pension Commuted Values of the Canadian Institute of Actuaries effective February 1, 2005).

While the Revised Standards of Practice for Pension Commuted Values (section 3800) is effective April 1, 2009, the Actuarial Standards Board states that early implementation will be permitted for pension solvency valuations and hypothetical wind-up valuations with a valuation date on or after the date of publication of the final standards (December 12, 2008) if appropriate to the circumstances of the plan and permitted by the applicable pension regulator.

The Office of the Superintendent will be permitting the Revised Standards of Practice for Pension Commuted Values (Section 3800) for actuarial valuations with review dates of December 31, 2008 and later provided that the plan does not terminate before April 1, 2009.

For termination reports for pension plans with a termination date prior to April 1, 2009 the Office of the Superintendent will not permit the use of the Revised Standards of Practice for Pension Commuted Values (Section 3800). The Standards of Practice for Determining Pension Commuted Values of the Canadian Institute of Actuaries effective February 1, 2005 must be used.

The Standards of Practice for Determining Pension Commuted Values effective February 1, 2005 should continue to be used for commuted value calculations with computation dates prior to April 1, 2009.

Application of Standards of Practice to Actuarial Valuations

The manner or preparing reports and certificates is set out section 5(2) of the Regulation as follows:

> **Manner of preparing reports and certificates**
> **5(2)** The actuarial valuation report and cost certificate of an actuary shall be prepared in a manner that is consistent with the requirements of the Act, this regulation and the most recent standards of practice for the valuation of pension plans issued by the Canadian Institute of Actuaries, and in case of any conflict between the Act or regulation and the standards of practice, the Act and this regulation prevail.

In preparing a solvency valuation, the liabilities are determined on a “plan termination basis” as defined in the Regulation which is the method for determining the liabilities based on the hypothesis of the plan terminating at the valuation date. For purposes of calculating the liabilities, the actuary would use the transfer value assumptions in accordance with the applicable CIA Standards of Practice for 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 CIA Standards of Practice for 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 benefits he or she has accrued under the plan. The events in which this applies are

1. member termination prior to retirement

2. member termination at retirement 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.

The commuted value must be adjusted for interest, in respect of the period between that date and a date not earlier than the end of the month immediately preceding the payment or transfer of out of the plan, at a rate not less than the rate that was assumed in determining the commuted value over the same period of time.

ADDITIONAL RESTRICTION

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 2.4(3) 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 x a)) = $50,000 - ($50,000 x 0.8) = $10,000
d) initial transfer = (b - c) = $50,000 - $10,000 = $40,000
e) subsequent transfer = (b - d) = $10,000 plus interest

This rule does not apply if:

a) the employer immediately and fully funds the amount of the transfer deficit related to the transfer, or
b) the amount of the transfer deficiency related to any person's benefit is less than 5% of the YMPE in the year in which the transfer is made, and the total of all transfer deficiencies since the last review date does not exceed 5% of the market value of the plan assets at the time that the transfer is made, or
c) the transfer is an amount equal to the commuted value of a benefit less the transfer deficiency related to the benefit.

An employer shall not make a transfer that would impair the solvency of the plan unless the Superintendent consents in writing.

Calculation Guidelines

The commuted value must meet the following criteria.

1. The computation date is the date the entitlement to elect a transfer became effective, (i.e., the date of the event as described above) except for recalculations as outlined in section 14(1.2) 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;

- the full value of any death or survivor benefits payable on death prior to commencement of pension; and

- the full value of any subsidized early retirement or other ancillary benefit to which the member is fully entitled at the time in question.

3. Where, at the computation date, the former member has the unconditional entitlement to optional forms of pension or optional commencement dates, the option that has the greatest value must be used in determining the commuted value.

Interest Payable on Commuted Values to Date of Transfer
Recalculations

In accordance with section 14(1.1) and 14(1.2) of the Regulation, an adjustment must be made to the commuted value of a benefit to reflect interest between the computation date and the end of the month immediately preceding the date of payment. The interest applied must be at least equal to the rate of interest that was used in determining the commuted value of the benefit at the computation date.

Where the period between the computation date and the date of payment exceeds 120 days, instead of adjusting the commuted value for interest, the plan administrator may elect to recompute the commuted value as of the date of transfer. The election to recompute benefits should be exercised on a consistent basis for all transfer cases under the plan. Selective recomputation will not be permitted.

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

Office of the Superintendent – Pension Commission
824- 155 Carlton Street
Winnipeg MB R3C 3H8
Phone: (204) 945-2740
e-mail: pensions@gov.mb.ca
www.gov.mb.ca/finance/pension

This update has no legal authority. The Pension Benefits Act of Manitoba and The Pension Benefits Regulation, 188/87 R amended should be used to determine specific requirements.