



OCTOBER 21, 2011

Pension *Pulse*

Federal Government Announces Adjustments to OSFI's Annual Assessment

On October 1, 2011, the Federal Government announced changes to the regulations that govern how the Office of the Superintendent of Financial Institutions (OSFI) recovers costs from the pension industry for the administration of the *Pension Benefits Standards Act, 1985 (PBSA)*.

Background on OSFI Cost Recovery and Assessment

OSFI, in administering the *PBSA*, fully recovers its costs from the pension industry. It does this through the annual assessment of federally registered private pension plans. For 2010-2011, the total value of assessment (corresponding to the costs of OSFI's supervisory and regulatory role in relation to federal pension plans) was \$7.9 million. This amount is collected from the pension industry each year.

Each federal pension plan pays an annual fee that is determined by multiplying the plan's "fee base" by the "basic rate." The "fee base" is determined by the number of members in the plan (which, prior to the these amendments, included only active members). The "basic rate" is the dollar amount that, when multiplied by each plan's fee base, covers OSFI's costs for the year. For example, for 2010-2011, the "basic rate" was set at \$22.

Summary of Proposed Changes to Assessment Calculations

The proposed changes are designed to "better align annual assessments with OSFI's costs of supervising and regulating pension plans." Notably, there will be no change to the total amount collected to cover OSFI's costs for a year (i.e. the total value of assessment). Rather, the manner in which fees are calculated will be adjusted. As a result, a pension plan may see either an increase or a decrease in its annual assessment.

Most significantly, the new regulations propose to expand the "fee base" by including all plan beneficiaries rather than only active members. In order for the total assessment to remain unchanged, this increase in the fee base will be offset by a decrease in the basic rate. For example, if this change had been implemented for 2010-2011, OSFI would still collect \$7.9 million in fees, but the basic rate would have been set at \$12 as opposed to \$22.



Summary of current and proposed pension assessment calculations

Current formula	Proposed formula
Assessment = fee base x basic rate	No change to assessment formula
Fee base includes only <i>active</i> members	Fee base includes <i>all</i> plan beneficiaries (i.e. active members, deferred vested members, retirees and beneficiaries)
Above 1,000 members, each additional member increases the fee base by 0.5 until the fee base cap is reached	Above 1,000 members, each additional beneficiary increases the fee base by 0.75 until the fee base cap is reached
Minimum plan fee base is 20 beneficiaries (regardless of whether plan has less than 20 members)	Minimum plan fee base is 50 beneficiaries (regardless of whether plan has less than 50 members)
Maximum plan fee reached with 19,000 <i>active</i> members	Maximum plan fee reached with 26,333 members and beneficiaries
Minimum annual fee: \$440 ^a	Minimum annual fee: \$600 ^b
Maximum annual fee: \$220,000 ^a	Maximum annual fee: \$240,000 ^b

^a Based on the basic rate of \$22 that was applied in 2010–2011.

^b Reflecting a basic rate of \$12 that would have been used if the new formula had been in place in 2010–2011.

In addition, the regulations are being transferred from being issued pursuant to section 25 of the *PBSA* to being issued pursuant to the *Office of the Superintendent of Financial Institutions Act (OSFI Act)*.

Effects of Changes for Pension Funds

The increase in the fee base cap is of particular interest to larger defined benefit plans as it will likely result in higher costs for these plans. The government has stated that this change is appropriate as these plans can demand significant OSFI resources when problems arise.

Many defined contribution plans will see a decrease in the amount paid.

Also, since the new regulations propose to increase the minimum assessment base to 50 beneficiaries, the smallest plans will pay slightly more than under the old regulations. This increase, however, is modest, as the minimum assessment for the smallest plans will increase from \$440 to \$600 (based on a \$12 basic rate).



Implementation of Changes

The changes to the assessment regulations take effect on April 1, 2012. OSFI will update its reporting forms to accommodate the adjustments to the assessment formula.

Transition provisions will be in place for 2012 as the existing regulations and the new regulations both indicate that the "basic rate" will be published at least 180 days before an assessment is due. However, in order to transition to the new regulations by April 1, 2012, this notice period will be reduced to 60 days in 2012.

Implementing the proposed changes should generate minimal costs for pension plans. Specifically, plan sponsors could incur some modest costs as they would be required to include retirees and other beneficiaries in their reports to OSFI. However, since plan sponsors maintain this data, such costs should be minimal.

Comment

There is a natural and well-grounded suspicion whenever governments re-jig their assessment methodology that there is an underlying motive to gradually increase fees. Time will tell whether total fees will increase under this revised formula.

With the change in the assessment formula to include inactive members and beneficiaries, there may be some incentive for plan sponsors to annualize retired and inactive members in order to reduce the annual fees. The cost saving in some cases could be significant.

It is not particularly fair that larger pension plans should bear an even greater proportion of the total cost than what they are currently responsible for. Pension plans of all sizes can demand OSFI's resources; it depends upon the issues unique to any particular pension plan at a point in time.

Lastly, many plan sponsors question whether it is realistic or good policy for OSFI to administer the *PBSA* on a full cost-recovery basis. Part of the mandate of OSFI is to encourage the establishment and maintenance of registered pension plans. The imposition of onerous annual fees of this nature, in particular, fees of a quarter of a million dollars, can be said to be at odds with OSFI's mandate. ■



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