RPA1 Managing Retirement Plans Part 1

Study Materials Update—January 2019

This material is required reading for purposes of the CEBS program and the national exams for the RPA 1 course administered on or after January 15, 2019.

This update covers Modules 1, 3, 4, 5, 6, 9 and 11 of the Study Guide (First printing: July 2017, Second Printing: October 2017 and Third Printing: October 2018).
How to Use This Update

For the printed version of the Study Guide:

Keep this update with your study materials. It should be read in conjunction with the assigned reading for RPA 1.

For the online Study Guide:

These updates will be reflected in the online versions of Study Guide Modules 1, 3, 4, 5, 6, 9 and 11.

Instructions

There are two types of updates:

1. Minor—Where changes are made to a small section of the text, changes are indicated in bold.
2. Major—Entire sections are provided as a replacement.
Page 12, Answer to Content Knowledge Review 4.2: Make changes indicated in bold to the second paragraph and remove what is crossed out.

While DC plans provide equal value to all members regardless of age, DB plans may provide equal pensions to two individuals of different ages, but the values at any point in time before the employees’ retirement ages will not be equal. This means that at a particular date before retirement, the value of the pension for a young employee with the same years of service and earnings history as an older employee will have a pension of lower value will be lower than the value of the older employee’s pension. Many pension plans provide valuable ancillary benefits to employees who meet certain criteria. Plans may also impose constraints on service or earnings when calculating benefits. When these complications are introduced, equity may be more difficult to achieve.
Page 19, Text Commentary: Make changes indicated in **bold** and remove what is crossed-out.

Past Service Pension Adjustments, Text, Pages 228-229

Add to the end of the fourth paragraph on page **229**.
Page 19, Text Commentary: Make changes indicated in bold and remove what is crossed-out.

Eligibility for Membership, Text, Page 260

Change the fourth paragraph to: Add to the end of this section:

Page 20, Text Commentary: Insert the following commentary after Pension Credit Splitting on Marriage Breakdown, Text, Page 277.

Pension Credit Splitting on Marriage Breakdown, Text, Page 278

Remove what is crossed out from the second sentence of the fifth paragraph.

For example, survivor pensions and preretirement death benefits are not payable to a spouse who is not living separate and apart from the member at the relevant time.
Study Guide Module 5

Page 13, Answer to Content Knowledge Review 4.3: Remove what is crossed out.

Plan administrators of pension plans with CAP components should operate their plans in accordance with the CAP Guidelines supplemented by those aspects of the CAPSA Pension Plan Governance Guidelines that are not covered in the CAP Guidelines.

Page 20, Text Commentary: Make changes indicated in bold and remove what is crossed out.

CAPSA Pension Plan Governance Guidelines, Text, Page 121 Pages 119-122
Page 6, Answer to Content Knowledge Review 1.4: Make changes indicated in **bold** to point (c) and remove what is crossed out.

(c) Reward long-service *employees*
Study Guide Module 9

Page 25, Text Commentary: Make changes indicated in **bold** and remove what is crossed-out.

The Statement of Investment Policies and Procedures, Text, Page 197

Replace the *fifth* *sixth* sentence with:

Member-directed defined contribution (DC) plans under the federal jurisdiction, and some other jurisdictions, do not require a statement of investment policies and procedures (SIP&P).

Page 33, Candidate Note: Make changes indicated in **bold** and remove what is crossed-out.

Section 1.1, Legislative References, Study Guide Module 9, Page 44
Study Guide Module 11

**Reading A**, *Carswell’s Pension Manager (CPM)* and Text Commentary, Study Guide Module 11: Replace pages 33 and 34 with the attached pages.

**Reading B**, Excerpts from *CPM*, Chapter 12, Corporate Reorganizations, Study Guide Module 11: Replace pages 43 and 44 with the attached pages.
The CPM and Text Commentary expand upon or provide current and relevant applications to the required reading. It should be read in conjunction with the CPM and Text readings.

12.2 Asset vs. Share Purchase, Reading B, Study Guide Module 11, Page 37

The majority of this section deals with defined benefit (DB) pension plans. In the case of defined contribution (DC) pension plans, assets and liabilities are usually equal; plan liabilities are determined very simply as the value of member accounts at the date of the sale.

12.2(d) Master Trusts, Reading B, Study Guide Module 11, Page 38

A “master trust” is a pooling of directed and/or discretionary trusts (a “discretionary trust” is one in which the bank is trustee and also has investment responsibility for all or part of the assets). The pure definition is pooling of one sponsor’s assets, which include multiple managers and multiple plans under one trust agreement.

12.4(a)(ii) Valuation Assumptions, Reading B, Study Guide Module 11, Pages 46-47

The CPM material was written when interest rates were higher than they are currently. Given the low-interest-rate environment prevailing from late 2008 to today, the terminating plan basis currently would likely generate a higher plan liability than would the ongoing basis—and certainly would for a career average plan.

12.4(c)(ii)(D) Defined Contribution, Reading B, Study Guide Module 11, Page 53

It should be noted that the statement “Recognition of future service only by the purchaser does not have any effect on the employee’s total pension benefits” is valid only when the purchaser’s DC plan duplicates the contribution schedule of that of the vendor’s DC plan.

11.2(c) Surplus on Plan Termination, Reading D, Study Guide Module 11, Page 69

The CPM material was written when interest rates were higher than they are currently. Given the low-interest-rate environment prevailing from late 2008 to today, the terminating plan basis currently would likely generate a higher plan liability than would the ongoing basis—and certainly would for a career average plan.
11.2(e) Legislative Provisions, Reading D, Study Guide Module 11, Pages 70-71

All Canadian jurisdictions except Saskatchewan directly define surplus within their pension standards legislation. Details of each jurisdiction’s definition are not testable exam material.

11.3(b) Provision for Employer Withdrawal of Surplus, Reading D, Study Guide Module 11, Page 72

All pension standards legislations address withdrawal of surplus by the employer. Specifics of all legislations are beyond the scope of this course. For details regarding all surplus withdrawal procedures, refer to the pension standards legislation in the relevant jurisdiction.

Details of legislative requirements are provided as an example for Ontario to illustrate the content covered. Candidates are not required to know the detailed legislative requirements for Ontario—It is provided for illustrative purposes only. It is not testable exam material.

11.5(a) Legislation, Reading D, Study Guide Module 11, Pages 77-78

Note that a number of jurisdictions restrict the use of surplus for contribution holidays, including the regulations for DB plans implemented by Ontario in 2018. These regulations in Ontario also specify the circumstances under which surplus can be used to finance benefit improvements. Benefit improvements are prohibited if a plan is less than 85% funded on a solvency basis or less than 90% funded on a going-concern basis. Any benefit improvement must be fully funded on a going-concern basis within five years of its implementation.

As indicated in Module 4, Ontario’s funding requirements for DB plans added a requirement that restricts the ability of plan sponsors to take contribution holidays to occasions when the PfAD is fully funded, the contribution holiday does not reduce the plan’s transfer ratio below 1.05, actuarial certification is filed with the regulator, and plan members are provided with notice that a contribution holiday is being taken. Further, the maximum amount available for use as a contribution holiday is limited to 20% of the plan’s “available actuarial surplus.”

For a more detailed description of the provisions of the various provincial and federal legislation dealing with pension benefits upon the sale or reorganization of a vendor’s business, refer to the following sections:

4. Manitoba Pension Benefits Act, R.S.M. 1987, c. P32, s. 34;
5. New Brunswick Pension Benefits Act, S.N.B. 1987, c. P-5.1, s. 69;
7. Nova Scotia Pension Benefits Act, S.N.S. 2011, c. 41, ss. 106-110 (in force June 1, 2015);
8. Ontario Pension Benefits Act, R.S.O. 1990, c. P.8, ss. 79.1-81;
9.* Prince Edward Island Pension Benefits Act, S.P.E.I. 1990, c. 41, ss. 84-85;
10. Quebec Supplemental Pension Plans Act, R.S.Q. c. R-15.1, ss. 194-197;

* Act not yet proclaimed. Current pension legislation does not deal with pension benefits on the sale of vendor’s operations.

12.4 EMPLOYER ISSUES

In discussing the employer issues, both purchaser and vendor will see themselves as the “employer” for some element of the sale transaction. In general, each will wish to meet all legal requirements relating to the rights of the employees. In addition, each will attempt to conclude the sale of the business or division on terms which are most advantageous to him. In negotiating on the pension plan, there is a wide range of possible treatments, each with positive and negative features. The future plans for the business as well as the reasons for the sale can lead to very different negotiations from one sale to the next. In order to illustrate the major issues to be considered, the following example sets out a fairly common treatment of a pension plan on the sale of a corporation. Because of the almost infinite
Variations which are possible, the illustration starts by defining a specific set of circumstances.

Profile of a Sale

Corporation B is in the process of acquiring Corporation A through purchase of its assets.
Corporation A has a career average defined benefit pension plan.
Corporation B has a career average defined benefit pension plan which is regularly upgraded to a “current” salary base.

Intent of the Parties to the Sale

The parties to the sale wish to move responsibility for all pension benefits (and control of the plan) to the purchaser. Both parties wish to comply with the law and to avoid major changes which might lead to wrongful dismissal actions by the employees.
Corporation A wishes to transfer the minimum amount of assets required to provide for the accumulated pensions at the sale date.
Corporation B wishes to integrate the transferred employees into its compensation and benefits system, while controlling costs and retaining maximum flexibility for the treatment of these employees.

Terms of Purchase and Sale Agreement

Corporation A will transfer the pension fund to Corporation B. Any excess (or deficit) of the pension fund assets over termination value of the pension plan liabilities on the transfer date will be reflected in an adjustment to the sale price.
Corporation B will provide benefits for service with Corporation A which are equal to the benefits accrued under Corporation A’s pension plan. These benefits will be frozen and Corporation B will not be obligated to provide any benefit improvements with respect to this service period.
Corporation B will transfer the pension fund assets into its pension plan and amend the pension plan to provide benefits to the transferred employees equal to the benefits accrued under the predecessor employer’s pension plan. The transferred employees will become members of Corporation B’s pension plan on the sale date. Corporation B will recognize service with Corporation A for determining eligibility for plan membership and for vesting and locking-in of all benefits accrued under the merged pension plan.

This fairly simple example highlights a number of the issues which