Financial Services Commission of Ontario
Commission des services financiers de l'Ontario

Ontario

SECTION:	Interest
INDEX NO.:	I200-301
TITLE:	Crediting Interest on Employee Contributions - PBA s. 10(1)8. - Regulation 909 s. 24
APPROVED BY:	Superintendent of Financial Services
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REPLACES:	I200-200, I200-300

This policy replaces I200-200 (Crediting Interest on Employee Contributions) and I200-300 (Minimum and Maximum Rates) as of the effective date of this policy.

Note: Where this policy conflicts with the Financial Services Commission of Ontario Act, 1997, S.O. 1997, c. 28 (FSCO Act), Pension Benefits Act, R.S.O. 1990, c. P.8 (PBA) or Regulation 909, R.R.O. 1990 (Regulation), the FSCO Act, PBA or Regulation govern.

Note: The electronic version of this policy, including direct access to all linked references, is available on FSCO's website at www.fsco.gov.on.ca*. All pension policies can be accessed from the* **Pensions** *section of the website through the* **Pension Policies** *link.*

Purpose

In accordance with section 10(1)8. of the PBA, the terms of a pension plan are required to specify the method for calculating interest to be credited on employee contributions under the plan. The pension plan must select which method is to be used and apply it consistently. The method selected can only be changed by a plan amendment.

The purpose of this policy is to describe the minimum requirements for the payment of interest that must be credited on employee contributions.

Minimum Interest Requirements

Section 24 of the Regulation sets out the rules for crediting interest on employee contributions. The interest rates that must be credited on employee contributions under the terms of the pension plan vary, depending on the benefit type (defined contribution benefit or defined benefit) and contribution type (required or additional voluntary), as follows:

a) defined contribution benefit

For required employee contributions, the Regulation provides that interest must be calculated at a rate that is not less than the pension fund rate of return (which also applies to employer contributions).[1] For additional voluntary contributions, interest must be calculated at the pension fund rate of return.

b) defined benefit

For required employee contributions, the Regulation provides that interest must be calculated at a rate that is not less than either the pension fund rate of return or the bank deposit rate.[2] For additional voluntary contributions, interest must be calculated at the pension fund rate of return.

c) pension benefits that are guaranteed by an insurance company

If pension benefits are guaranteed by an insurance company (e.g. group annuity contracts), the Regulation provides that interest on the contributions must be calculated at a rate that is not less than the bank deposit rate.

Timing

a) accrual

For required employee contributions, interest must begin to accrue no later than the first day of the month after the month in which the contribution must be paid into the pension fund. For additional voluntary contributions, interest must begin to accrue no later than the first day of the month after the month in which the contribution is paid into the pension fund.

b) crediting of interest

Interest must be credited on required employee contributions and additional voluntary contributions at least once a year. When crediting the required or additional voluntary contributions made during

[1] The "pension fund rate of return" is defined in section 24(1) as meaning "as of a particular date in relation to a contribution to a particular pension plan, such rate of return, over a reasonably recent period that does not exceed 12 months, as can reasonably be attributed to the operation of the pension fund or to the part of the pension fund to which the contribution is made".

[2] The "bank deposit rate" is defined in section 24(1) of the Regulation as meaning "as of a particular date, the rate calculated on the basis of the average of the yields of five-year personal fixed-term chartered bank deposit rates as determined from the Canadian Socio-Economic Information Management System (CANSIM) series V122515 compiled by Statistics Canada and available on the website maintained by the Bank of Canada, over a reasonably recent period such that the averaging period does not exceed 12 months".

a fiscal year of the pension plan, the administrator may use an average rate for that fiscal year (determined as discussed above) instead of the particular rate in effect when the interest accrued.

Setting Maximum Interest Rates

It is possible for a pension plan to set maximum interest rates under the plan terms for required employee contributions as long as the minimum interest rates are being credited on required employee contributions in accordance with section 24 of the Regulation.

A maximum interest rate provision is only applicable in cases where a pension plan calculates the rate of interest using a formula that is more generous than what is required in section 24. A more generous formula is not permitted for additional voluntary contributions which must be calculated at the pension fund rate of return.