



SECTION: Conversion

INDEX NO.: C200-100

TITLE: From Defined Benefit to Defined Contribution
- PBA, 1987 c. 14(1)(c), ss. 27(1), s. 42-43, 49, ss. 64(7)
O. Reg. 708 s. 16(1)

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Note: Due to legislative changes, references to clause 14(1)(c), ss. 27(1), s. 42, 43 and 49, and ss. 64(7) of the PBA, 1987 should now read clause 14(1)(c), ss. 26(1), s. 41, 42 and 48, and 63(7) of the PBA, R.S.O. 1990; reference to ss. 16(1) of Regulation 708/87 under the PBA, 1987 should now read ss. 19(1) of Regulation 909, R.R.O. 1990; and references to "Commission" should now read "Superintendent." Please also note the change under the heading "Minimum Commuted Value". The method used to determine commuted value is in accordance with the Recommendations for the Computation of Minimum Transfer Values from Registered Pension Plans issued by the Canadian Institute of Actuaries effective on September 1, 1993.

Defined Benefit to Defined Contribution Plan Conversion

The conversion of a defined benefit plan to a defined contribution plan alters the fundamental pension agreement between the employer and the plan members. The PBA, 1987 does not expressly address such plan conversions. It is recognized that plan sponsors are entitled to change the basic structure of a pension plan for future benefits; however, plan members should receive full information with respect to the conversion and the options available to them. While each case presents its own circumstances, the following guidelines are set out to assist in effecting such conversions.

Plan conversions are effected by means of a plan amendment. Generally, such an amendment will be registered only if it is designed in accordance with the guidelines. The guidelines are directed towards conversions affecting benefits already accrued.

1. Application

This administrative practice is directed to plan conversions where the plan is converted from a defined benefit to a defined contribution plan, and the benefits of the members that have been accrued as of the date of conversion are valued and credited toward the member's account in the subsequent defined contribution plan.

2. Means of Effecting Conversion

The conversion is effected by a plan amendment, for which notice must be given prior to implementation in

accordance with subsection 27(1) of the PBA, 1987. The effective date of the plan amendment may not be earlier than the date of the notice.

As soon as the member's entitlements and commuted values under the defined benefit plan can be determined, each member being affected by the conversion must be given a Statement of Benefits and Options. This Statement must contain as a minimum the information set out in Schedule A.

3. Option of Members

Each active member of the plan who is affected by the conversion must be given the option of preserving his or her accrued benefits in the form of a defined benefit. If no election is made, the member is considered to have selected the option of preserving his or her accrued benefits in the form of a defined benefit.

If the sponsor elects to purchase an annuity for the members who choose to preserve their benefits in the form of a defined benefit, the annuity must comply with all requirements of the plan and the PBA, 1987, such as early retirement provisions (section 42), transfer rights (section 43) and pre-retirement death benefits (section 49).

4. Minimum Commuted Value

The commuted value of the accrued benefits as of the date of conversion must be determined for each member. The method used to determine the commuted values must produce for each member a value that is not less than the value determined in accordance with the Recommendations for the Computation of Minimum Transfer Values of Deferred Pensions issued by the Canadian Institute of Actuaries, effective November 14, 1988 and the requirements of subsection 16(1) of Regulation 708/87 under the PBA, 1987.

The value of ancillary benefits such as bridge benefits or early retirement benefits for which the member has met all eligibility requirements under the pension plan as of the date of conversion must be taken into account in determining the commuted value of the member's accrued benefits in order to ensure compliance with clause 14(1)(c) of the PBA, 1987.

In the case of a contributory pre-1987 accrued benefit, the commuted value must not be less than the member's required contributions plus interest.

Please also refer to Salary projections, Paragraph 5.

5. Salary Projections

Where a plan is structured such that benefits are related to final earning or best earnings of a member, a projection of salary increases must be taken into account in calculating the commuted value of the accrued benefits unless the plan clearly provides that salary projection need not be taken into account on a plan conversion. However, the probability of termination may also be recognized in the determination of the commuted values. The staff may also approve an approximate method for the determination of the commuted value which will produce a reasonably similar result.

If the plan is amended to freeze the salary level at which the accrued benefits are determined as at the date of conversion, notice of this amendment to freeze the salary level must be included as part of the notice of amendment which must be given to all affected plan members.

6. Application of the 50% Rule and Treatment of the Excess

In a contributory plan, the amount by which the member's contributions plus interest exceed 50% of the commuted value of the pension as of the date of conversion must be added to the member's defined contribution account (1) for all benefits which accrued from January 1, 1987 to the date of conversion, and (2) for pre-1987 accrued benefits where the 50% rule applies to such benefits.

The plan sponsor may determine that this excess amount either be retained (1) in the member's required contribution account, in which case the amount is treated in the same manner as the other monies in the accounts, or (2) treated as an additional voluntary contribution. The amendment effecting the conversion must specify how the excess amount is to be treated.

If the excess is deemed to be an additional voluntary contribution and the sponsor wishes to pay the excess to the members in cash, the plan must be amended to so allow and an application must be made to the Commission under subsection 64(7) of the PBA, 1987 for a refund of contributions to the members.

7. Vesting

Conversion of the plan does not affect the date on which vesting occurs.

8. Refunds

Where, in connection with the conversion, the plan is to be amended to provide for a refund of a member's contributions, application must be made to the Commission under subsection 64(7) of the PBA, 1987.

9. Funding

If the assets in the plan are not sufficient to cover the commuted value of the benefits that are to be converted and the annuities purchased pursuant to the conversion, it would be expected that the sponsor must contribute the shortfall to the plan in a lump sum. Further, the sponsor must if necessary make a lump sum payment to ensure that the transfer ratio (market value of the assets exceeds the solvency liabilities) in respect of the defined benefit portion of the plan that remains after the conversion is not less than 1.0 before the conversion is implemented.

10. Conversion Report

A conversion report is required to be filed at the time the plan amendment is approved.

SCHEDULE A

**STATEMENT OF BENEFITS AND OPTIONS FOR MEMBERS
ON PLAN CONVERSION**

The following information must be included in the Statement of Benefits and Options, which is to be given to each member as soon as the member's entitlements and commuted values from the defined benefit plan can be determined:

- 1) The member may elect not to convert the accrued pension and retain all entitlements under the existing defined benefit plan.
- 2) If the member elects to convert the accrued pension, the amount of the accrued pension and the commuted value that will be credited to the member's defined contribution account, which must include the amount and value of:
 - ancillary benefits for which the member has satisfied all eligibility requirements;
 - any benefit improvement granted in conjunction with the conversion.
- 3) The amount of any excess member contributions resulting from application of the 50% rule and the treatment of such contributions.
- 4) A statement that the member will no longer be entitled to the benefits under the defined benefit plan, and that the member's pension benefit will depend on the earnings of the defined contribution plan and the annuity rates in effect at the time the member has terminated employment and chooses to annuitize the benefit, except with respect to benefits not converted.
- 5) Identification of ancillary benefits for which the member has not met the eligibility requirements and that these ancillary benefits will no longer be offered in the defined contribution plan.
- 6) A statement that the defined contribution account is subject to the vesting rules of the plan, and specification of the amount that is vested as of the date of the conversion.