

**PENSIONS SUPERANNUATION FUNDS (FUNDING AND SOLVENCY)
REGULATIONS**



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**For Discussion Purpose Only
March 2006**

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1. Definitions

“**Act**” means the Pensions (Superannuation and Retirement Schemes) Licensing and Registration Act, 2004

“**actuarial liability**” is an actuary’s estimate of the liabilities of the fund calculated and

- (a) in relation to a member of the fund by virtue of –
 - a. any right that has accrued to or in respect of him to future benefits under the fund, or
 - b. any entitlement to the present payment of a pension or other pension benefit which he has under the fund, and
- (b) in relation to the survivor of a member of the fund by virtue of any entitlement to pension benefits or right to future pension benefits which he has under the fund in respect of the member.

“**actuarial valuation**” means a written report, prepared and signed by an actuary, calculating a fund’s actuarial value of assets and its actuarial liabilities.

“**actuarial value of assets**” means net assets or net assets adjusted to take account of market volatility, liquidity or such other risks or circumstances the actuary considers appropriate.

“**actuary**” means a person or a firm of persons who are satisfactory to the Commission and who are fully qualified professional members of an actuarial body accredited by the International Actuarial Association and recognised by the Commission.

“**commencement date**” means the date on which these Regulations come into effect.

“**effective date of an actuarial valuation**” is the date by reference to which the assets of a fund are valued and the actuarial liabilities calculated.

“**fair value**” has the meaning assigned in the accounting standards issued by the Institute of Chartered Accountants of Jamaica

“**fund**” means an approved superannuation fund.

“**funded ratio**” means $100 \times \frac{A}{B}$, A and B calculated as at the same date, where

- A is the actuarial value of assets on the basis of a funding valuation, and
- B is the funding actuarial liability of the fund.

“**funding actuarial liability**” is the actuarial liability of the fund on the basis of a funding valuation

“**funding valuation**” means a valuation of assets and actuarial liabilities of a fund on a going concern basis using methods and assumptions determined by the actuary.

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“**net assets**” is the fair value of the assets attributed to the fund less the amount of its liabilities excluding the funding or solvency actuarial liability of the fund, where applicable.

“**solvency actuarial liability**” is the actuarial liability of the fund on the basis of a solvency valuation

“**solvency deficit**” is the greater of $D-C$ and zero where D and C are defined as in the solvency ratio

“**solvency ratio**” means 100 multiplied by C/D , C and D calculated as at the same date, where

C is the actuarial value of assets on the basis of a solvency valuation, and
 D is the solvency actuarial liability of the fund

“**solvency valuation**” means a valuation of assets and actuarial liabilities of a fund that assumes

- (a) the fund would be wound-up as at the effective date of the valuation;
- (b) the fund will realize its assets;
- (c) the fund will purchase annuities on terms that would be sufficient to satisfy its liabilities,
- (d) the expenses are those that the fund would likely incur in connection with the winding-up

“**unfunded liability**” is the greater of $B-A$ and zero; where B and A are defined as in the funded ratio

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2. Funds to which these regulations apply

- 2.1 These regulations apply to funds
- (a) providing defined benefits; or
 - (b) where the fund's constitutive documents define some or all of the benefits independently of the contributions payable, and these benefits are not solely related to the performance of the fund's investments; or
 - (c) where the level of any of the benefits is guaranteed; or
 - (d) where there is a minimum rate of credited interest or rate of accumulation;
or
 - (e) where there is any form of underpin
- 2.2 These regulations do not apply to funds that are in the process of being wound-up.

3. Multi-Sponsor funds

- 3.1 Where a fund in relation to which there is more than one sponsor is divided into two or more sections and the provisions of the fund are such that –
- (a) contributions payable to the fund by a sponsor or by a member in employment with that sponsor are allocated to that sponsor's section (or, if more than one section applied to the sponsor, to the section which is appropriate in respect of the employment in question), and
 - (b) a specified part or proportion of the assets of the fund is attributable to each section and cannot be used for the purposes of any other section,
- these regulations shall apply as if each section of the fund were a separate fund.

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4. Statement of funding policies (SFP)

- 4.1 The trustees of a fund must prepare a written statement of funding policies.
- 4.2 The statement must be reviewed, and if necessary revised, at each actuarial valuation and whenever a material change has occurred, but it may be reviewed and revised at any time if there is a change in the circumstances would justify a variation to its provisions.
- 4.3 Trustees must obtain the advice of an actuary and must consult with the sponsor during the development and revision of the statement of funding principles.
- 4.4 The statement must include the following:
- (a) the funding objective(s) which the trustees adopt which at a minimum must require that the fund has sufficient assets so that its funded ratio and solvency ratio are greater than or equal to 100;
 - (b) target contribution levels if the level of contributions are not set by the fund's constitutive documents;
 - (c) the period within which, and manner in which, any failure to meet its funding objective(s) is to be remedied;
 - (d) subject to Section 6.6; the period within which, and manner in which, any unfunded liability is to be removed;
 - (e) subject to Section 7.5; the period within which, and manner in which, any solvency deficits are to be eliminated;
 - (f) whether there is a power to make payments to the sponsor(s) out of the assets held for the purposes of the fund and, if there is such a power, the circumstances in which it may be exercised;
 - (g) whether there is a discretionary power to provide benefits for, or in respect of, all or any of the members or pensioners (deferred or in payment) and, if there is such a power, the policy for exercising it;
 - (h) funding of benefit improvements;
 - (i) the manner in which the cash equivalent of any benefits which have accrued to or in respect of a member is to be calculated; also whether a cash equivalent may be reduced on account of the state of the funding of the fund, and, if so, the way in which it will be reduced; and
 - (j) the intervals at which the trustees will obtain actuarial valuations and the circumstances in which and occasions on which they will consider whether to obtain actuarial valuations in addition to those obtained at such intervals.
- 4.5 The statement must be
- (a) consistent with the fund's funding objective(s),
 - (b) in accordance with the fund's constitutive documents,
 - (c) consistent with the fund's statement of investment principles,
 - (d) in accordance with the provisions of these regulations.

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- 4.6 The trustees must submit the new or revised statement to the Commission as soon as possible but no later than with the fund's next actuarial valuation. The effective date of the new or revised statement, a summary of the revision(s) and the reasons for the revision(s) must be submitted with a revised statement.
- 4.7 If the Commission believes that a statement of funding policies is inconsistent with prudent standards, or with these regulations, the Commission may in writing direct the trustees to immediately revise the statement of funding policies taking into account the matters specified in the Commission's directions.

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5. Actuarial valuations

- 5.1 Trustees must obtain an actuarial valuation at intervals of not more than three years. Intervals referred to are the periods between effective dates of valuations.
- 5.2 Trustees must ensure that an actuarial valuation obtained by them is received by them within 6 months after the effective date of the valuation.
- 5.3 Trustees must ensure that any actuarial valuation obtained by them is made available to the sponsor within 7 days of their receiving it.
- 5.4 Within 6 months after the effective date of an actuarial valuation, the Trustees must submit to the Commission the actuarial valuation obtained by them along with the date(s) of meeting(s) held to discuss the recommendations made by the actuary and the decisions made regarding each recommendation, in particular the contribution rate.
- 5.5 Nothing in this section affects any power or duty of the trustees to obtain an actuarial valuation at more frequent intervals or in other circumstances or on other occasions.
- 5.6 Trustees must ensure that the actuary preparing an actuarial valuation is made aware of relevant information and developments which might materially affect the preparation of the actuarial valuation.
- 5.7 An actuarial valuation must contain an opinion certified and dated by the actuary or firm of actuaries that prepared the valuation as to whether
- (a) Actuarial valuation was prepared in accordance with these regulations,
 - (b) the actuarial value of the net assets and the actuarial liabilities as at the effective date of the valuation were calculated in accordance with the fund's statement of funding policy,
 - (c) the methods used in the calculations were reasonable and appropriate to the circumstances of the fund,
 - (d) the assumptions used were reasonable and appropriate to the circumstances of the fund,
 - (e) based on their tests to ensure that the data are of adequate quality for the purposes of the actuarial valuation and to the best of their knowledge free of any material omissions and inaccuracies. Where the actuary has relied on the work of an actuary, firm of actuaries, accounting firm, company officer of an investment manager or administrator, the name and position of the actuary or officer and the name of the firm must be stated.
- 5.8 An actuarial valuation must be prepared in accordance with
- (a) generally accepted actuarial methods and assumptions that are adequate and appropriate,

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- (b) the fund’s statement of investment policies and principles and statement of funding policies;
- (c) these regulations; and
- (d) such relevant guidelines issued by the Commission from time to time.

5.9 Report must include:

- (a) Summary of the key aspects of the funding policy
- (b) The measurement and disclosure of the net assets of the fund and the actuarial value of assets under a funding and a solvency valuation together with a summary of the asset composition and of the investment policy;
- (c) The measurement and disclosure of the funding and solvency actuarial liabilities; and the incremental annual cost on the funding valuation basis.
- (d) State and give a description of the methods, assumptions and the margins for adverse deviations, if any; used in the valuation of the assets and actuarial liabilities of the fund. The discussion should be sufficiently robust to enable the reader to ascertain the objectives of the funding method used and its strengths and weaknesses under a variety of plausible future scenarios both demographic and economic. The discussion of the assumptions should permit the reader to appreciate the process by which the economic and demographic assumptions were developed and their relationships to recent experience of the fund and to expected long term future trends. The discussion of the assumptions should enable the reader to obtain a qualitative appreciation of the level and likelihood of such margins.
- (e) State the change in the actuarial liabilities due to any changes in the funding or solvency valuation bases (methods, assumptions, margins for adverse deviation). The reason for each change should also be disclosed.

FUNDING VALUATION CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS				
Report Reference	Prior Valuation Basis	Current Valuation Basis	Reason for Change	Impact of change: Increase/Decrease in actuarial liabilities (\$000)
TOTAL				

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SOLVENCY VALUATION CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS				
Report Reference	Prior Valuation Basis	Current Valuation Basis	Reason for Change	Impact of change: Increase/Decrease in actuarial liabilities (\$000)
			TOTAL	

- (f) sensitivity analysis on actuarial funding liabilities showing the percentage change in actuarial liabilities for a specified change in each assumption that the actuarial funding liabilities are sensitive
- (g) The measurement and disclosure of the funding and solvency ratio;
- (h) The measurement and disclosure of the amount of any unfunded liability or solvency deficiency;
- (i) Calculation and disclosure of the funding contributions rate(s) for the sponsor. If rate(s) fixed in constitutive documents comment on the adequacy of the contribution rate(s) to fund target benefit levels;
- (j) an analysis of key factors and risks faced by the fund that could lead to funding challenges and contribution volatility;
- (k) A reconciliation of the financial position, including the assets, the liabilities and the incremental cost since the last valuation, on funding basis showing and quantifying the major sources of experience gains or losses. A detailed analysis is not required if there are less than 50 active members in the fund;
- (l) statement as to whether peer review was conducted;
- (m) A projection of the funding and solvency ratios of the fund under reasonable assumptions over the period until the next actuarial valuation. The ratios as at the end of each 12 month period after the effective date of the actuarial valuation must be given. The method and assumptions used in the projection must be stated.

5.10 During the review of an actuarial valuation the Commission may notify the actuary that supplemental detail is required to sufficiently assess the actuarial valuation.

5.11 The actuary shall respond promptly to all supplemental requests

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- 5.12 Working papers required to support the actuary's actuarial valuation shall be made available to the Commission upon request
- 5.13 If, after reviewing the actuarial valuation, the Commission is not satisfied that it was not prepared in accordance with these regulations, the Commission may direct the trustees or sponsor to
- (a) instruct the actuary who provided the actuarial valuation to amend or redo the actuarial valuation and re-file the actuarial valuation or
 - (b) employ an independent actuary to redo the actuarial valuation and re-file the actuarial valuation;
- taking into account the matters specified in the Commission's directions.
- 5.14 The person that paid for the initial actuarial valuation will be required to pay for the new or revised one.

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6 Funding Recovery plan

- 6.1 Subject to Section 7.8, this section applies if a fund has an unfunded liability but no solvency deficit.
- 6.2 If, having obtained an actuarial valuation, the funding ratio is below 100 the trustees must prepare a funding recovery plan, or review and if necessary, revise an existing funding recovery plan, in consultation with the sponsor and with advice from the actuary, within 8 months after the effective date of the actuarial valuation.
- 6.3 A funding recovery plan must set out –
- (a) the steps to be taken to ensure the funding ratio is greater than or equal to 100,
 - (b) a schedule of special contributions to be paid by the sponsor for the amortization of the unfunded liability calculated in the actuarial valuation,
 - (c) A projection of the funding and solvency ratios of the fund assuming the special contributions set out in (b) are made as scheduled for the period ending when the funding ratio is projected to be 100% or the next actuarial valuation whichever later. The ratios as at the end of each 12 month period after the effective date of the actuarial valuation must be given.
 - (d) the date when the unfunded liability is expected to be eliminated,
 - (e) the assumptions underlying the schedule of special contributions, the projection and the elimination of the unfunded liability and the projection,
 - (f) the date on which it was prepared, or if it has been revised, the date on which it was last revised,
 - (g) the reasons for any revision.
- 6.4 A funding recovery plan must
- (a) Ensure that the unfunded liability is eliminated within the shortest period reasonable,
 - (b) Be in accordance with the fund's statement of funding principles,
 - (c) have regard to the nature and circumstances of the fund, its asset and liability structure, its risk profile, its liquidity requirements and the age profile of the members, and
 - (d) take account of the financial circumstances of the sponsor and his ability to pay the special contributions in accordance with recovery plan
- 6.6 The assumptions used to calculate and develop the schedule of special contributions must be consistent with the assumptions used in the actuarial valuation.
- 6.7 The period of amortization should not exceed the weighted average remaining service lifetime of active members. Weighted average remaining lifetime is equal to the sum over all the active members of the age of an active member multiplied

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by the remaining service lifetime of that member, divided by the sum of the ages of the active members.

- 6.8 A funding recovery plan shall be deemed to be discontinued when the fund's funding ratio equals or exceeds 100.
- 6.9 A funding recovery plan must be revised when the unfunded liability is greater than the present value of outstanding future special contributions under the existing funding recovery plan
- 6.10 The trustees must submit a copy of a new or revised funding recovery plan to the Commission within a reasonable period after it has been prepared but no later than 8 months after the effective date of the actuarial valuation.
- 6.11 If, after reviewing the funding recovery plan, the Commission is not satisfied that the plan is in accordance with these regulations, the Commission may direct the trustees to revise the plan so as to eliminate the unfunded liability in the manner and within the period so directed.
- 6.12 A summary of a fund's funding recovery plan must be included in a fund's annual report required under the Governance Regulations.
- 6.13 A fund which has a unfunded liability shall be subject to closer supervision by the Commission, and may be required to, if the Commission thinks necessary, prepare additional reports and obtain more frequent actuarial valuations

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7. Solvency Recovery plan

- 7.1 This section applies if a fund has a solvency deficit.
- 7.2 If, having obtained an actuarial valuation, the solvency ratio is below 100 the trustees must prepare a new or revise an existing solvency recovery plan, in consultation with the sponsor and with advice from the actuary, within 8 months after the effective date of the actuarial valuation.
- 7.3 A solvency recovery plan must set out –
- (a) the steps to be taken to ensure the solvency ratio is greater than or equal to 100,
 - (b) a schedule of special contributions to be paid by the sponsor for the amortization of the solvency deficit calculated in the actuarial valuation,
 - (c) A projection of the funding and solvency ratios of the fund assuming the special contributions set out in (b) are made as scheduled for the period ending when the solvency ratio is projected to be 100% or the next actuarial valuation whichever later. The ratios as at the end of each 12 month period after the effective date of the actuarial valuation must be given.
 - (d) the date when the solvency deficit is expected to be eliminated,
 - (e) the assumptions underlying the schedule of special contributions, the elimination of the solvency deficit and the projection,
 - (f) the date on which it was prepared, or if it has been revised, the date on which it was last revised,
 - (g) the reasons for any revision.
- 7.4 The assumptions used to calculate and develop the schedule of special contributions must be consistent with the assumptions used in the actuarial valuation.
- 7.5 The period of amortization shall not exceed 5 years from the effective date of the actuarial valuation.
- 7.6 A solvency recovery plan shall be deemed to be discontinued when the fund's solvency ratio equals or exceeds 100.
- 7.7 A solvency recovery plan must be revised when the solvency deficit is greater than the present value of outstanding future special contributions under the existing solvency recovery plan. Existing schedules should continue and the additional shortfall should be amortized in a manner and over a period in accordance with the fund's statement of funding principles.
- 7.8 If the solvency recovery plan indicates that there will be an unfunded liability on the date the solvency deficit is expected to be eliminated, the trustees must also

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prepare a funding recovery plan in the manner set out in Section 6 with an effective date equal to the date stated in Section 7.3 (d).

- 7.9 The trustees must submit a copy of a new or revised solvency recovery plan to the Commission within a reasonable period after it has been prepared but no later than 8 months after the effective date of the actuarial valuation.
- 7.10 If, after reviewing the solvency recovery plan, the Commission is not satisfied that the plan is in accordance with these regulations, the Commission may direct the trustees to revise the plan so as to eliminate the solvency deficit in the manner and within the period directed.
- 7.11 A summary of any solvency recovery plan must be included in a fund's annual report required under the Governance Regulations.
- 7.12 A fund which has a solvency deficit shall be subject to closer supervision by the Commission, and may be required to, if the Commission thinks necessary, prepare additional reports and obtain more frequent actuarial valuations.

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