



**FINANCIAL SERVICES COMMISSION**  
**Discussion Paper**  
**Draft Pensions Superannuation Funds (Funding and Solvency)**  
**Regulations**  
**June 2007**

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## INTRODUCTION

The Financial Services Commission (“FSC”) is working to have the necessary Pensions Regulations in place to effectively regulate the industry. The FSC is committed to developing regulations that are adequately tailored to suit our Jamaican Pensions Industry. The input and views of key stakeholders are an integral part of this process. We are therefore soliciting comments on this discussion paper which will be the basis for developing regulations for funding and solvency.

The paper addresses various issues relating to funding and solvency, such as:

- statement of funding policies,
- actuarial valuations,
- funding and solvency recovery plan,
- funds to which the regulations apply, and
- multi-sponsor funds.

Kindly forward your comments to:

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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 participant 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 participant 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

- (a) fully qualified professional members of an actuarial body accredited by the International Actuarial Association and recognised by the Commission,
- (b) qualified to opine on the actuarial liabilities of a fund, and
- (c) satisfactory to 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 multiplied by 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.

**“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

## **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.

**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 that 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) subject to Regulation 6.6; the period within which, and manner in which, any unfunded liability is to be remedied. The period shall be set so as that any unfunded liability is eliminated within the shortest period reasonable having regard to:
    - i. 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
    - ii. the financial circumstances of the sponsor;
  - (c) subject to Regulation 7.6; the period within which, and manner in which, any solvency deficit is to be remedied;
  - (d) if there is a power to make payments to the sponsor(s) out of the assets held for the purposes of the fund, the circumstances and manner in which the power may be exercised;
  - (e) if the trustees can exercise discretionary powers or if the trustees intend to exercise discretionary powers, the circumstance and manner in which it may be exercised;

- (f) a statement regarding the source or sources of funding of any benefit improvements that might occur; and
  - (g) 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 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.
- 4.6 If the Commission believes that a statement of funding policies is likely to jeopardize the long term solvency of the fund, or is inconsistent 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.

## **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 9 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 11 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 be prepared in accordance with

- (a) generally accepted actuarial methods and assumptions,
  - (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.
- 5.8 An actuarial valuation must contain an opinion certified and dated by the actuary that prepared the valuation as to whether the actuarial valuation was
- (a) prepared in accordance with Regulation 5.7 above;
  - (b) the methods and assumptions used in the calculations were reasonable and appropriate to the circumstances of the fund; and
  - (c) based on such tests so as to ensure that the data are of adequate quality for the purposes of the actuarial valuation and to the best of the actuary's knowledge free of any material omissions and inaccuracies. Where the actuary has relied on the work of another 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.
- 5.9 Report must include:
- (a) 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 valuation together with a summary of the asset composition;
  - (c) The actuary's comments on the appropriateness of the investment policy;
  - (d) The measurement and disclosure of the funding actuarial liabilities; and the incremental annual cost on the funding valuation basis;
  - (e) A statement and description of the methods and assumptions used in the valuation of the assets and actuarial liabilities of the fund;
  - (f) The measurement and disclosure of the funded ratio;
  - (g) The measurement and disclosure of the amount of any unfunded liability;
  - (h) The actuary's opinion as to whether the fund's solvency ratio exceeds 100;
  - (i) A statement of and reason for the change in the actuarial liabilities due to any changes in the funding valuation basis (methods, assumptions, or both);

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

- (j) the funding actuarial liabilities under adverse scenarios if the funded ratio is below 150%;
  - (k) Calculation and disclosure of the funding contributions rate(s) for the sponsor. If rate(s) is fixed in the constitutive documents; the actuary must comment on the adequacy of the contribution rate(s) to fund target benefit levels;
  - (l) an analysis of key factors and risks faced by the fund that could lead to funding challenges and contribution volatility;
  - (m) 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; and
- 5.10 Where the actuary is of the opinion that the fund's solvency ratio does not exceed 100, the actuary shall also include in his report, the following:
- (a) The measurement and disclosure of the actuarial value of assets under a solvency valuation;
  - (b) The measurement and disclosure of the solvency actuarial liabilities; and
  - (c) The disclosure of the solvency ratio.
- 5.11 During the review of an actuarial valuation the Commission may notify the actuary that supplemental detail is required to sufficiently assess the actuarial valuation.
- 5.12 The actuary shall respond promptly to all supplemental requests.
- 5.13 If, after reviewing the actuarial valuation, the Commission is not satisfied that it was 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.

## **6 Funding Recovery plan**

- 6.1 Subject to Regulation 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 funded 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 11 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 funded 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) the date when the unfunded liability is expected to be eliminated,
  - (d) the assumptions underlying the schedule of special contributions and the elimination of the unfunded liability,
  - (e) the date on which it was prepared, and if it has been revised, the date on which it was last revised,
  - (f) the reasons for any revision.
- 6.4 A funding recovery plan must be in accordance with the fund's statement of funding principles.
- 6.5 The assumptions used to calculate and develop the schedule of special contributions must be consistent with the assumptions used in the actuarial valuation.
- 6.6 The period of amortization must not exceed the greater of:
- (a) 5 years or such other period that the Commission may specify from time to time; or
  - (b) the weighted average remaining lifetime of active members.

Weighted average remaining lifetime is equal to the sum over all the active members of the liability in respect of an active member (or group of active

- members, such grouping being no greater than quinquennial) multiplied by the remaining service lifetime of that member (or group of members), divided by the total liability in respect of the active members.
- 6.7 A funding recovery plan shall be deemed to be discontinued when the fund's funded ratio equals or exceeds 100.
- 6.8 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
- 6.9 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 11 months after the effective date of the actuarial valuation.
- 6.10 If, after reviewing the funding recovery plan, the Commission is not satisfied that the plan is in accordance with these regulations and such relevant guidelines issued by the Commission from time to time, 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.
- 6.11 A summary of a fund's funding recovery plan must be included in a fund's annual report required under the Governance Regulations.
- 6.12 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.

## **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 11 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) the date when the solvency deficit is expected to be eliminated,

- (d) the assumptions underlying the schedule of special contributions, the elimination of the solvency deficit and the projection,
  - (e) the date on which it was prepared, and if it has been revised, the date on which it was last revised,
  - (f) the reasons for any revision.
- 7.4 A funding recovery plan must be in accordance with the fund's statement of funding principles.
- 7.5 The assumptions used to calculate and develop the schedule of special contributions must be consistent with the assumptions used in the actuarial valuation.
- 7.6 The period of amortization shall not exceed 5 years, or such other period that the Commission may specify from time to time, years from the effective date of the actuarial valuation.
- 7.7 A solvency recovery plan shall be deemed to be discontinued when the fund's solvency ratio equals or exceeds 100.
- 7.8 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 shall continue and the additional shortfall shall be amortized in a manner and over a period in accordance with the fund's statement of funding principles.
- 7.9 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 prepare a funding recovery plan in the manner set out in Regulation 6 with an effective date equal to the date stated in Regulation 7.3 (c).
- 7.10 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 11 months after the effective date of the actuarial valuation.
- 7.11 If, after reviewing the solvency recovery plan, the Commission is not satisfied that the plan is in accordance with these regulations and such relevant guidelines issued by the Commission from time to time, 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.
- 7.12 A summary of any solvency recovery plan must be included in a fund's annual report required under the Governance Regulations.

7.13 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.

8. **Transitional**

8.1 For actuarial valuations whose effective date falls up to 5 years after the commencement date these regulations, the time limits stated in paragraph 5.2 shall read 12 months, and in paragraphs 5.4, 6.2, 6.9, 7.2 and 7.10 shall read 14 months respectively.