



Financial
Institutions
Commission

Pension Fees

Consultation Paper

June 2019

I. Introduction

The Superintendent of Pensions at the Financial Institutions Commission (FICOM) is responsible for regulating pension plans registered in British Columbia (BC) under the *Pension Benefits Standards Act* (the PBSA). The PBSA and the *Pension Benefits Standards Regulation* (the Regulation) apply to all BC employment pension plans. The PBSA is designed to protect the interests of BC pension plan members by setting minimum standards for BC pension plans. The minimum standards apply in areas such as eligibility, vesting, portability, survivor benefits, employer contributions, disclosure to members, and other areas. The PBSA is also designed to protect the financial health of pension plans through rules for the investment of a plan's assets, and through funding and solvency standards.

The PBSA and the Regulation include provisions that require regulated entities to pay prescribed fees related to:

- the filing of an application for the registration of a pension plan, and
- the filing of a return.

We are asking stakeholders to review and comment on FICOM's proposal for a new regulatory fee structure for the pensions industry in BC. As part of this process, FICOM is launching a consultation to gather industry feedback regarding the proposed fee changes. Instructions for providing input can be found in Section VIII below.

II. Rationale

The BC Government has passed legislation establishing FICOM as an independent Crown agency to be known as the BC Financial Services Authority ("BCFSA") with its own governing Board of Directors.

The BC Government has directed the BCFSA's operations to be self-funded from fees assessed to the financial services entities it regulates. Government has committed funding beginning in FY19/20 to help with the transition and to ensure regulated sectors are self-funded by FY21/22. The BC Government has retained the authority to approve any changes to the existing fee structure for the BCFSA. Therefore, FICOM's consultation to gather industry feedback regarding the proposed fee changes will be included in a submission to Treasury Board requesting approval. Cabinet approval is required to implement fee changes through regulation.

As the current fee structure for pensions filings is insufficient to cover operations, it is imperative that the organization be able to revise its fee schedule. The last time the fee structure for pensions filings was revised in BC was July 1, 2008. The fee structure was amended to ensure that the Superintendent was able to fund all regulatory activities through fees drawn from registered pension plans in BC and to ensure that the pensions regulatory program was adequately funded. This was the only time that the fee structure was amended.

The changes to the annual filing fees for pension plans at the time were as follows:

- decreasing the fee charged for active pension plan members from \$7 to \$6.15;
- introducing a new fee of \$4.50 for non-active (e.g. retired) members; and
- increasing the maximum amount payable per plan from \$20,000 to \$75,000.

The minimum amount of \$200 was unchanged and has been in place since 1993.

At the time, these fees were sufficient to maintain operations. However, due to changing economic conditions, larger asset sizes, and increased plan risk, it is necessary to revise the fee structure once again.

In the future, the BCFSA plans to revisit its fees on a more regular basis.

III. Regulatory Objectives

The objective of the Superintendent of Pensions is to enhance the retirement income security of British Columbians. The Superintendent achieves those objectives by:

- promoting the security of pension plan benefits and rights provided to BC pension plan members by the PBSA;
- ensuring that BC pension plans comply with the PBSA and meet the minimum standards of financial health required by the PBSA;
- assessing the ongoing effectiveness of the legislation and recommending improvements to the PBSA;
- working toward administrative harmonization with other provinces and the federal government;
- keeping the regulatory burden on pension plans, and the cost of pension plan supervision to a minimum;
- providing effective and efficient service through participation of both clients and staff in setting service standards and objectives; and
- educating members and their representatives regarding their rights and obligations.

IV. Principles for Developing Fees

In developing fee proposals, FICOM has committed to the following principles:

1. **Simplicity**
 - i. Fees are easy to calculate
 - ii. Fees have a low administrative burden
2. **Fairness**
 - i. Regulated sectors are self-funded
 - ii. Regulatory oversight costs are proportional to business activity and size
 - iii. Common costs are reasonably allocated
3. **Service Commitment**
 - i. Fees support regulatory objectives
 - ii. Fees enable the hiring and retention of highly skilled staff
 - iii. Fees facilitate investments in IT infrastructure
4. **Transparency**
 - i. Cost data is provided
5. **Competitiveness**
 - i. Fees are predictable year-over-year
 - ii. Fees are comparable fees with other Canadian jurisdictions

V. Proposed Changes to Fee Model

The below table outlines the proposed changes to pensions fees as well as the last change to pensions fees in 2008 for comparison:

Fee Type	1993 to June 30, 2008	July 1, 2008 to Current	Proposed Fees for FY 2020/21*
Active Members	\$7	\$6.15	\$8.35
Non-Active Members	\$0	\$4.50	\$7.30
Minimum Fee	\$200	\$200	\$250
Maximum Fee	\$20,000	\$75,000	\$85,000

*the new fees will come into effect for plan years ending January 1, 2020 or later

The current fees are insufficient to maintain operations. With the new fees, however, it will be possible not only to maintain operations at their current level, but to invest in improvements to the regulatory process.

Since 2014, the Superintendent has been phasing in a formalized risk-based regulatory process, called the Risk Framework, which is in line with the global shift towards risk-based regulation. The primary focus of the regulatory work by the Superintendent is to reduce the risk of loss to pension plan member benefits through timely risk assessments, and to promote awareness of, and transparency in, the Superintendent's approach to plan regulation. Through the use of the Risk Framework, the Superintendent undertakes risk assessments of all registered plans so that the organization can understand – and work with administrators to manage – the risk of loss to member benefits. This move towards risk-based regulation requires a more skilled work force as well as more intense oversight, which would not be possible without the fee increase.

The BCFSa will budget for a modest surplus which could be retained at year-end and reinvested in the program area the following year. The BCFSa will not adjust future year assessments or return fees in the event of a surplus.

In the future, the BCFSa plans to revisit the fees levied on pension plans on a more regular basis to ensure that fees are aligned with changes in regulatory costs. Prior to any change to fees, The BCFSa will conduct a public consultation to ensure that stakeholders have an opportunity to present their views to the regulator.

VI. Analysis

The proposed fee structure reflects FICOM's principles for developing fees. In particular:

1. Simplicity

- The proposed fees are straightforward and are easy for the public and stakeholders to understand. There is very little interpretation required and the fee structure can be applied equitably and consistently. The fees are based simply on the number of active members, non-active members, a minimum fee, and a maximum fee. Further, there would be a low administrative burden on BCFSa to validate the fees.
- The proposed fee structure has consolidated all filing fees to minimize the overall number of fees in the filing schedule.

2. Fairness

- The fees are structured so that they have minimal impact on small entities.
- The proposed rates are in line with what other regulatory agencies offer within Canada.

3. Service Commitment

- The increased fees will support the BCFSa in modernizing its regulatory approach, including:
 - improving the the Pensions Electronic Filing (E-Filing) Systems to allow for the secure electronic transmission of required documents, eliminating the need for these filings to be submitted through mail or e-mail;
 - sustaining, refining, and advancing the Risk Framework, which helps measure and detect early warning risk indicators to identify potential threats to the security of members' benefits;
 - increasing due diligence in assessment of pension plan risk profiles;
 - improving data collection and analysis capabilities; and,
 - issuing regulatory guidance to proactively correct industry practices.
- The proposed fee increase will minimize the risk of regulatory services being undermined and ineffective from lack of funding.
- A well-regulated marketplace enhances industry's reputation. The pensions industry in BC has a vested interest in an appropriately resourced regulator overseeing their activities.

4. Transparency

- The BCFSa will report on its activities in its annual Service Plan and publish financial statements annually with the aim of enhancing transparency.
- The Service Commitments outlined above (initiated by FICOM beginning in FY17/18) will require BCFSa to continue to make strategic investments in people and technology. As a result, FICOM is proposing to make strategic investments in:
 - IT infrastructure that supports regulatory efficiencies and increases the user-experience;
 - additional policy and project management capacity; and
 - hiring/retaining highly skilled staff with industry experience.
- The fee revisions are necessary for FICOM (and then BCFSa) to continue to function as an effective regulatory body. The Superintendent is currently dealing

with declining revenue – as of October 2018, revenue has fallen by approximately 11 per cent since the same period last year. This is due to a variety of issues such as a decline in new plan registrations.

- Historical and projected program costs are provided below:

(all values in \$ millions)	FY16/17	FY17/18	FY18/19	FY19/20 Projection	FY20/21 Projection	FY21/22 Projection	FY22/23 Projection
Annual Cost of Pensions Department	\$1.6	\$2.0	\$2.2	\$2.5	\$2.8	\$2.9	\$2.9
- Salaries & Benefits	\$1.2	\$1.5	\$1.7	\$1.8	\$2.2	\$2.3	\$2.3
- Professional & Legal Services	\$0.1	\$0.1	\$0.2	\$0.3	\$0.2	\$0.1	\$0.1
- Other Costs	\$0.3	\$0.4	\$0.3	\$0.4	\$0.4	\$0.5	\$0.5
Costs Recovered by Current Fees	\$2.3	\$2.3	\$2.4	\$2.3	\$2.3	\$2.3	\$2.3
Net Surplus/(Loss)	\$0.7	\$0.3	\$0.2	(\$0.2)	(\$0.5)	(\$0.6)	(\$0.6)
Additional Costs Recovered by Proposed Fees	N/A	N/A	N/A	N/A	N/A	\$0.8	\$0.8
Overall Net Surplus/(Loss)	\$0.7	\$0.3	\$0.2	(\$0.2)	(\$0.5)	\$0.2	\$0.2
% of Costs Recovered (Current Fee Model)	144%	115%	109%	92%	82%	79%	79%
% of Costs Recovered (Proposed Fee Model)	N/A	N/A	N/A	N/A	N/A	107%	107%
Full-Time Equivalents	11	16	18	18	21	21	21

- The increase in FTEs from FY 16/17 to FY 17/18 is the result of filling previous vacancies.
- Starting in FY 18/19, FTEs assigned to Pensions increased by 2. This total will increase further starting in FY 20/21. The increase in FTEs will be spread out between the creation and staffing of an examinations unit to perform enhanced oversight of plans showing higher risk scores and the expansion of the corporate services function to support a more robust regulatory agency to deliver the service commitments outlined above.

5. Competitiveness

- The proposed fees are competitive within the Canadian regulatory environment. Not only will the increase in fees result in the organization being able to better sustain itself, the majority of plans will still experience lower fees than if they were registered with other regulators such as the Financial and Consumer Affairs Authority of Saskatchewan (FCAA) or the federal Office of the Superintendent of Financial Institutions (OSFI).
- The table below provides a comparison of the new and proposed fees with those of comparable jurisdictions:

Fee Type	BC Current Fees	BC New Fees	Saskatchewan	OSFI
Active Members	\$6.15	\$8.35	\$10	\$9*
Non-Active Members	\$4.50	\$7.30	\$5	
Minimum Fee	\$200	\$250	\$300	\$400
Maximum Fee	\$75,000	\$85,000	\$30,000	\$160,000

*OSFI does not distinguish between active and inactive members when calculating fees

- No direct comparison may be made with Ontario's new regulatory body, the Financial Services Regulatory Agency (FSRA) due to their significantly different fee structure. However, it is notable that the first tranche of fees in Ontario, for members up to 1,000, is \$9.60 compared to the proposed fee of \$8.35 in BC. Further, FSRA's fee structure imposes a \$750 minimum with no prescribed maximum.

VII. Conclusion

In order to ensure that the BCFSa is adequately funded, changes to the fee structure will need to be implemented for collection for the 2020/2021 financial year. The proposed revised fee structure will allow the new organization to invest in the necessary capabilities it requires in order to meet its mandate that includes exercising rule-making authority and moving towards a risk-based regulatory process. A well-regulated marketplace enhances industry's reputation, and the pensions industry in BC therefore has a vested interest in an appropriately resourced regulator overseeing their activities.

VIII. Questions

Some questions for consideration include:

- Do you have any concerns with the proposed fee schedule?
- Are there any other fee options you would like to be considered?
- Are there any other service commitments you would like to see from the BCFSa?

IX. How to Provide Input

Written comments should be submitted by July 24, 2019, either via email to feedback@ficombc.ca or via mail to:

Pension Fees Consultation

Financial Institutions Commission
2800-555 West Hastings St.
Vancouver, BC V6B 4N6

A copy of this consultation document can be reviewed online at www.fic.gov.bc.ca.

Responses may be made public. Please note that all submissions received are subject to the *Freedom of Information and Protection of Privacy Act*.