BC FSA
BC FINANCIAL SERVICES AUTHORITY

INFORMATION BULLETIN

BULLETIN NUMBER: PENS 19-004

TITLE: Defined benefit funding requirements and related amendments

LEGISLATION: *Pension Benefits Standards Act*

DATE: December 12, 2019

PURPOSE

The Government of British Columbia has amended the requirements for defined benefit (DB) plans in the Pension Benefits Standards Regulation (Regulation) to: increase going concern funding requirements; reduce solvency funding requirements; and limit contribution holidays and the withdrawal of going concern excess. The Order in Council may be found here.

The amendments made by the Order in Council (Amendments) reflect recommendations from the Ministry of Finance's review of the ongoing solvency funding requirements for DB plans. The Amendments also include a change to the requirements for target benefit plans to permit a single employer to offer a target benefit plan.

The Amendments will be effective on December 31, 2019. The amendments related to DB plans will apply on a DB Plan's first review date on or after December 31, 2019.

This Bulletin reflects the views of the BCFSA. The specific legal requirements are set out in the *Pension Benefits Standards Act* (the Act) and the Regulation.

CURRENT REQUIREMENTS

The Regulation establishes minimum funding requirements for DB plans. Compliance must be demonstrated every three years in an actuarial valuation report (AVR), which must be prepared by an actuary in accordance with standards set by the Canadian Institute of Actuaries in a manner acceptable to the Superintendent of Pensions (Superintendent).

Solvency deficiencies must be paid over five years from each review date and going concern unfunded liabilities must be funded over 15 years from each review date. Solvency deficiencies and unfunded liabilities cannot be combined and must be paid separately.

WHAT'S NEW

Amendments to Definitions in the Regulation (Section 1)

The Amendments include both material and non-material changes to a number of definitions. Definitions with material changes include:

"participating employer's accessible going concern excess"

The calculation of a participating employer's accessible going concern excess for a DB component of a divisional multi-employer plan must include the provision for adverse deviation (PfAD), as described below. Accessible going concern excess is used for the purposes of distribution under section 70 and contribution holidays under section 71.

"provision for adverse deviation (PfAD)"

The definition of PfAD has been expanded to cover not only target benefit components but also DB components.

"plan's accessible going concern excess"

The Amendments add the DB PfAD to the determination of accessible going concern excess. Accessible going concern excess is used for the purposes of distribution under section 70 and contribution holidays under section 71.

Calculation of a PfAD for a DB component (New section 1.1)

The DB PfAD is calculated as the greater of 5% or 5 times the long-term bond rate, which is defined as CANSIM Series V122544 as published by the Bank of Canada, on the DB plan's review date.

Adjustments to the calculation of the DB PfAD are provided where the non-fixed income allocation of the DB plan or component is less than 30%. This reduction is limited in scope as it is intended to accommodate DB plans that are de-risking by shifting investments to fixed income (e.g. to annuitize or wind up).

Calculation of a PfAD for a target benefit component (Section 2)

The definition of equity allocation has been amended to reflect Bulletin 15-009: "In determining the asset mix allocation to use for the benchmark discount rate calculation, we require that plans use the target asset allocation as documented in the Statement of Investment Policies and Procedures."

Exemptions (section 10 (12) to (14) and schedules 5 to 7)

Section 10 (12) and Schedule 5, which provided multi-employer negotiated cost DB plans with an exemption from the solvency funding rules, are repealed. The exemption period and subsequent filing requirements ended on September 27, 2018.

Section 10 (13) and Schedule 6 are repealed. Of specific note, the Catalyst Paper Corporation Retirement Plan for Salaried Employees will be subject to the funding requirements for DB plans.

Section 10 (14) and Schedule 7 are repealed. The exemption period ended on October 26, 2017, and deadlines for related disclosure requirements for fiscal years that include any portion of the exemption period have passed.

Superintendent may refuse to register an amendment (Section 22)

The solvency ratio that must be demonstrated to be maintained after a DB plan amendment, such as a benefit improvement, for the amendment to be registered by the Superintendent without triggering discretion under section 22 (a) to refuse to register the amendment has been reduced from the current 90% to 85%.

Actuarial valuation report and cost certificate (Section 46)

Section 46 (4) has been amended to align with the new funding requirements for DB plans. The DB plan's AVR must continue to disclose the DB plan's solvency ratio (a definition that remains the same).

Funding requirements applicable to DB provisions (sections 56 and 57)

Unless the current AVR establishes that the DB component has accessible going concern excess, an amount equal to the product of the DB PfAD and the normal actuarial cost must be paid on a monthly basis.

Funding of going concern deficits will be required for 100% of going concern liabilities plus the DB PfAD (as calculated in section 1.1). Payments for going concern deficits will be required over 10 years rather than 15 years. Unfunded liabilities may be consolidated and reported as a single amount at each review date (fresh start). Monthly special payments until the next review date will be determined by dividing the going concern deficit by 120. If going concern assets are sufficient to cover going concern liabilities and the DB PfAD, no going concern special payments are required.

Funding of solvency deficits will be required for 85% of solvency liabilities. Payments will continue to be required over 5 years, but the fresh start described above also applies to solvency deficits. That is, the amount of the deficit will be consolidated and reported as a single amount at each AVR, with a single series of payments required. The monthly amount of special payments until the next review date will be the portion of any solvency deficit below the 85% threshold, divided by 60.

Funding requirements applicable to target benefit provisions (Section 58)

The option of offering a target benefit plan will be available to single employers on December 31, 2019.

Transition – phased application on or after December 31, 2019 (New section 143)

A DB plan will be subject to the new funding requirements on the review date of the first AVR prepared as at December 31, 2019 or later that is subsequently filed with the Superintendent for funding purposes. Prior to that review date, the current funding requirements continue to apply.

Section 143 lists the Amendments that will apply to a DB plan on the review date of the first AVR on or after December 31, 2019.

Amendments not listed in section 143 apply on December 31, 2019.

Elimination of extension of solvency funding deficiency payment period (Schedule 8)

Temporary relief under Schedule 8 may not be elected on or after December 31, 2019, and any existing temporary relief will end on the first review date on or after December 31, 2019.

Discretionary funding relief

In the past, the Superintendent has exercised discretionary authority to provide extensions to the time period required for solvency payments where DB plan sponsors or administrators have demonstrated significant financial harms resulting from the application of the prescribed funding rules.

DB Plan contributors (particularly participating employers) and DB plan administrators are advised that, given the nature of the changes to the funding requirements for DB plans, staff will not recommend the Superintendent approve any applications for extensions to the time period required for solvency payments.

ADDTIONAL INFORMATION

If you have any questions, please contact the Office of the Superintendent of Pensions at Pensions@bcfsa.ca or by phone at 604-660-3555.